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**Working Paper**

## Closing the strategy-performance gap: The role of communication fit and distraction

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**Betriebswirtschaftliche Reihe**

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Es wird gebeten, sich mit Anregungen und Kritik direkt an den Autor zu wenden.

# **Closing the Strategy-Performance Gap: The Role of Communication Fit and Distraction**

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## **Abstract**

This paper seeks to present whether, and if so how, communication via websites can enhance or obstruct the link between strategy and performance. In doing so, we develop two forms of communication: fit and distraction. Fit refers to the congruence between external communication and strategy, while distraction implies the external communication of an alternative strategy. Using information asymmetry and contingency theory, we explain that greater fit can reduce information asymmetry and thus enhance the effects of a corporate strategy on performance. Using a unique dataset of German small enterprises, we find that fit and distraction have distinct effects on competitive positions such as the efficiency cost-leadership strategy and the quality differentiation strategy. External communication is generally shown to increase the effects of a quality strategy on performance. However, the wrong level of communication results in reduced performance. Therefore, organizations with a quality strategy should employ communication fit. In the case of efficiency strategy, the issue is more complex and efficiency strategy impacts performance only under certain conditions. Overall, we show that organizations are incentivized under certain circumstances to “walk the talk” - to practice what they preach - but are also not incentivized to implement strategies, which creates a moral hazard problem.

## **Keywords:**

Strategy; information asymmetry; communication, performance.

## **Introduction**

Pursuing a strategy is one side of the coin. The ability to communicate this strategy is the other. Although small and medium-sized enterprises (SMEs) are considered the key drivers of economic growth, communication via websites is still not part of their day-to-day business. The question arises whether it is sufficient to offer good products and services in the market or rather whether it is additionally necessary to establish the communication of one's corporate product or service as a strategic goal. Besides resources (7.5%), communication (5.2%) is a critical factor when it comes to the failure to realize a strategy's potential value. Currently only 63% of the strategy's full potential value are exploited (Mankins & Steele, 2005), leading to a strategy-performance gap. We therefore focus on the role of communication in closing that gap with a special focus on SMEs.

Although strategy has been routinely found to enhance performance in SMEs (Pelham & Wilson, 1995; Pelham, 2000; Gibus & Kemp, 2003), some controversies remain and an in-depth discussion is still embryonic. There is, for example, conflicting evidence on whether a cost-leadership strategy or a differentiation strategy is better at helping a company outperform its competitors. While both were originally thought to be equally successful (Porter, 1980), some authors later argued that differentiation strategies may be more beneficial (Hambrick, 1983; Peters & Waterman, 1982; Pelham, 2000). However, empirical research has produced inconclusive results also showing the greater importance of cost-leadership strategies (Ebben & Johnson, 2005) or that both strategies are equally important (D'Amboise, 1993). According to Wright, Kroll, Tu and Helms (1991) a hybrid strategy can outperform either a differentiation or cost-efficiency strategy pursued in isolation.

In our study, we examine the role of communication in terms of linking strategy and performance. This is not only important to address the research gap, but also to explain the current inconsistencies. Specifically, we examine how communication via corporate websites can enhance or hinder the effects of strategy on performance. In answering this question, we provide a deeper understanding of the role of communication in the strategy-performance relationship with a special focus on the strategy actively pursued by

employees versus the way it is externally communicated via a website. Our research offers insights into the ability of communication to reduce information asymmetry and the associated problems of moral hazard and adverse selection. In doing so, we offer a more nuanced understanding of communication in two ways. First, we explore the use of communication and develop two ideas: fit, meaning alignment between the way a strategy is practiced and externally communicated, and distraction, implying a lack of such alignment. Unlike prior literature, we also address multiple communications such as efficiency and quality communication, which has further implications for hybrid strategies. Second, we explore the potentially differing effects on two strategies: efficiency cost-leadership and quality differentiation.

Our research has implications not only for strategy research, but also for work on vision (e.g., Baum, Locke & Kirkpatrick, 1998), communication (e.g., Kirmani & Rao, 2000), corporation associations (e.g., Brown & Dacin, 1997) and many others. These bodies of literature make assumptions or arguments in favour of organizations walking the talk (e.g., Leisinger, 2007), as well as talking without walking, one form of talk being “aspirational talk” (Christensen, Morsing & Thyssen, 2013). Our work examines both points of view as we take a closer look at internal strategies and employees’ inside view as well as the message an organization communicates via its website.

The paper is organized as follows. We begin by discussing the theory behind strategy and information asymmetry and the related empirical results that motivate our hypotheses. Then we detail our sample, empirical methods, and results. We conclude with a discussion and an overview of the implications for research and practice.

## **Theoretical Framework**

The strategies, choices, and actions that enable organizations to perform better than their competitors are seen as one of the most important factors of corporate profitability and long-term corporate performance (Beard & Beard, 1981). Porter’s model (Porter, 1983; 1985; 1991), used routinely in strategy research (Campbell-Hunt, 2000; Ormanidhi & Stringa, 2008), divides strategies between cost-leadership and differentiation, which can be further subdivided according to niche markets. A cost-leadership strategy aims to produce services or products at lower cost than the competition, while a differentiation strategy aims to clearly distinguish an organization from its competitors via, e.g., price, image, design, or quality (Mintzberg, Ahlstrand & Lampel, 2005; Homburg, 1999).

