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ARTICLE

Strategy for Sustained Profitable Growth: The Difference Between Growth- and Profit-Oriented Firms

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Abstract

Firms adopt different strategies to achieve sustained profitable growth. We argue that the success of sustained profitable growth relies on the alignment between a firm's prior and subsequent strategy. This study views a firm's prior strategy, i.e., growth-oriented vs profit-oriented, as a primary driver of future sustained profitable growth. We adopt the resource-based view to understand the types of resources required for these two strategies. We argue that to achieve sustained profitable growth, growth-oriented firms need to enhance their firm-specific advantages by developing valuable, rare, inimitable, and non-substitutable resources such as technology and brand. In comparison, profit-oriented firms must identify versatile resources to capture growth opportunities and manage growth by successfully replicating their profitable operations. Low turnover in senior management could help profit-oriented firms achieve this goal. We find support for the arguments in a sample of 3,802 listed firms worldwide from 1992 to 2019.

摘要

企业采取不同的战略来实现持续有利润的增长。我们认为，持续有利润的增长的成功依赖于公司前后战略之间的协调。本研究将公司的先前战略（即增长导向型战略或利润导向型战略）视为未来实现持续有利润增长的主要驱动因素。我们采用资源基础视角来理解前期采用这两种战略的企业在后期所需的资源类型。我们认为，为了实现持续有利润增长，前期采用增长导向型战略的公司在后期需要通过开发有价值、稀有、不可模仿和不可替代的资源（如技术和品牌）来增强其企业特有优势。相比之下，前期采用利润导向型战略的公司在后期必须识别通用资源，以捕捉增长机会，并通过成功复制其盈利的运营来管理增长，高级管理层的低流动性有助于前期采用利润导向型战略的公司实现这一目标。本研究对全球3,802家上市公司在1992年至2019年间的样本数据进行了分析，所得结果支持以上论点。

Keywords: growth-oriented firms; profit-oriented firms; RBV; sustained profitable growth

关键词: 资源基础观，持续有利润的增长，增长导向型企业，利润导向型企业

Introduction

Many firms seek high performance, leading to growth and profit over an extended period (Kirby, 2005). Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage (Hitt, Ireland, & Hoskisson, 2011), leading to sustained profitable growth (Collins & Porras, 1994). There is no universal definition of sustained profitable growth, but it is commonly understood as above-average profit and growth relative to a reference set (such as industry) that persists over a long-term period (Wiggins & Ruefli, 2002). The literature documents that pursuing sustained profitable growth is daunting, even for industry-leading firms (Huff, Huff, & Thomas, 1992; Kelly & Amburgey, 1991).

Pursuing sustained profitable growth is not an event but an ongoing process. It is far from easy to transform a firm into a high-growth and high-profit organization. It is even more challenging to sustain newly acquired competitive advantages over an extended period (Porter, 1996). Studies report that

only a tiny fraction of successful companies sustain profitable growth for an extended period (Chakravarthy & Lorange, 2008; Collins, 2001; Johnson, Hensmans, & Yip, 2013; Johnson, Yip, & Hensmans, 2012). Johnson et al.'s (2012) qualitative study shows that only 4 out of 215 of the largest British public companies sustained superior performance between 1984 and 2003. Johnson et al. (2012: 25) assert, 'Companies that can radically change their entrenched ways of doing things and then reclaim leading positions in the industries are the exception rather than the rule'. Empirical studies on achieving sustained profitable growth are scant, and available evidence relies heavily on anecdotal material and cases (Grinyer, Mayes, & McKiernan, 1990; Johnson et al., 2012, 2013).

Adopting the resource-based view (RBV), this study conceptualizes and provides large-scale empirical support for understanding the development of sustained profitable growth by focusing on firm resources and strategy. RBV emphasizes the importance of a firm's internal resources as the primary determinant of competitive advantage and performance (Penrose, 1959). According to RBV, firms possess a unique set of resources and capabilities. These resources enable firms to implement strategies that improve efficiency and effectiveness, leading to sustainable competitive advantage (Barney, 1991). RBV shifts the focus from external market positioning to the internal competencies of the firm, highlighting the role of resource heterogeneity and immobility in shaping firm performance over time. There are different types of resources. Barney (1991) highlighted the importance of resources that are valuable, rare, inimitable, and non-substitutable (VRIN) in securing competitive advantages. In contrast, Penrose (1959) focused on the significance of surplus and flexible resources in driving firm growth. RBV scholars often fail to distinguish between the perspectives of Barney and Penrose regarding firm resources.

This study fills the research gap on the determinants of sustained profitable growth by highlighting the difference between VRIN and versatile resources. What underlying conditions would help firms sustain their competitive advantage for an extended period? We present the alignment of prior and subsequent strategies as the primary determinant. We assume that with limited resources, firms could achieve sustained profitable growth in two stages. In the first stage, they focus on either growth or profit. Accordingly, we introduce two strategies, i.e., growth- vs profit-oriented, as the primary condition determining the firm's path to achieving sustained profitable growth. Growth-oriented firms prioritize growth over profit, while profit-oriented firms prioritize profit over growth. In the second stage, these firms try to achieve profitable growth. Growth-oriented companies need to adopt a strategy that focuses on developing VRIN resources to charge premium prices and lower costs. These include technological and marketing capabilities that help them generate above-normal returns and sustain profitable growth. In comparison, profit-oriented firms benefit from a strategy that helps them utilize versatile resources to capture growth opportunities and replicate their already profitable operation, including internal versatile resources such as managerial attention and external versatile resources such as cash.

This study offers several significant contributions to the literature and business practice. First, it contributes to RBV. By examining the disparities between VRIN and versatile resources, we deepen our comprehension of the varied influences that different resource types exert on critical performance objectives such as sustained profitable growth. The difference between Penrose's and Barney's arguments on resource and firm performance has not been fully recognized in the literature (Nason & Wiklund, 2018). Recent development suggests that different types of resources drive firm profit and growth (Zhou & Park, 2024). This article extends previous studies by showing that different types of resources play different roles in driving sustained profitable growth. Thus, this study enriches our understanding of the nuances of resources in their impacts on firm performance.

Second, this article provides new theoretical insights into managing the strategy needed for sustained profitable growth. Many firms can achieve profitable growth over a short period, while only a few appear capable of sustaining a competitive advantage by adopting appropriate strategies. We argue that strategic alignment with the firms' prior strategy (i.e., profit vs growth) and subsequent strategy determines long-term sustainable, profitable growth. It views sustained profitable growth as a strategic goal that firms can manage by leveraging their organizational and strategic heritage and looking beyond the achievement of short-term competitive advantage.

Lastly, while previous studies relied on anecdotal evidence and a small number of field cases (Grinyer et al., 1990; Johnson et al., 2012, 2013; Stonig, Schmid, & Müller-Stewens, 2022), this study offers large-sample evidence of causal links between strategy and sustained profitable growth. It provides empirical validation of drivers of sustained profitable growth and evidence that these drivers are not necessarily the same as those deployed for short-term competitive advantage. It utilizes a sample of 3,802 firms operating in 96 countries from 1992 to 2019. The empirical tests largely support the hypotheses.

Research Background

RBV and Sustained Profitable Growth

The RBV theory provides valuable insights into the relationship between a firm's resources and its sustained profitable growth (Barney, 1991; Penrose, 1959). Compared to other theories, RBV offers a more nuanced explanation of firm performance by focusing on the internal resources and capabilities that are unique to each firm. Unlike market-based theories, such as Porter's Five Forces (Porter, 1980), which emphasize external industry factors as the primary determinants of competitive advantage, RBV centers on the intrinsic characteristics of the firm itself (Barney, 1991; Wernerfelt, 1984). It posits that firm performance is determined by how effectively a firm can develop, deploy, and protect its VRIN resources (Barney, 1991). This internal focus allows RBV to account for variations in performance between firms within the same industry, which might otherwise remain unexplained by theories that emphasize external conditions (Peteraf, 1993). Additionally, RBV's emphasis on resource heterogeneity and immobility provides a robust framework for understanding how certain firms sustain their competitive advantages over time, leading to superior profitable growth that is difficult for competitors to replicate (Dierickx & Cool, 1989). This distinct focus on the firm's internal strengths makes RBV well-suited to explaining long-term performance differentials across firms.

In her seminal work, Penrose (1959) conceptualizes the firm as a dynamic entity, emphasizing the role of managerial capabilities in organizing and deploying resources to drive growth. Penrose argues that a firm's growth is constrained by its internal resources and the managerial capacity to utilize them effectively. In contrast, Barney (1991) builds on this internal focus by introducing RBV, which posits that a firm's sustained competitive advantage is derived from resources that are VRIN. While Penrose highlights the evolutionary processes and growth potential within firms, Barney's RBV centers on how firms can strategically manage their internal resources to outperform competitors. One key difference is that Penrose focuses on versatile resources and firm growth, whereas Barney provides a framework for understanding how VRIN resources can lead to long-term competitive advantage.

Besides VRIN resources, versatile resources are essential in driving sustained profitable growth. A versatile resource, as conceptualized by Penrose (1959), refers to a resource within a firm that can be deployed across different activities or areas of the organization. These resources possess flexibility and adaptability, allowing firms to utilize them in various ways to pursue different strategic objectives or respond to changing market conditions. Versatile resources give firms the agility and capacity to adapt to evolving circumstances, facilitating their growth and competitiveness over time. They enable firms to navigate uncertain environments and capitalize on emerging opportunities while minimizing risks and resource constraints (Zhou & Park, 2024).

A firm's sustained profitable growth depends on the expansion based on VRIN resources and on effectively utilizing these versatile resources (Nason & Wiklund, 2018). Versatile resources enable firms to explore new opportunities, diversify their operations, and capitalize on emerging markets or technologies without requiring significant additional investments. Examples of versatile resources might include managerial talent, organizational knowledge, and flexible production processes. Despite the importance of versatile resources, their impact on sustained profitable growth is less understood than VRIN resources.

Growth- and Profit-Oriented Strategy and Sustained Profitable Growth

It is challenging to initiate an appropriate strategy to provide a firm with the competencies to achieve sustained competitive advantage. Producing generalizable and actionable findings and implications to

guide the selection of appropriate strategies leading to sustained profitable growth requires long-term observation of many cases.

This study addresses these issues by using a large sample of companies to discover the strategy that enabled some to sustain their profitable growth over an extended period. We argue that long-term success depends on the fit between a firm's prior and subsequent strategy. In particular, this study focuses on two prior strategies of a firm, growth- vs profit-oriented strategy, to explore links between strategy and sustained profitable growth.

This study considers both firm growth and profit as measures of sustained profitable growth. Firm profit is an important goal that provides higher returns for shareholders and the resources needed for sustained growth. Return on assets (ROA) appears in financial and investment analysis reports as a primary indicator of firm performance (Rothschild, 2006; Wan, Xie, Li, & Jiang, 2022). Studies also use them as critical indicators of managerial performance (Farrell & Whidbee, 2003; Kato & Kubo, 2006). Accordingly, profit is the most commonly adopted dependent variable to measure firm performance in academic studies (Chang, 2003; Li, Tsang, Luo, & Ying, 2016; Ogden & Watson, 1999). Meanwhile, managers and investment analysts often cite growth as a desirable goal (Brush, Bromiley, & Hendrickx, 2000; Greve, 2008). Fast growth benefits firms such as legitimacy, visibility, and market power (Haveman, 1993; Mishina, Pollock, & Porac, 2004). Firm growth is also an important topic as a dependent variable in strategy research (Dalton & Kesner, 1985; Greve, 2008; Luo & Child, 2015).

While growth and profit are desirable performance outcomes, achieving profitable growth may be challenging, as the two goals may create tensions for a firm. First, they compete for scarce non-scale free resources, subject to opportunity costs and reduced rents when applied across multiple sectors (Levinthal & Wu, 2010). These resources can only be allocated to one use or another, unlike those that a firm can distribute across a wide range of markets or products. Pursuing growth utilizes non-scale free resources, such as managerial attention (Zhou & Park, 2020). Growth engenders greater organizational complexity (Slevin & Covin, 1997), and managers must cope with increasing administrative demands. Operational inefficiency increases and profit declines when managers cannot respond to increased organizational complexity (Mishina et al., 2004).

Besides RBV, agency theory may partly explain the negative relationship between growth and profit (Brush et al., 2000). Greater ownership-control separation enables managers to favor their interests over those of the owners. Managers may pursue growth that sacrifices profit and shareholder returns (Su, Xu, & Phan, 2008), as firm growth is often linked to managerial benefits such as prestige, visibility, and executive compensation (Lambert, Larcker, & Weigelt, 1991; Morck, Shleifer, & Vishny, 1990). The resulting conflicts between managerial incentives and resources predict a negative relationship between growth and profit. Empirical studies have validated this assertion (Berger & Ofek, 1995; Reid, 1995). For example, the finance literature notes a diversification discount, finding that diversification-driven growth leads to declining firm value (Berger & Ofek, 1995).

The growth–profit tension raises an interesting question: how can firms achieve sustained profitable growth? Prior studies have documented the difficulties in achieving profitable growth and presented limited evidence, mostly case studies, for the strategies leading to profitable growth (Zook & Allen, 2000). The field remains short of a rigorous and empirical examination of the conditions for profitable growth. Zhou and Park (2020) studied firm survival as the long-term outcome of growth-oriented and profit-oriented strategies in emerging markets. However, they did not explore strategies that lead to sustained profitable growth.