Originally and according to Porter, cost-leadership and differentiation strategies were seen as incompatible, leading to a “stuck-in-the-middle” situation, as different resources and capabilities are necessary to implement them successfully (Miller & Dess, 1993; Wright, Kroll, Pray & Lado, 1995). Some researchers have argued that cost-leadership strategies are more successful (e.g., Ebben & Johnson, 2005), while others have argued that differentiation strategies are more successful (Hambrick, 1983; Pelham, 2000; Peters & Waterman, 1982). Yet others argue that they are equally successful (D’Amboise, 1993; Porter, 1980). More recent literature advocates that a hybrid or combination strategy may lead to better performance (Thornhill & White, 2007; Spanos et al., 2004, Acquaah & Yasai-Ardekani, 2008; Claver-Cortés et al, 2012) as pure strategies are thought to be easier to imitate (Claver-Cortés et al., 2012). Later results have routinely shown that any strategy is better than no strategy at all (Ebben & Johnson, 2005; Guldenberg & Leitner, 2010; Parnell, 2013).

Currently unexplored within the strategic literature is the role of communication. Especially the relevance of external stakeholder communication via the internet is rarely discussed (Sadowski, Maitland & van Dogen, 2002; Moss & Warnaby, 1998). Unlike large organizations that put a special focus on brand awareness and a coherent brand- and reputation-building strategy, small enterprises “do not have a distinctive demarcation between brand and reputation” (Abimbola & Kocak, 2007, p. 424). In order to incorporate communication into strategy, and in an attempt to explain some of the previously mentioned inconsistencies, we turn to information asymmetry theory. For strategies to be successful, potential stakeholders, more commonly termed “buyers”, must be able to recognize an organization’s diversification strategy. For example, in an organization following a quality differentiation strategy, buyers must be able to evaluate the relative quality offered by alternative sellers. This is made difficult due to information asymmetries. Although not all strategy research ignores information asymmetry (e.g., Nayyar & Templeton, 1994), most studies simply assumes that buyers can easily evaluate the strategy that an organization follows. However, this assumption is rarely satisfied (Akerlof, 1970; Stigler, 1961). Especially for small firms, providing adequate information on their strategy is more difficult.

Buyers and other potential stakeholders face a potentially costly task in finding the right organization or product due to the information asymmetry between buyers and sellers (Akerlof, 1970; Bazel, 1982, Chan & Leland, 1982; Holmstrom, 1985; Wolinsky, 1984).

Sellers and their employees know the true effort the company has made; the buyers do not. Buyers have differing information sets (Milgrom & Roberts, 1987; Philips, 1988; Stigler, 1961) about an organization's strategy due to the variety of choices available (Tellis & Wernerfelt, 1987). When information asymmetry occurs, buyers may be unable to perceive these differences, which may eliminate the benefits of pursuing a differentiation or cost-leadership strategy. Information asymmetry can create mismatches between buyers and sellers, such as buyers overlooking suitable organizations or being dissatisfied with the product or service provided (Nayyar & Templeton, 1994) because the strategy is not well communicated to them or they are not aware of it at all. In order to overcome information asymmetry the buyer needs to rely on the message communicated by the organization. One way to communicate this message is via a website, a medium by which firms take "partial control over the interface through which they communicate with their clients" (Sadowski, Maitland & van Dogen, 2002, p. 77). Information asymmetry can also be reduced by activities such as contracts, warranties, certification, monitoring, reputation, brand names, guarantees, advertising, or signaling, but it cannot be eliminated altogether. These signals, which may influence buyers' perceptions, seek to assure potential buyers that an organization is committed to a particular strategy and also reduce the need for other signals, such as price as an indicator of quality (Zeithaml, 1998). In other words, the primary task of signaling is to reduce information asymmetry between the players in the market (Connelly, Certo, Ireland & Reutzel, 2011). Therefore one has to take into account the decision-making process of buyers which is mostly based on publicly available information such as websites.

According to Cui, Walsh and Zou (2014, p. 69), contingency researchers state that "performance is a function of the congruence between an organization and its environment, strategy, and firm characteristics." Accordingly, organizations are eager to adapt to the market to accomplish fit regarding their strategy. Oh and Pinsonneault (2007) emphasize the importance of a "good fit" between the firm's strategy and the strategy it communicates online via internet. Alignment is a key word in this context. The internet itself is not responsible for a firm's business success; instead, it is the relationship between the strategy and the way that strategy is transmitted through the firm's website. The best way to achieve this goal is by aligning one's internal and external communication. In other words, the internal strategy has to be in line with the information that is communicated to the market.



A plethora of studies, primarily in marketing and management research focus on the contribution of corporate strategies to business success. In this setting, internationalization strategies are a key research field (Cui, Walsh & Zou; 2014), as is the impact per se of a corporate strategy on performance (Burton, Lauridsen & Obel, 2004). Most often cited in this context is certainly Michael Porter's competitive strategy (1980; 1991; 1996; 2006) which attempts to demonstrate the way strategy impacts a firm's success. However, the role of strategy is gaining importance also in organizational behavior research (Burton, Lauridsen & Obel, 2004). The reasons for this include employees impacting performance through strategic positioning decisions as well as in the way they live and communicate the brand image. In this context, small enterprises occupy a special position. Referring to Burton et al. (2004, p. 70) "small organizations tend to have implicit, intuitively derived strategies." However, finding the right positioning within the market is the main challenge for large firms as well as small ones.

We therefore hypothesize:

*H1. Pursuing a strategy, either quality or efficiency, increases the performance of small firms.*

Strategy is transmitted by communication. Customers are informed about the strategic orientation of a firm through a variety of communication channels. According to Spickett-Jones and Eng (2006), it is in the nature of small businesses that their employees are motivated to contribute to the enterprise by attempting to understand the customers' perspective, adapt the strategy, and contribute to communication. However, an organizational strategy is more than the sum total of employees' beliefs about what an organization represents. The communication of a firm's competitive advantage reduces information asymmetry and leads to more buyers and greater success. But, considering this relationship the only plausible explanation potentially falls short of the factors impacting strategy communication. In this context, providing information is shown to play a crucial role, as stated in Thompson (1997, p. 72): "(E)ffective communication systems, both formal and informal, are required to share the strategic vision and inform people of priorities and strategies and to ensure strategies and tasks are carried out expeditiously".

According to Kotler (2003) a communication strategy should ensure that the marketing strategy is expressed properly. Other empirical results also corroborate the positive link

between communication and performance (Castleberry & Resurreccion, 1989; Kirmani & Rao, 2000; Marquardt & McGann, 1975; Milgrom & Roberts, 1986; Sharma & Patterson, 1999). These lines of research highlight that organizations should walk the talk, in other words practice what they preach, i.e., properly communicate externally what they do (Ciulla, 2005; Leisinger, 2007; Waddock & Googins, 2011). Failure to do so may lead to perceptions of pretense, deceit, and decoupling (Boiral, 2007; Khan, Munir & Willmott, 2007). Discrepancies between strategy and communication are seen as indicators of hypocrisy and a potential threat to organizational credibility and legitimacy (Wagner, Lutz & Wetz, 2009). Hypocrisy in terms of duplicity is most relevant to our work. Organizations may seek to cover up the failure to implement strategies by, e.g. window-dressing, or even communicate to obscure that they have no strategy in the first place, such as in terms of “politics of visibility” (Zyglidopoulos & Fleming, 2011). This can also be referred to as lying, or more weakly, as an omission. Thus, distractions that guide one’s attention away from the real strategy are mostly interpreted as negative.

Having detailed information asymmetry and contingency theory, we expect communication to play a moderating role between strategy and performance. Providing information reduces the likelihood of adverse selection as it leads to better-informed buyers, may confirm or strengthen perceptions, and can help buyers to make the correct choice of organization or product. Information can also reduce the likelihood of a moral hazard, as organizations are expected to walk the talk and if they do not, risk being perceived as deceitful. This reduction in information asymmetry should increase the effect of strategy on performance. Therefore, when strategy and communication “fit”, i.e., when strategy and communication are aligned, we expect stronger performance.

*H2. Strategy communication positively moderates the relationship between strategy and performance. More specifically, a fit between strategy and communication leads to stronger performance.*

Rather than lying, or window-dressing, organizations may guide the public’s attention away from poor strategies. Distraction may inadvertently also turn attention away from a good strategy. Organizations face “a rising tide of frequently contradictory demands” (Brunsson, 2003a, p. 1). Under such circumstances, it is difficult for organizations to satisfy one set of constituents without disregarding or flouting the interests or demands of others (Brunsson, 2003b; March, 1994; Pfeffer & Salancik, 1978).

Distracting attention away from the pursued strategy may not be successful in decreasing information asymmetry, and problems of moral hazard and adverse selection are likely. By providing information relating to other strategies, buyers are prevented from gaining a clear picture of the drawbacks or benefits of the strategy an organization may or may not have. Alternatively, focusing communication only on the strategy creates more opportunities to alleviate the problems of information asymmetry, since the organization has to live up to its claims and can better match buyers with the strategy it follows. Therefore, we expect that the effects of strategy on performance are stronger, the less distracting communication there is.

*H3. Distracting communication negatively moderates the relationship between strategy and performance. More specifically, the effect of strategy on performance is weaker when firms use communication to distract away from their strategy.*

Although we have made separate predictions about the link between communication fit and distracting communication, it is also of interest to explore how these effects interact and whether the combined effects have additional benefits. With multiple communications, respectively hybrid communication, it is not clear what the effects would be.

When communicating, organizations have the option to communicate one or another strategy, or both. From our previous discussion, we expect positive effects of strategy on performance when strategy and communication fit. For organizations with a specific strategy, fitted and distracting communication may be more effective at reducing information asymmetry than the individual effects combined, thus resulting in the greatest performance gains. For organizations with a strategy that is not specific (and therefore a low level of efficiency or quality strategy), fitted as well as distracting communication reduces the information asymmetry but also allows buyers to detect their nonspecific strategy.

Therefore, we expect that both fitted and distracting as well as hybrid communication impacts the effects of strategy on performance and that this relationship is weakest when communication is not fitted.

*H4. The effect of strategy on performance is less strong in the case of hybrid communication.*

## Method

### Sample and Procedure

To empirically investigate our model, we questioned managers in small organizations in the information and communication technology (ICT) industry in Germany. We asked them general questions about their organization and about performance and specifically inquired about two strategies: efficiency cost-leadership and quality differentiation. After a pre-test in April 2013, we contacted respondents by e-mail in June 2013 and received a total of 200 responses. We chose to concentrate on small organizations as larger organizations tend to communicate more information and use more channels. Moreover, we expected that more focused communication would help us to detect the effects more easily. It is also less likely that all departments in larger organizations follow a particular strategy. The ICT sector is also of interest because of its expertise in communication, suggesting that if there are any effects of communication, they will more likely be found here.