In sum, the literature needs a deeper understanding of how firms achieve sustained profitable growth by adopting appropriate strategies. Given the tension between growth and profit, in this study, we assume that firms could adopt a two-stage strategy to achieve sustained profitable growth. In the first stage, they adopt either a growth-oriented or profit-oriented strategy to achieve sustained high growth or profit. After achieving sustained high growth or high profit, they try to achieve sustained profitable growth in the second stage. Both valid reasoning and empirical evidence support this assumption. Firms that adopt a growth-oriented strategy hope that growth will lead to market power (Tirole, 1988), which will then turn into high profits in the future. For example, Amazon

initially focused on growth and market share; Amazon invested heavily in expanding its logistics and technology. Over time, this led to significant profits, particularly through its Amazon Web Services (AWS) cloud services (Stone, 2013). Firms that adopt a profit-oriented strategy hope that profits generated from operations will help fund future growth (Zhou, Park, & Ungson, 2013). For example, Procter & Gamble initially focused on maintaining strong profit margins through operational efficiency and cost management. Once profitability was established, the company strategically expanded into new markets and product lines, resulting in sustained growth (Kottler & Keller, 2009). Then, the question emerges: How do growth-oriented and profit-oriented firms design and execute strategies to achieve profitable growth?

Hypotheses Development

Difference Between Growth-Oriented and Profit-Oriented Firms

According to RBV, firm growth and profit are driven by resources (Barney, 1991; Penrose, 1959). Both VRIN and versatile resources are related to growth and profit. However, different types of resources play different roles. Compared to versatile resources, VRIN resources only explain a small range of growth paths a firm could pursue. VRIN resources can explain firm growth in its current business and related areas where VRIN resources apply (Barney, 1991). Versatile resources can explain a broader range of growth because some versatile resources, such as cash, can enable firms to grow in any business, regardless of business relatedness (Cleary, 1999). Therefore, versatile resources are more relevant than VRIN in explaining firm growth. In a meta-analysis of 113 studies from 1987 to 2011, Nason and Wiklund (2018) found that the correlation between versatile resources and firm growth is 0.11, and the correlation between non-versatile resources and firm growth is only 0.05. The 95% confidence intervals of these two correlations do not overlap, meaning whether a resource is versatile or not influences firm growth. On the contrary, the correlation between VRIN resources and firm growth is 0.09, and the correlation between non-VRIN resources and firm growth is 0.08. The 95% confidence intervals of these correlations overlap, meaning whether a resource is VRIN does not significantly influence firm growth.

While versatile resources significantly impact a firm's growth, VRIN resources have a more substantial effect on a firm's profitability. The fundamental principle of RBV suggests that VRIN resources are instrumental in creating competitive advantages, ultimately resulting in above-average profits (Barney, 1991; Wernerfelt, 1984). In contrast, versatile resources do not automatically lead to competitive advantages and are thus less directly associated with a firm's profits.

While versatile and VRIN resources serve different strategic purposes, they can be converted to each other. A versatile resource, initially used in various contexts, can be specialized or enhanced to become more valuable in a specific strategic area. For example, a broad set of technical skills (versatile resource) can be deepened in a niche area, making them invaluable for a specific market or product. A VRIN resource can be adapted for use in multiple business areas. For example, a proprietary technology that gives a firm a competitive edge in one product line could be modified for use in other product lines or industries, increasing its versatility (Peteraf & Barney, 2003).

We further assume that growth-oriented and profit-oriented firms accumulate different resources and capabilities during the first development stage and face different challenges while pursuing sustained profitable growth in the second stage. Growth-oriented firms prioritize growth over profit initially to seek to scale up and achieve volume-based market dominance in the first stage. Such growth-oriented firms may temporarily sacrifice profit by offering lower-priced products than competitors or absorbing high operational costs. Since they have already experienced high growth in the first stage, they may have already developed versatile resources closely related to growth. However, once they drive out competitors and achieve market dominance, they can shift their strategic focus to harvesting profit from their market position and improving operational efficiency. During the second stage of pursuing sustained profitable growth, their priority is to increase profit. According to RBV, sustained profit comes from the procession of firm-specific resources and capabilities that are VRIN (Barney, 1991). Therefore, growth-oriented firms must develop VRIN resources to pursue sustained

profitable growth. They could use existing versatile resources to develop VRIN resources. For example, cash, a versatile resource, can be spent to develop R&D capabilities, a VRIN resource.

Profit-oriented firms prioritize profit over growth in the first stage. The fact that they enjoy high profits implies that they may have developed VRIN resources, such as technology and brands, during the first stage of development. For a profit-oriented firm, the path to sustained profitable growth requires identifying and capturing growth opportunities that align with existing firm-specific capabilities. To pursue growth, they need to develop or acquire versatile resources. Versatile resources offer a broad range of potential services. The redeployment of versatile resources enables firms to pursue new applications for the resources, thus pushing for growth. They could use existing VRIN resources to develop versatile resources. Firms could use their existing VRIN resources such as technology, to generate cash, which is a versatile resource and can further fund growth.

Table 1 summarizes the differences between growth-oriented and profit-oriented firms regarding existing capabilities and challenges. Growth-oriented firms will likely have developed versatile resources, while profit-oriented firms will likely have developed VRIN resources in the first stage. Their challenge is developing the other resource type in the second stage.

Growth-Oriented Firms and Strategy

For growth-oriented firms to achieve sustained profitable growth, their primary task is to increase profit by acquiring VRIN resources. Typical VRIN resources include technological and marketing capabilities, which enable firms to create competitive advantages (Anand & Delios, 2002; Su, Peng, Shen, & Xiao, 2013). Growth-oriented firms may enhance profit to achieve profitable growth by charging a premium price or reducing costs. We argue that strong technological capabilities are keys to creating competitive advantages and increasing profit (Bettis & Prahalad, 1995; Chatterjee & Sahasranamam, 2018; Henderson & Clark, 1990; Tushman & Anderson, 1986).

First, growth-oriented firms with solid R&D and technological capabilities (such as Apple) can charge premium prices by differentiating their products (Fryxell, 1990). Investing in R&D and technological capabilities enables firms to achieve superior product quality, charge premium prices, and earn higher margins (Aboody & Lev, 2000; Burgelman & Maidique, 1989; Chan, Martin, & Kensinger, 1990; Hall, 1998).

Second, growth-oriented firms could sustain profitable growth by reducing production and operational costs. Investments in R&D and technological capabilities may improve product quality while streamlining production and reducing operation costs (Burgelman & Maidique, 1989; Chan et al., 1990). Firms' effort to innovate products often improves operations and enhances production efficiency (Aboody & Lev, 2000; Burgelman & Maidique, 1989; Hall, 1998). As a result, product innovation may lead to a more efficient production frontier that would systemically reduce production and operation costs and increase profit.