### Measures

**Performance.** We view performance as multidimensional (Cameron, 1978) and share the view of Birley and Westhead (1990) that comparisons with competitors reveal important information. Therefore, similar to Wiklund and Shepherd (2003), respondents were asked to compare the development of their own firm over the last three years relative to their most important competitors in five different dimensions of performance: Sales, headcount growth, product/service innovation, adoption of new technology, and customer satisfaction ( $\alpha = 0.77$ ). We use a seven-point scale ranging from “much lower” to “much higher”. Unlike prior literature that focuses on financial performance, buyers, or just one aspect of performance, we are able to capture the complex nature of performance and synthesize these results.

**Strategy variables.** Various approaches have been used to measure strategy. Some studies examine whether a firm is a low cost producer or differentiator (Beal, 2000; Pelham, 2000; Thornhill & White, 2007), some use intentions to operationalize strategies, and some use investment behavior or actions to capture strategic behavior (e.g., Wu, Lin & Chen, 2007) or a combination of the latter two (Leitner & Guldenberg, 2010).

We chose a mix of intentions and operationalization questions to measure efficiency and quality strategies. We took two previously validated constructs of efficiency and quality from Patterson et al. (2005). Efficiency is measured with four items, e.g., “Productivity could be improved if jobs were organized and planned better” (reversed) ( $\alpha = .89$ ). Quality is measured with three items, e.g., “This company is always looking to achieve the highest standards of quality” ( $\alpha = .82$ ). We decided not to ask whether their organization is known for producing highly quality products, as we want to maintain a sharp distinction between communication and action. These items are measured on a seven-point scale, from “strongly disagree” to “strongly agree”.

**Communication.** We first looked for publicly accessible channels used for communication. The communication channels used by the organizations were limited. Many had no social media profile, or if they did, it was either out of date or contained little information. Organizational documents were also lacking. The only consistent source that contained information about strategy were the companies’ websites, specifically the “About us” or “Philosophy” sections. This is consistent with the literature, where websites are seen as a valuable tool for information provision (Chun & Davies, 2000) and have been routinely examined in corporate association literature (e.g., Chaudhri & Wang, 2007; Kim & Rader, 2010).

To measure strategy communication, we conducted an automated text analysis of the organizations’ websites. We sought to measure the degree to which each webpage contained words associated with quality and efficiency. We counted how frequently words related to quality and efficiency were present. To measure efficiency (quality) communication, we looked at the percentage of words related to efficiency (quality) used on the overall website total webpage. These two variables reflect to what extent the organizations communicate either strategy.

To develop our dictionary of words associated with these two variables, we followed Cho and Hambrick (2006) and first looked for additional literature conceptualizing quality and efficiency. For example, Reeves and Bednar (1994) highlight three concepts for quality: excellence, values, and conformance. Second, we used a thesaurus to identify synonyms. Third, to enhance validity, we used three judges, none of whom are co-authors, to rate all the items on a scale ranging from one to seven. In the subsequent analyses, we retained any quality or efficiency that scored a mean value of five or more. We also ran analyses changing this mean value, as well as using minimum and median as alternative criteria.

Overall, the results remained consistent, although a slight pattern of increasing effects was found with higher medians, means and minimum values, highlighting that our results are not due to the selection of words, but rather that the strengths of the effects are dependent on shared understanding. We therefore view our selection of a mean of five or more as conservative.

**Controls.** We included both firm size and firm age as control variables since previous research has identified them as important factors that influence performance (Birley & Westhead 1990; Mata 1994; Almus & Nerlinger 1999). We measured firm size with three dummy variables for the total number of employees: 1-10, 11-30, 31-100, and firm age in 2013. The firms have an average age of 20 years and are evenly split between the three age categories.

## **Data Analysis**

We performed a regression analysis to test our four hypotheses. We built our model as follows: In model (1), we included only the control variables; in model (2), we added our two strategy variables; in model (3), we added the two strategy communication variables; in model (4), we included the interaction effects of strategy and its communication on both quality and efficiency; in model (5) we added the two interaction terms of a strategy and alternative strategy communication; in model (6) we added two three-way interaction terms, one for each strategy with both communications. As three-way moderations require all three pairs of two-way interaction terms, we also included the interaction between the two communication variables.

## **Results**

### **Model Overview and Assessment**

The descriptive statistics for the variables used in our study, including means, standard deviations, minimums, maximums, and correlations, are shown in Table 1.

Table 1. *Descriptive statistics of the main variables.*

	<i>Mean</i>	<i>SD</i>	<i>Min</i>	<i>max</i>	(1)	(2)	(3)	(4)	(5)
(1) Efficiency	3.92	1.59	1	7	1				
(2) Quality	5.67	1.18	1	7	.19*	1			
(3) Quality communication	.18	.51	0	4.14	.04	.03	1		
(4) Efficiency communication	.16	.31	0	1.33	.13	.13	-.07	1	
(5) Performance	4.61	.94	0	6.80	.06	.32**	-.02	.05	1

\*\*\* =  $p < .001$ ; \*\* =  $p < .05$ ; \* =  $p < .1$

The correlation analysis shows that the relationships between the independent variables are weak to modest. Only quality is found to be correlated with our performance variable. The quality and efficiency strategies show a significant positive correlation, indicating that when organizations implement one strategy, the other is also likely. While quality communication is not correlated with a quality strategy, efficiency communication is found to be positively correlated with an efficiency strategy. Our communication variables ranged from zero to one and four percent for efficiency and quality communication, respectively. Although somewhat low, this is to be expected.

## Hypothesized Relationships

Our regression results are shown in Table 2. Model (1), with only the control variables, shows that firm age is negatively related to performance and that firms with a headcount of 31-100 are associated with a higher performance than firms with a headcount of 11-30. We find that performance declines with firm age but increases with size, but only for the 31-100 group.

Table 2. *Regression results for the effects of strategy and communication on performance*

	(1)	(2)	(3)	(4)	(5)	(6)
Firm age	-0.177*** (.001)	-.156** (.003)	-.159** (.004)	-.156** (.004)	-.170** (.002)	-.208*** (.000)
Employees: 11-30	.120 (.343)	.129 (.285)	.112 (.388)	.079 (.539)	.072 (.571)	.020 (.877)
Employees: 31-100	.308** (.022)	.320** (.013)	.321** (.018)	.307** (.023)	.317** (.019)	.345** (.010)
Efficiency		.023 (.695)	.020 (.751)	.005 (.936)	.017 (.781)	.005 (.936)

Quality	.227*** (.000)	.218*** (.001)	.239*** (.000)	0.241*** (.000)	.202** (.002)	
Efficiency comm.		.025 (.639)	.048 (.371)	.046 (.423)	.024 (.677)	
Quality comm.		-.014 (.783)	-.017 (.729)	.001 (.988)	.024 (.667)	
Efficiency X Efficiency comm.			-.101 (.154)	-.104 (.138)	-.112 (.123)	
Quality X Quality comm.			.175** (.038)	.214* (.013)	.070 (.505)	
Efficiency X Quality comm.				-.117* (.057)	-.256** (0.002)	
Quality X Efficiency comm.				-.007 (.919)	-.085 (.263)	
Efficiency comm. X Quality comm.					.140 (.191)	
Efficiency X Efficiency comm. X Quality comm.					-.303** (.014)	
Quality X Efficiency comm. X Quality comm.					-.304* (.064)	
Constant	-.190** (.050)	-.187** (.043)	-.178* (.068)	-.161* (.096)	-.159 (.098)	-.156 (.106)
Observations	161	161	152	152	152	152
R-squared	.081	.172	.164	.204	.225	.273
Adjusted R- squared	.064	.145	.124	.154	.164	.199

pval in parentheses: \*\*\* =  $p < .001$ ; \*\* =  $p < .05$ ; \* =  $p < .1$

To test our hypothesis 1 we add our strategy variables to the model. In model (2), we find a significant positive effect of quality on performance ( $\beta = .227$ ,  $p < .001$ ) but an insignificant effect of efficiency on performance. We therefore can only partially support our hypothesis. Although the literature has mixed results, our current results are in line with other studies (e.g., Pelham, 2000) that find that for SMEs, a differentiation strategy has a greater impact on performance than a cost-leadership strategy.

In model (3) we find no direct association between communication and performance. Although previous literature has found direct effects, some studies also focus on



moderating effects, which we turn to next. Overall, there is little evidence that efficiency, either strategy or communication, plays a significant role in determining performance.

To test hypothesis 2, which suggests that strategy communication positively moderates the relationship between strategy and performance and that communication fit leads to optimal performance, we include two interaction terms: one for quality and quality communication and another for efficiency and efficiency communication. This is shown in model (4). We find only partial support for this hypothesis, with a significant interaction for quality ( $\beta = .175, p < .05$ ) but not for efficiency. In order to reveal the exact nature of this interaction effect, the results are shown graphically in Figure 1, using one standard deviation above and below the mean to capture high and low levels of strategy and strategy communication. The effect shown in the first hypothesis remains stable after controlling for the strategy communication effect.

Figure 1. *Interaction effect of quality and quality communication on performance.*

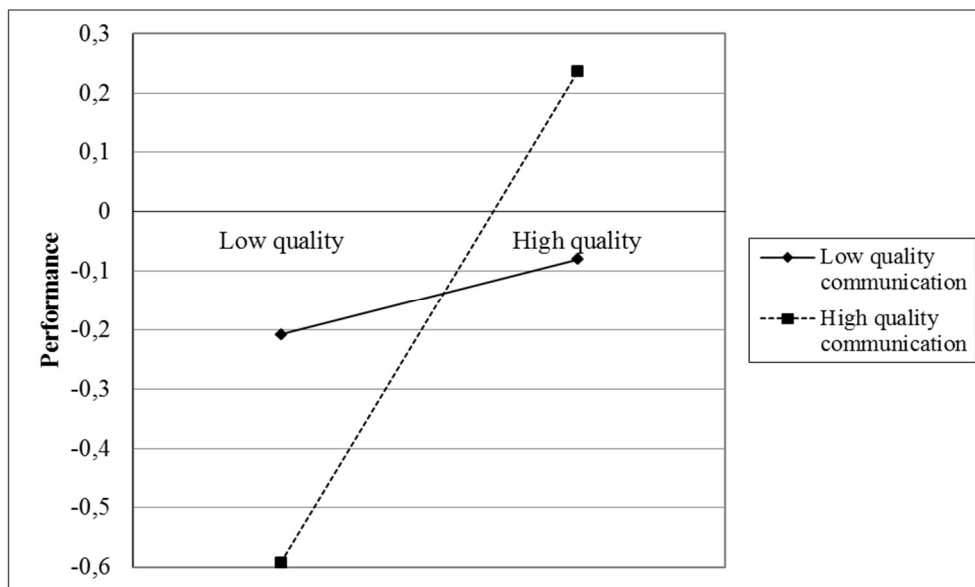


Figure 1 shows that a quality strategy increases performance but higher quality communication strengthens this positive relationship. As predicted, we find better performance if there is a strategy-communication fit: When quality is low, a low quality communication has a higher performance level than a high quality communication. A low-quality strategy coupled with high quality communication level is a sign of hypocrisy and is predicted to have suboptimal performance. In the case small firms pursue a quality strategy high quality communication has a higher performance level than low quality communication. Therefore, there are incentives for organizations to walk the talk.