Thus, growth-oriented firms need to invest in R&D and technological capabilities to improve profit margins. These resources will enable them to charge a premium price and improve operational efficiency, leading to profitable growth. In comparison, profit-oriented firms' benefits from R&D and technological capabilities may not be as substantial as growth-oriented firms since they may already have the VRIN resources to charge a premium price and earn a higher profit margin. For profit-

Table 1. Difference between growth-oriented and profit-oriented firms

	Growth-oriented firms	Profit-oriented firms
Existing resources/capabilities	Versatile resources	VRIN resources
Operational challenges to sustained profitable growth	Enhance profitability by charging premium prices and/or reducing cost	Identify and capture growth opportunities
Resources/capabilities needed to be developed	VRIN resources	Versatile resources

oriented firms, such investments would not guarantee new growth and market expansion or necessarily lead to sustained profitable growth. Although additional investment in VRIN resources such as R&D may not harm profit-oriented firms, it may not be as critical as growth-oriented firms in achieving sustained profitable growth. We thus hypothesize:

Hypothesis 1 (H1): The positive impact of R&D investment on future sustained profitable growth is stronger for growth-oriented than profit-oriented firms.

While R&D investments are an effort from the supply side to increase profit, investment in advertising is an effort to increase profit from the demand side by increasing customers' willingness to buy. A growth-oriented firm may seek to earn a premium price by investing in differentiation to enhance its brand image. A firm's sustained ability to charge a premium price and maintain a high margin rests on its technological capabilities, brand, and customer perceptions. Growth-oriented firms may follow a multi-step market entry or positioning approach by charging a low price and sacrificing profit at the early stage (Chang, 2003). For example, Japanese cars were sold at low prices on their post-war entry to the US market. Despite rapid product quality improvement, Japanese automakers could not charge premium prices until they built their brand image.

Advertising investment is critical in improving the firm's brand and capability to earn a higher margin (Baidya & Basu, 2008). The literature supports the value of advertising in increasing a firm's brand awareness and credibility and, eventually, its brand premium (Abhishek, Tahmid, & Feisal, 2018; Clark, Doraszelski, & Draganska, 2009). A strong brand enables growth-oriented firms to increase profit and sustain growth (Yan, Hu, & Dong, 2021). Yet, profit-oriented firms with differentiation advantages based on firm-specific capabilities (including strong brand awareness) may benefit less from advertising. Therefore, we argue that investment in advertising and promotion to achieve and sustain profitable growth benefits growth-oriented firms more than profit-oriented ones. We thus hypothesize:

Hypothesis 2 (H2): The positive impact of advertising investment on future sustained profitable growth is stronger for growth-oriented than profit-oriented firms.

Profit-Oriented Firms and Strategy

As we argued earlier, the path to sustained profitable growth for a profit-oriented firm requires identifying and capturing growth opportunities that align with existing firm-specific capabilities. Versatile resources help profit-oriented firms achieve sustained profitable growth. There are two types of versatile resources: those with internal fungibility and those with external fungibility. Internal fungibility means a resource can be redeployed easily between uses within a firm. In contrast, external fungibility means a resource is tradable between firms and can be utilized readily across different firms (Nason & Wiklund, 2018). Both types of versatile resources are essential for firm growth. We first consider versatile resources with internal fungibility. One such resource is the top management team's (TMT) managerial attention.

Managerial attention is versatile because it can be applied to multiple uses (Damanpour & Aravind, 2012). It is also with internal fungibility since managers' knowledge regarding a specific firm may be easily redeployed within the firm but not easily utilized in other firms. Growth often challenges management, creating needs for managerial attention. Firms that attempt rapid growth face increased organizational complexity and higher coordination and management costs (Mishina et al., 2004; Slevin & Covin, 1997). Increasing organizational complexity may impair operational and managerial functions in profit-oriented firms. Growth also increases external complexity and expands the number of relationships. Firm growth through product and geographic diversification increases the pool of stakeholders and related relationships. Prior studies show that managing these relationships resides largely in managerial ties (Li, Zhou, & Shao, 2009; Peng & Luo, 2000). It takes time and effort to establish new ties while maintaining old ones; when firms grow fast, leaders face demands to expand their

networks and manage more relationships. Growth-induced organizational complexity and expanded external relationships require greater managerial capabilities accumulated over time (Barringer & Jones, 2004).

A stable TMT could manage growth more effectively than a new TMT. A stable TMT better understands the firm's current situation and firm-specific assets and can use its familiarity and collective expertise to minimize managerial complexity and coordination costs. Pursuing growth requires the firm either to ramp up its growth in its current market or to diversify into a new industry or geographic market. These specialized tasks require sets of appropriate routines to execute growth. A stable TMT is familiar with the firm's existing operations and routines. This familiarity facilitates establishing routines to manage the growth process efficiently. For example, a TMT accumulates valuable experiences with acquisitions to pursue product diversification. With familiarity with the internal situation and prior experiences, it can easily develop and oversee an efficient routine to identify, acquire, and integrate a target firm (Elango & Pattnaik, 2011; Jones & Miskell, 2007; Zollo & Singh, 2004). On the contrary, new TMT members face significant learning costs in becoming familiar with firm-specific capabilities and internal situations. This limits the team's capability to establish efficient routines to sustain growth (Bilgili, Calderon, Allen, & Kedia, 2017).

In sum, a stable TMT helps a profit-oriented firm manage internal and external complexities and establish effective routines to manage growth. Once routines are institutionalized, profit-oriented firms can replicate them to generate sustained growth. While a stable TMT could also help growth-oriented firms achieve sustained profitable growth, its impact may not be strong, as the growth-oriented firms have already achieved a long period of high growth. Given a history of rapid growth, growth-oriented firms are accustomed to such routines. We thus hypothesize:

Hypothesis 3 (H3): The positive impact of TMT stability on future sustained profitable growth is stronger for profit-oriented firms than for growth-oriented firms.

Profit-oriented firms also need versatile resources with external fungibility to achieve profitable growth. One such resource is financial capital. When a firm embarks on a growth path, it typically does so by either scaling up its existing business operations or expanding into new product markets. While distinct in their approaches, both strategies share a critical requirement: a significant need for financial capital. This capital is essential for day-to-day operations and funding the substantial investments required to fuel growth initiatives (Penrose, 1959; Teece, 1986).

Scaling up within the same business involves increasing production capacity and enhancing distribution channels. These activities require considerable financial resources, particularly cash, to cover the costs of new equipment, facilities, and labor. Previous research has consistently highlighted that such internal expansions consume large amounts of financial capital. For instance, Cleary (1999) emphasizes that cash is a critical resource during scaling, as it provides the necessary liquidity to manage the increased operational demands without relying excessively on debt or external financing. Moreover, research by Myers and Majluf (1984) suggests that firms prefer to finance such investments with internal funds to avoid the costs associated with external financing and potential underinvestment problems.