To test hypothesis 3, which suggests that distracting communication negatively moderates the relationship between strategy and performance, we include two interaction terms: an interaction between quality and efficiency communication and one between efficiency and quality communication. This is shown in model (5). Again, we find only partial support for our hypothesis. There is a significant negative coefficient for the efficiency and quality communication interaction ( $\beta = -.117, \rho < .10$ ) but not for the quality and efficiency communication interaction (see Figure 2).

Figure 2. Interaction effect of efficiency and quality communication on performance.

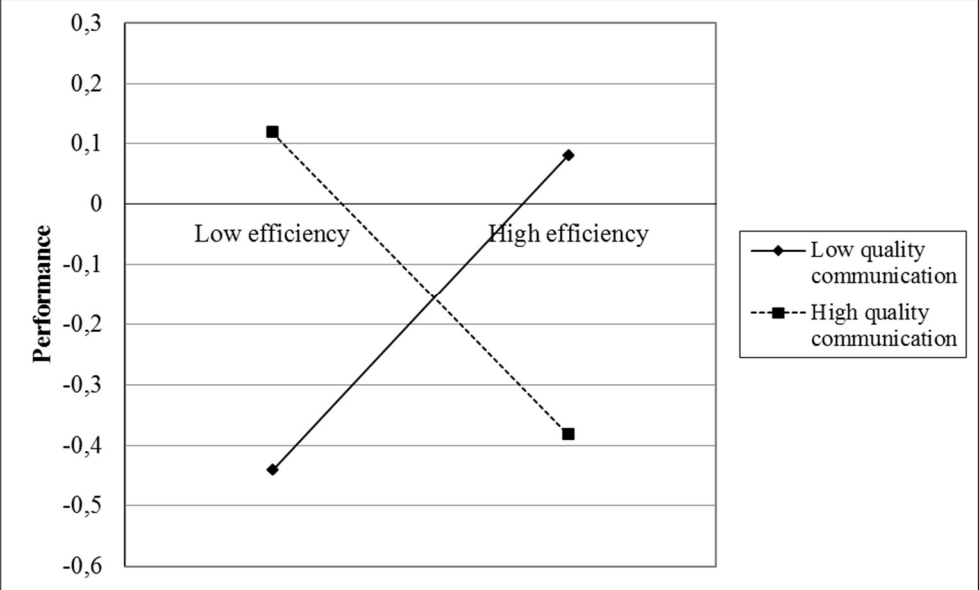


Figure 2 shows that pursuing a low efficiency strategy is linked to a higher performance in combination with high quality communication. In case small firms pursue a high efficiency strategy distracting communication towards high quality strategy reduces the effect of efficiency on performance.

To test our final hypothesis 4, which states that the effect of strategy on performance is less strong with hybrid communication, we include two three-way interaction terms: one between quality, quality communication and efficiency communication, the second between efficiency, quality communication and efficiency communication, and the third between the two communication variables (see model (6)). We find support for our hypothesis, with a significant negative coefficient for the efficiency, quality communication and efficiency communication interaction term ( $\beta = -.303, \rho < .05$ ), as well as for the quality, quality communication and efficiency communication interaction term ( $\beta = -.304, \rho < .10$ ). We show these interaction effects in Figure 3 and 4.

Figure 3. *Interaction effect of efficiency, quality communication and efficiency communication on performance.*

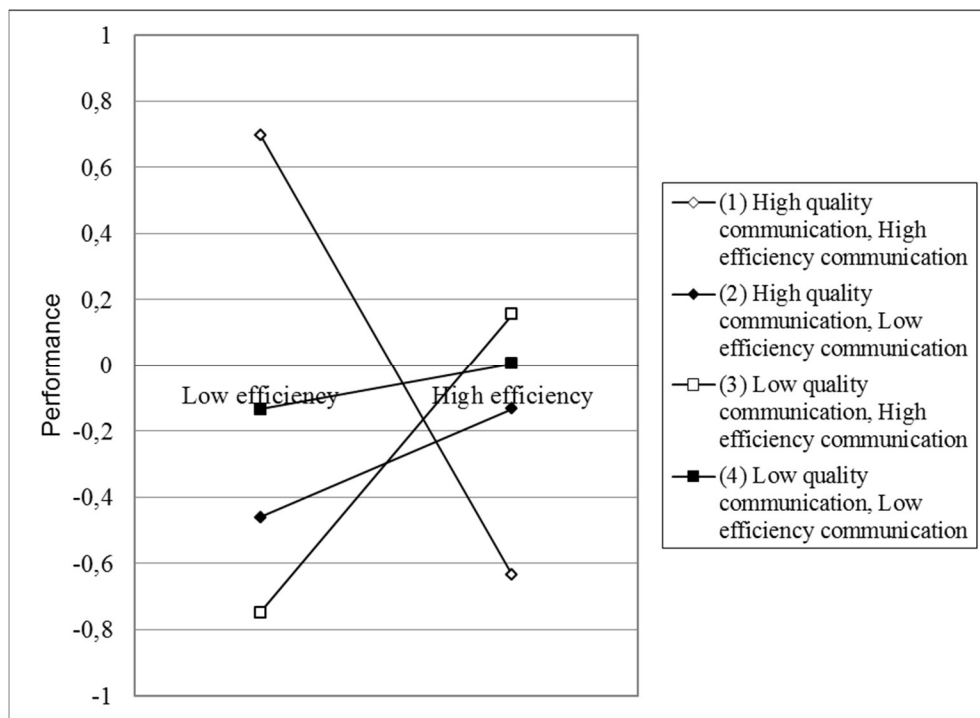


Figure 3 reveals that pursuing an efficiency strategy has a negative effect on performance, but only in cases with a high quality communication and a high efficiency communication. The main (negative) significant effect in the figure above therefore results from hybrid communication. However, small firms pursuing a low level of efficiency strategy may profit from hybrid communication. In this present case, communication merely serves as window dressing and organizations are not encouraged to implement a high level of efficiency strategy.