On the other hand, when a firm chooses to expand into new product markets, the financial requirements can be even more substantial. Entering a new market often involves significant upfront costs, including market research, product development, marketing campaigns, and establishing new distribution networks. Additionally, firms may need to invest in new facilities or acquire new talent to support the expanded operations. These activities are financially intensive and require careful planning and allocation of resources (Chandler, 1962; Helfat & Lieberman, 2002). The need for substantial financial capital is further amplified when the firm pursues growth through acquisitions, a common strategy for entering new markets (Muratova, 2018). Acquisitions, as a mode of growth, are particularly capital-intensive. When a company decides to grow by acquiring another company, it must not only cover the purchase price of the target firm but also consider the costs associated with integrating the new entity into its existing operations. This includes aligning different corporate cultures, integrating IT

systems, and possibly restructuring to eliminate redundancies. Zhou, Xie, and Wang (2016) have documented that acquisitions often require vast amounts of financial capital, especially cash, to ensure a smooth transition and to support the newly acquired assets and business units.

In both cases — whether scaling up existing operations or expanding into new markets through diversification — firms must ensure they have access to sufficient financial resources to support these growth strategies. The ability to secure and effectively manage financial capital is a crucial determinant of a firm's capacity to grow sustainably and capitalize on new opportunities in the marketplace (Wernerfelt, 1984).

While versatile resources such as financial capital are also crucial for growth-oriented firms, their fast growth implies that they already have accumulated the ability to acquire it during their growth. Hence, we predict that profit-oriented firms that invest in organizational capital are more likely to sustain profitable growth than growth-oriented firms.

Hypothesis 4 (H4): The positive impact of financial capital on future sustained profitable growth is stronger for profit-oriented firms than for growth-oriented firms.

Methods

Sample

The sample of this study comes from the Osiris dataset which includes detailed operational and financial information on over 80,000 publicly listed firms worldwide from 1990 (Bureau van Dijk, 2020). The dataset has been widely used in management research (Kalasin, Dussauge, & Rivera-Santos, 2014; Surroca, Tribo, & Zahra, 2013).

We first extracted each firm's sales, ROA, industry, and date information in the database. The study uses ROA, defined as the net profit as a percentage of total assets each year, to measure profitability. ROA is the most popular performance measure in previous studies (Guo, 2017; McGahan & Porter, 1997). We use sales growth, defined as the percentage of revenue growth over the previous year, to measure growth (Geroski, Machin, & Walters, 1997; Jones & Miskell, 2007). We then calculated the average sales growth rate and ROA at the industry level using the four-digit NAICS 2017 code.

The next step was to classify firms into one of the four categories each year by comparing their sales growth rate and ROA with industry averages: high growth-high profit, high growth-low profit, low growth-high profit, and low growth-low profit. High growth or profit is determined by comparing a firm's growth or profit with the industry-average value. For example, a firm with above-industry-average sales growth and above-industry-average ROA in a given year falls into the high growth-high profit category.

Since the study focuses on growth-oriented and profit-oriented firms, we must first identify them. Following prior practices (Zhou & Park, 2020), we classifed growth-oriented (high growth-low profit) and profit-oriented (low growth-high profit) based on three consecutive years of the same status. The sample excluded firms that do not fall into these two categories since they do not represent a specific strategy.

For each firm with available financial information, we tracked its performance from 1992 (or inception year if it was founded after 1992) to 2019. We end our sample period in 2019 to avoid the possible influence of COVID-19 on firm performance. There are 28,408 firms in the dataset with available information on ROA, sales growth, and other key variables. Applying the criterion of identifying growth- and profit-oriented strategies, we end up with a total of 1,467 growth-oriented firms and 2,335 profit-oriented firms. These growth- and profit-oriented firms constitute our sample of analysis. We compared growth-oriented and profit-oriented firms in moderating and control variables to ensure they are comparable and can be pooled in our sample. Table 2 summarizes the results of the comparison. Profit-oriented firms have higher R&D ratios and advertising ratios than growth-oriented firms, and growth-oriented firms have higher TMT stability and current ratios than profit-oriented firms. This comparison shows that growth-oriented firms accumulated more versatile resources in the first stage than profit-oriented firms. In contrast, profit-oriented firms accumulated more VRIN resources in the first stage than growth-oriented firms. None of the comparisons of control variables yield

Table 2. Comparison between growth-oriented and profit-oriented firms

Variables	Mean of growth-oriented firms	Mean of profit-oriented firms	*t*-value	*p*-value
R&D ratio	0.10	0.25	2.57	0.01
Advertising ratio	0.07	0.10	2.01	0.04
TMT stability	0.72	0.67	2.25	0.02
Current ratio	3.38	2.42	7.28	0.00
Firm size	11.18	11.24	0.69	0.49
Firm age	17.08	16.99	0.87	0.38
Intangible asset ratio	0.10	0.09	1.21	0.23
SGA ratio	0.01	0.01	1.34	0.18
Number of subsidiaries	32.82	34.40	0.43	0.67
Number of shareholders	43.12	32.73	1.27	0.21

significant results, suggesting no significant differences between growth-oriented and profit-oriented firms in terms of the control variables.

We acknowledge a potential self-selection problem, i.e., firms self-select to choose a specific strategy. We controlled for the self-selection bias by calculating the probability of a firm choosing a specific strategy (growth-oriented or profit-oriented strategy) and entering that probability as a control variable in the regression, as suggested by Shaver (1998). In the first stage, we have a growth-oriented or profit-oriented strategy as the dependent variable. We use coefficients of the first stage model to calculate the inverse Mill's ratio (IMR), which represents the probability of a firm selecting a growth-oriented or profit-oriented strategy. We then use the IMR as one of the control variables in the second stage model, which has sustained profitable growth as the dependent variable.

Table 3 summarizes our sample's top 10 countries and industries, representing 96 countries and 88 industries (3-digit code). About 20% of the firms are from China (18.96%), followed by the United States (17.15%) and India (6.84%). The sample includes manufacturing, service, and mining industries, with the most representation by Computer and Electronic Product Manufacturing (9.47%), followed by Professional, Scientific, and Technical Services (7.55%) and Chemical Manufacturing (7.23%).