Figure 4. *Interaction effect of quality, quality communication and efficiency communication on performance*

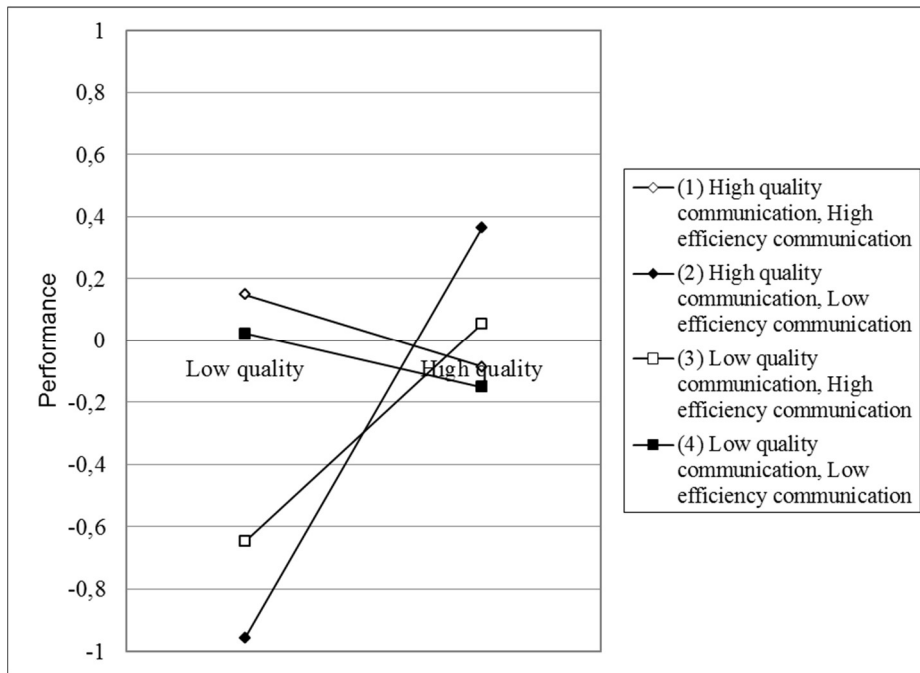


Figure 4 shows that for organizations pursuing a quality strategy the highest performance gains can be achieved by communicating a high-level quality communication and a low-level efficiency communication and therefore practicing a communication fit. In terms of pursuing a quality strategy, communicating a hybrid strategy or distracting is negative for performance.

## Discussion

Our primary objective is to explain and empirically substantiate the role of communication in linking strategy and performance. In doing so, we use contingency theory combined with information asymmetry theory to explain that communication, which decreases information asymmetry about a strategy, is likely to enhance the effects of strategy on performance. In exploring the effects of communication, we develop two communication methods: fit and distraction. We find that a lack of fit results in suboptimal performance for a quality strategy. Thus organizations should walk the talk when it comes to quality. We further find that in terms of pursuing an efficiency strategy the analysis of the best strategy communication is more complex. Figure 2 and 3 demonstrate that in case of a low efficiency strategy small firms might profit from distracting or communicating hybrid strategies. For small firms pursuing a high efficiency strategy but communicating a high quality communication distracting has a detrimental effect.

## **Theoretical Implications and Future Research**

Our work contributes to the existing literature on strategy and communication in several ways. First, we find evidence that communication plays an important role between strategy and performance. Our initial analyses of strategy on performance find no significant relationship between efficiency and performance. However, as our final analyses show, only under certain conditions does efficiency strategy impact performance. Without the inclusion of communication, previous studies may have underestimated this role of cost-leadership strategy.

Second, we develop two ways in which organizations can communicate strategy: fit and distraction. Although there is a large body of literature that advocates organizations should practice what they preach (Ciulla, 2005; Leisinger, 2007; Waddock & Googins, 2011), we contribute much needed empirical evidence of this effect to strategy research. Most prior literature on communication focuses exclusively on one strategy or vision and ignores the multiple demands that organizations face. We are the first to examine how organizations can communicate these demands and evaluate the effects on strategy and performance. Distraction is especially important for organizations that implement a hybrid strategy. Organizations that communicate two strategies may inadvertently reduce the potential value of one strategy as they may distract communication away from one or another strategy. This may explain why studies find that pure strategies are better than hybrid strategies. Further, we show that organizations have incentives to communicate a strategy and not implement this one when communicating both strategies. Although these organizations may communicate hybrid strategies they benefit from not implementing one of the strategies. Future research could therefore address the difficulties of communication with hybrid strategies.

It could also be argued that information on a website, as well as words relating to quality and efficiency, serve only as a weak proxy for general quality or efficiency communication. However, we show that even weak signals from websites help realize a strategy's potential value. Future research could delve more deeply into website-based communication, for example, using criteria for certification, including graphics, and examine to whom the information is directed. Here, communication would not just be related to the strategy, but also to the audience.