Variables

The dependent variable is sustained profitable growth. We labeled it *profitable growth*. A dummy variable equals one if a firm achieves both sustained high profit and sustained high growth. Its value is zero otherwise. We separately examined whether a firm achieves sustained high profit and growth. We followed Wiggins and Ruefli (2002) to determine sustained high profit/growth. High profit/growth is operationalized as statistically significant above-industry-average ROA/sales growth over 5 years. Sustained high profit/growth is operationalized as high profit/growth that lasted six or more consecutive windows (i.e., 10 years). A firm that achieves both sustained high profit and sustained high growth during the same period is considered to achieve sustained profitable growth. Since this variable is invariant for each firm, the firm serves as our unit of analysis. We use the average values for the many time-varying independent and control variables for firms that do not achieve profitable growth during the study period. For firms that achieved profitable growth, we use the average values for time-varying variables from the last year of its strategy (growth-oriented or profit-oriented) to the first year of its sustained high growth-high profit.

Since our final sample only includes growth-oriented and profit-oriented firms, we use a dummy variable for *growth-oriented firms*: one for growth-oriented firms and zero for profit-oriented firms. We use the interaction between *growth-oriented firms* and moderating variables to test H1–H4.

Table 3. Distribution of country of origin and industry (Top 10)

Country	Number of firms	Percentage	Industry	Number of firms	Percentage
China	721	18.96%	Computer and Electronic Product Manufacturing	360	9.47%
United States	652	17.15%	Professional, Scientific and Technical Services	287	7.55%
India	260	6.84%	Chemical Manufacturing	275	7.23%
Taiwan (China)	161	4.23%	Real Estate	202	5.31%
Japan	141	3.71%	Utilities	163	4.45%
United Kingdom	138	3.63%	Merchant Wholesales, Durable Goods	147	3.87%
Malaysia	136	3.58%	Machinery Manufacturing	133	3.50%
Cayman Islands	123	3.24%	Food Manufacturing	115	3.02%
Bermuda	111	2.92%	Electronic Equipment, Appliance, and Component Manufacturing	95	2.88%
Korea	110	2.89%	Miscellaneous Manufacturing	92	2.88%

The moderating variable to test H1 is the *R&D ratio*, calculated as the ratio of research and development expenses to total operating revenues. A higher R&D ratio implies more investments in R&D and a higher level of technological capabilities (Fryxell, 1990). For H2, we use *advertising ratio,* the ratio of advertising expenses to total operating revenues. A high advertising ratio means more advertising investment and is considered a measure of marketing capabilities (Srivastava, Fahey, & Christensen, 2001). For H3, we use *TMT stability,* the ratio of current TMT members to the total (current and previous) number of TMT members. A higher value means there are fewer previous members of TMT, i.e., a large portion of TMT members remains. So a higher value means there is less turnover in a firm's TMT and thus reflects high stability. A stable TMT indicates that the management is well-versed in the firm's operations, necessitating less time and effort to acquaint themselves with the firm's resources and activities, thereby resulting in a substantial reservoir of managerial attention – a versatile resource that could be used to pursue growth (Zhou & Park, 2020). For H4, we use the *current ratio*, which is the ratio of a firm's current assets to current liabilities (Herold, Jayaraman, & Narayanaswamy, 2006). A higher value means that a firm has more financial capital.

We controlled for several factors that might influence firm performance. The first set of control variables is at the firm level. *Firm size* is a commonly used predictor of firm performance. Large firms are more capable of managing risk than smaller firms, given their larger market shares and greater power; large firms thus tend to perform better than smaller firms (Fama & French, 1995). We used the log of a firm's sales to measure firm size. We included *firm age* as a control variable, as firms with long histories are more likely to accumulate resources and survival capabilities. A firm with high intangible assets, such as goodwill, may benefit. We thus control for the *intangible asset ratio*, which is the ratio of intangible assets to total assets. We interpret a fraction of selling, general, and administrative (SG&A) spending as an investment in organization capital, which includes human capital, customer relations, brand, and distribution systems (Peters & Taylor, 2017). We thus use the *SGA ratio*, calculated as the ratio of SG&A spending to total operating revenue, as the measure of organizational capital. We also controlled for *number of subsidiaries*, which is the number of a firm's subsidiaries. It measures the level of organizational complexity of a firm. We also controlled the *number of shareholders,* as more are likely to alleviate the agency problem (Jensen, 1986; Jensen & Meckling, 1976) and thus influence firm performance. Finally, we included *dummy variables for industry* and *country* to control for potential sector and geographic location variations.

Since the dependent variable is a dummy variable, we applied a logistic regression model (Wooldridge, 2002). We fit the regression models using the *logit* command in Stata (Stata, 2018).

Results

Table 4 shows the means, standard deviations (S.D.), and correlations for the variables used in the regressions. All correlations among independent and control variables are less than 0.40, suggesting no serious multicollinearity problem. We check the variance inflation factor (VIF) of each regression model. The highest VIF of the models is 4.38, considerably below the cutoff point of 10 (Ryan, 1997).

Table 5 lists eight models of the main regression results. Models 1 and 2 summarize the results predicting the probability of a firm choosing a growth-oriented or profit-oriented strategy, respectively. We used the coefficients in these two models to calculate *IMR*, representing the probability of a firm selecting a growth-oriented (model 1) or profit-oriented strategy (model 2). We used IMR calculated in model 1 for growth-oriented firms, and for profit-oriented firms, we used IMR calculated in model 2. The results show that firm size, age, and number of subsidiaries positively relate to growth-oriented and profit-oriented strategies. The bigger and older firms and those with more subsidiaries are more likely to adopt growth-oriented and profit-oriented strategies. TMT stability is negative and significant in both models, indicating that firms with more stable TMT are less likely to engage in growth-oriented or profit-oriented strategies. The R&D ratio is positive and significant in model 2, showing that firms with more R&D spending are more likely to adopt the profit-oriented strategy. The current ratio is also positive and significant in Model 2, suggesting that firms with financial capital are more likely to engage in a profit-oriented strategy.

Models 3–8 test the hypotheses. H3 is the baseline model, including only the control variables. The coefficients of *TMT stability, intangible asset ratio, SGA ratio,* and *firm size* are positive and significant across all models, indicating that firms are more likely to achieve sustained profitable growth when they have more stable TMT, more intangible assets, more operational capital, and larger size. The coefficients of *firm age* are negative and significant across all models, showing that older firms are likely to succeed in achieving profitable growth, maybe due to organizational inertia (Hannan & Freeman, 1984). The coefficients of growth-oriented firms are also negative and significant. Firms that adopt a growth-oriented strategy are less likely than those that adopt a profit-oriented strategy to achieve sustained profitable growth in the future. This result is consistent with Zhou and Park (2020), which found that growth-oriented firms are more likely to go bankrupt in the future than profit-oriented firms in a sample of Chinese firms.

Models 4–8 illustrate the results associated with the moderating effects. In Model 4, we enter the interaction between *R&D ratio* and *growth-oriented firms*. This interaction term is positive and significant ($\beta = 0.58$; $p = 0.050$), indicating that the relationship between *R&D ratio* and *profitable growth* is stronger for growth-oriented firms. Holding other variables constant, when the *R&D ratio* increases from zero to one, the probability of achieving profitable growth for the growth-oriented firm is 1.79 times higher than the increase in the probability for profit-oriented firms. These results support H1.

In Model 5, we enter the interaction between *advertising ratio* and *growth-oriented firms*. This interaction term is positive and significant ($\beta = 0.11$; $p = 0.025$), suggesting that the relationship between *advertising ratio* and *profitable growth* is stronger for growth-oriented firms. Holding other variables constant, when the advertising ratio increases from zero to one, the probability of achieving profitable growth for the growth-oriented firm is 1.12 times higher than the increase in the probability for profit-oriented firms. H2 is thus supported.

In Model 6, we enter the interaction term between *TMT stability* and *growth-oriented firms*. This interaction term is negative and significant ($\beta = -1.38$; $p = 0.027$). This indicates a stronger relationship between *TMT stability* and *profitable growth* for profit-oriented firms. Holding other variables constant, when *TMT stability* increases from zero to one, the probability of achieving profitable growth for the growth-oriented firm is 25% that of the probability increase for profit-oriented firms. These results support H3.

In Model 7, we enter the interaction term between the *current ratio* and *growth-oriented firms*. This interaction term is not significant. H4 is not supported. Although we hypothesized that financial

Table 4. Descriptive statistics and correlation table

	Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1	Profitable growth	0.02	0.18	1.00											
2	Growth-oriented firms	0.39	0.49	−0.06	1.00										
3	R&D ratio	0.16	3.34	0.01	0.04	1.00									
4	Advertising ratio	0.08	1.20	0.05	−0.01	0.00	1.00								
5	TMT stability	0.69	0.22	0.07	−0.01	0.02	−0.01	1.00							
6	Current ratio	2.99	5.00	0.01	−0.10	0.04	0.02	0.00	1.00						
7	Firm size	11.22	2.63	0.11	−0.05	−0.05	−0.06	0.02	−0.35	1.00					
8	Firm age	17.02	6.42	−0.23	−0.11	−0.01	0.05	−0.07	0.01	0.01	1.00				
9	Intangible asset ratio	0.10	0.16	0.01	0.03	−0.01	−0.05	−0.01	−0.10	0.19	−0.13	1.00			
10	SGA ratio	0.10	0.57	0.38	−0.03	−0.01	0.01	0.00	0.04	−0.02	−0.06	−0.03	1.00		
11	Number of subsidiaries	33.57	111.26	0.09	0.01	−0.01	−0.01	0.05	−0.08	0.32	−0.10	0.14	−0.01	1.00	
12	Number of shareholders	36.86	247.73	0.04	0.02	0.00	−0.01	−0.02	−0.02	0.07	0.00	0.02	−0.01	0.03	1.00
13	IMR	0.13	0.81	0.02	0.02	−0.01	0.01	−0.05	0.01	0.12	0.00	−0.04	0.00	0.02	−0.01

Notes: $N = 3{,}802$. Correlation >0.051 is significant at the 0.01 level, according to Pearson correlations with two-tailed tests.

Table 5. Logit model regression results

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Dependent variable	Growth-oriented strategy	Profit-oriented strategy	Profitable growth					
Independent variables								
R&D ratio × Growth-oriented firms				0.58 (0.29) [0.050]				0.28 (0.09) [0.001]
Advertising ratio × Growth-oriented firms					0.11 (0.05) [0.025]			0.22 (0.08) [0.007]
TMT stability × Growth-oriented firms						−1.38 (0.63) [0.027]		−1.78 (0.87) [0.041]
Current ratio × Growth-oriented firms							−0.56 (0.31) [0.068]	−0.35 (0.32) [0.280]
Growth-oriented firms	/	/	−0.66 (0.12) [0.000]	−1.05 (0.24) [0.000]	−1.90 (0.57) [0.001]	−0.60 (0.13) [0.000]	−0.77 (0.14) [0.000]	−1.83 (0.59) [0.002]
R&D ratio	−0.02 (0.25) [0.946]	1.78 (0.45) [0.000]	0.31 (2.14) [0.884]	0.35 (2.15) [0.870]	0.09 (2.05) [0.964]	0.39 (2.20) [0.861]	0.27 (2.12) [0.899]	0.19 (2.09) [0.927]
Advertising ratio	−0.36 (0.37) [0.338]	0.99 (2.14) [0.644]	0.60 (0.33) [0.067]	0.57 (0.33) [0.080]	0.59 (0.33) [0.076]	0.60 (0.33) [0.068]	0.60 (0.33) [0.067]	0.57 (0.33) [0.081]
TMT stability	−1.29 (0.15) [0.000]	−0.26 (0.13) [0.048]	0.71 (0.28) [0.012]	0.70 (0.28) [0.014]	0.70 (0.28) [0.013]	0.72 (0.28) [0.011]	0.70 (0.28) [0.013]	0.70 (0.28) [0.014]
Current ratio	−0.01 (0.01) [0.260]	0.03 (0.01) [0.000]	0.02 (0.01) [0.066]	0.02 (0.01) [0.094]	0.02 (0.01) [0.142]	0.02 (0.01) [0.074]	0.02 (0.01) [0.069]	0.02 (0.01) [0.157]
Intangible asset ratio	0.15 (0.21) [0.469]	0.11 (0.18) [0.548]	0.82 (0.41) [0.047]	0.85 (0.41) [0.038]	0.83 (0.41) [0.042]	0.82 (0.41) [0.047]	0.82 (0.41) [0.049]	0.84 (0.41) [0.040]
SGA ratio	−0.01 (0.07) [0.905]	0.01 (0.03) [0.737]	1.28 (0.17) [0.000]	1.27 (0.17) [0.000]	1.27 (0.17) [0.000]	1.29 (0.17) [0.000]	1.28 (0.17) [0.000]	1.28 (0.17) [0.000]
Firm size	0.13 (0.02) [0.000]	0.16 (0.01) [0.000]	0.15 (0.03) [0.000]	0.15 (0.03) [0.000]	0.11 (0.03) [0.001]	0.15 (0.03) [0.000]	0.15 (0.03) [0.000]	0.11 (0.03) [0.001]
Firm age	0.05 (0.00) [0.000]	0.08 (0.000) [0.000]	−0.10 (0.01) [0.000]	−0.10 (0.01) [0.000]	−0.10 (0.01) [0.000]	−0.10 (0.01) [0.000]	−0.10 (0.01) [0.000]	−0.10 (0.01) [0.000]
Number of subsidiaries	0.87 (0.18) [0.000]	0.52 (0.18) [0.003]	0.00 (0.00) [0.283]	0.00 (0.00) [0.260]	0.00 (0.00) [0.288]	0.00 (0.00) [0.268]	0.00 (0.00) [0.283]	0.00 (0.00) [0.267]
Number of shareholders	−0.20 (0.23) [0.373]	0.23 (0.14) [0.103]	0.00 (0.00) [0.985]	0.00 (0.00) [0.972]	0.00 (0.00) [0.985]	0.00 (0.00) [0.962]	0.00 (0.00) [0.995]	0.00 (0.00) [0.938]
Inverse Mill's ratio	/	/	0.16 (0.17) [0.354]	0.05 (0.20) [0.817]	0.15 (0.17) [0.389]	0.16 (0.17) [0.360]	0.18 (0.17) [0.309]	0.06 (0.20) [0.766]
Industry & Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
Number of observations	27,243	27,523	3,802	3,802	3,802	3,802	3,802	3,802
LR Chi-square	859.78	1,847.88	1,196.35	1,199.88	1,200.89	1,201.65	1,199.59	1,208.22
Log-likelihood	−3,982.97	−5,830.81	−1,136.15	−1,134.39	−1,133.88	−1,133.50	−1,134.53	−1,130.21
Model significance	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Pseudo *R*-square	0.097	0.137	0.345	0.346	0.346	0.346	0.346	0.348