Third, although not predicted, we find that fit and distraction have differing effects on different strategies. This may be due to our measures for a cost-leadership and quality strategy as they are only one version of a variety of cost-leadership and quality strategies, and that it is problematic to empirically measure these conceptually difficult concepts. However, we offer an alternative explanation. We believe that this result stems from the higher information asymmetry related to efficiency as efficiency only leads to performance changes in specific circumstances. The literature we examine is more focused on what quality is (e.g., Reeves & Bednar, 1994) than on efficiency. A large body literature treats efficiency as unobservable, as a residual concept, using techniques such as stochastic frontier analysis and data envelopment analysis, as it is so complex and multidimensional we cannot hope to capture all the facets of efficiency. This highlights that communicating efficiency is somewhat harder than communicating quality.

It is possible that in the presence of strategies with high information asymmetry, only when organizations fit their communication can this alleviate information asymmetry, but fit alone is not enough. Future research should examine the role of communication in the presence of different strategies. We highlight two of many cases. There may be strategies that are not affected by communication because no amount of communication can reduce the information asymmetry. There could also be strategies where only distraction plays a role. We leave this for future research.

Fourth, although we find that fit improves the effect of strategy on performance, this is not always the case. We find that in case of a low efficiency strategy, high efficiency communication and high quality communication had the largest performance gains. This is a case of lack of fit and distraction. There is a moral hazard problem as organizations have an incentive to make less effort to be efficient. As communicating quality is less costly than actually implementing efficiency and since too much information may “blind” buyers, i.e., when distraction hides or masks their duplicity, this can lead to stronger performance. In this sense of hybrid communication, although the information asymmetry has increased, the cost of implementing the strategy and the distracting communication leads to higher performance. Therefore, fit may not always be best.

We have established that fit is better although not always, and other studies have previously recognized this controversy. Rather than suggesting organizations should walk the talk (Aras & Crowther, 2009; Fernando, 2010; Fougère & Solitander, 2009; Holder-

Webb, Cohen, Nath & Wood, 2009; May, Cheney & Roper, 2007), corporate social responsibility research has developed the idea of aspirational talk, namely that talking about doing something and not implementing it may have social benefits (Christensen, Morsing & Thyssen, 2013). Our research highlights that either walking the talk or not implementing the strategy and communicating it can be better. Although talk about efficiency may be aspirational, organizations have a moral hazard problem and are likely not to implement the strategy. We therefore cast doubt on organizations that employ aspirational talk.

Researchers have highlighted that corporate social responsibility communication is superficial (e.g., Mintzberg, 1983; Porter & Kramer, 2006), can be used to give false impressions and ward off criticism (e.g., Cloud, 2007; Deetz, 1992; Newell, 2008), and has no real substance (Kolk, 2003). As we expect corporate social responsibility to likely play a similar role as efficiency, organizations may not turn aspirational talk into action. However, at a collective level this may not hold. Therefore, we suggest future research to reexamine corporate social responsibility along these lines to find ways to get organizations to do what they say (Frankental, 2001; Peterson & Norton, 2007; Rasmus & Montiel, 2005). The literature on information asymmetry and methods to reduce these effects would almost certainly be beneficial. This not only holds for corporate social responsibility, but also, as we have shown, for strategy.

## **Limitations**

We use self-assessment questionnaires and therefore concede that there may be a common method bias issue. Using surveys as a data collection method offers some benefits: participants share their detailed beliefs, thoughts, and perceptions with us, which takes up much of their working or leisure time. However, this approach has also its limitations which we kept in mind during the conceptualization of our research model. According to Podsakoff (2003; 2012) and Chang, van Witteloostuijn and Eden (2010), common method bias could severely limit the validity of our results. The restrictions often mentioned in this context are biasing effects such as the common rater effect, social desirability, or contextual influences. While designing the questionnaire we used ex-ante procedural remedies such as pre-testing the questionnaire, separating between dependent and independent variables, and only using validated constructs with a high Cronbach alpha. We assured our participants that their data would be treated confidentially. Ex post,

we used statistical controls such as Harman's one-factor analysis to test whether variance in the survey data can be attributed largely to one single factor, which is the case in our study.

The survey was conducted at firm level, specifically top management. Therefore we did not take into account the product diversity of the organizations observed. Since we focus on small enterprises with few employees, we do not expect this to be a significant limitation since small enterprises generally do not implement multiple strategies. Product depth and width in small enterprises is presumably less pronounced due to lack of economies of scale and thus business efficiency. Nevertheless, future research should implement variables that control for market view and enterprise structure.

With reference to our measurements, one could note that performance is measured in a subjective way using employees' perceptions. However, this is a procedure also used in several former studies on the impact of IT strategy on firm performance (Chan et al. 1997, Croteau et al. 2001; Sabherwal & Chan, 2001).

## **Practical Implications**

To communicate one's strategy is not a complete solution to the strategy-performance gap problem. However, we find that for small firms "practice what they preach" helps them maximizing their performance. This is especially true in terms of pursuing and communicating quality strategy. Thus organizations should walk the talk and communicate their strategy properly when it comes to quality. However, this becomes more complicated in terms of pursuing a cost-leadership strategy. Pursuing this strategy and communicating it has no effect on performance. Yet, we find that in case of a low efficiency strategy, high efficiency communication and high quality communication have the largest performance gains, which gives incentives not to implement cost efficiency strategy but do window dressing. In such circumstances being honest is not always to be commended for firms pursuing a cost-leadership strategy.

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