Notes: Two-tailed tests. Values are unstandardized coefficients. Standard errors are in parentheses. *P*-values are in brackets.

capital such as cash is an essential type of external versatile resource that profit-oriented firms need, our empirical test did not support this hypothesis. One possible explanation is that financial capital may also be necessary for growth-oriented firms since investments in R&D and advertising also require financial capital. If this is the case, the moderating effect of financial capital may not be significant.

Model 8 is the full model, including all four interaction terms. All previous results hold.

Figures 1–3 illustrate the moderating effects highlighted above. The *Y*-axis is *profitable growth*, whereas the *X*-axis is *the R&D, advertising, and TMT stability ratio*. In the three figures, the blue line represents growth-oriented firms, whereas the red line represents profit-oriented firms. In Figures 1 and 2, the slope of the blue line is steeper than that of the red line, indicating that the impact of the *R&D ratio* and *advertising ratio* on *profitable growth* is stronger for growth-oriented firms than profit-oriented firms. In Figure 3, the slope of the red line is steeper than that of the blue line, showing that the impact of *TMT stability* on *profitable growth* is stronger for profit-oriented firms than for growth-oriented firms. The figures are consistent with the results we found in Table 3.

Robustness Check

We check the robustness of the results in several ways. First, we use alternative models. Given the space limitations, we report only the full model for robustness checks. Model 1 in Table 6 shows the results for the probit model. The major difference between the probit and logit models lies in the assumption of the distribution of the error terms. The logit model assumes that the errors follow the standard logistic distribution, and the probit model assumes that the errors follow a normal distribution. The results in Model 1 of Table 6 are consistent with those in Model 8 of Table 5.

Next, we try event history analysis. Unlike the logit model, in which the dependent variable is whether a firm achieves sustained profitable growth, the event history model considers the time spent before the event. This approach allows us to model the hazards of achieving profitable growth and to compare the effect of independent variables. We use Cox regression to run the analyses. Cox regression is a method for modeling time-to-event data in censored cases. Cox (1975) derived a regression-like model from analyzing the hazard function using one or more covariates. This can be formally expressed as:

$$h(t, x) = h_0(t)e^{\beta' x}$$

where h_0 is the baseline hazard at a time t for a null covariates vector and depends solely on time; $e^{\beta' x}$ depends on the covariates' value. We use the Stata command stcox to run the analyses (Stata, 2018), and

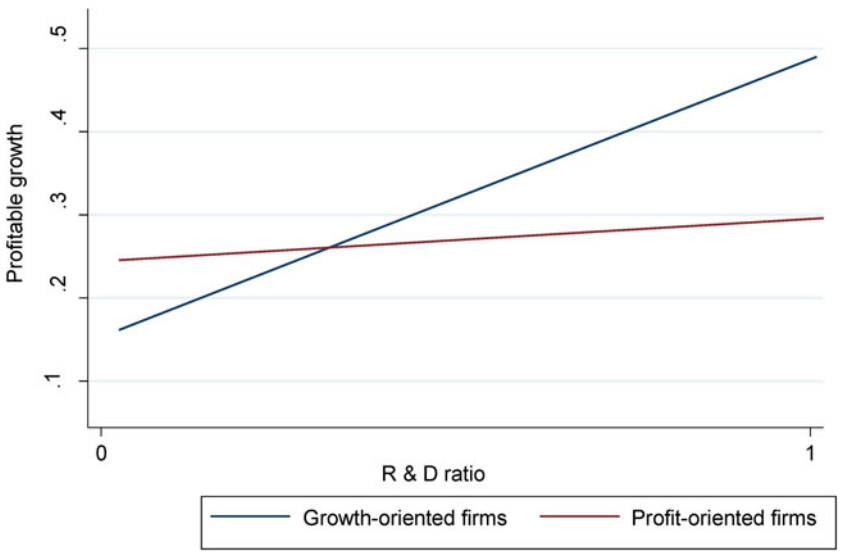

Figure 1. The impact of R&D ratio on profitable growth for growth-oriented and profit-oriented firms

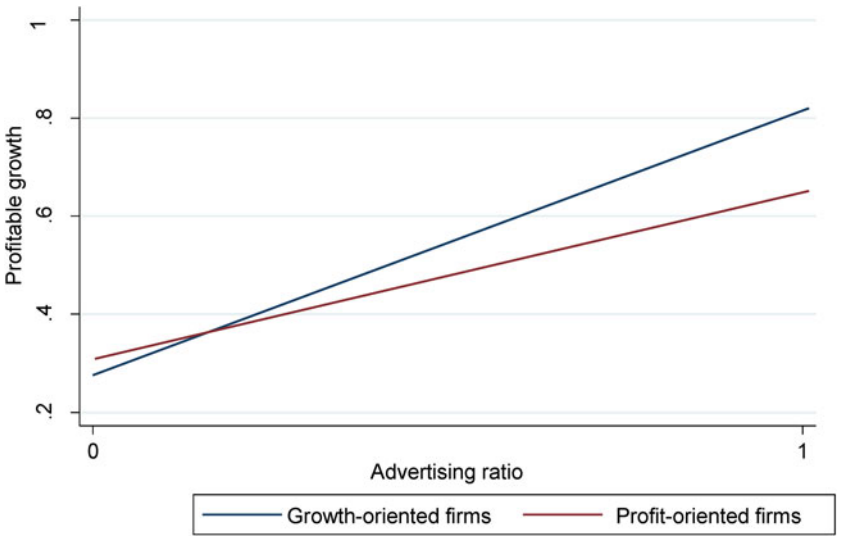

Figure 2. The impact of advertising ratio on profitable growth for growth-oriented and profit-oriented firms

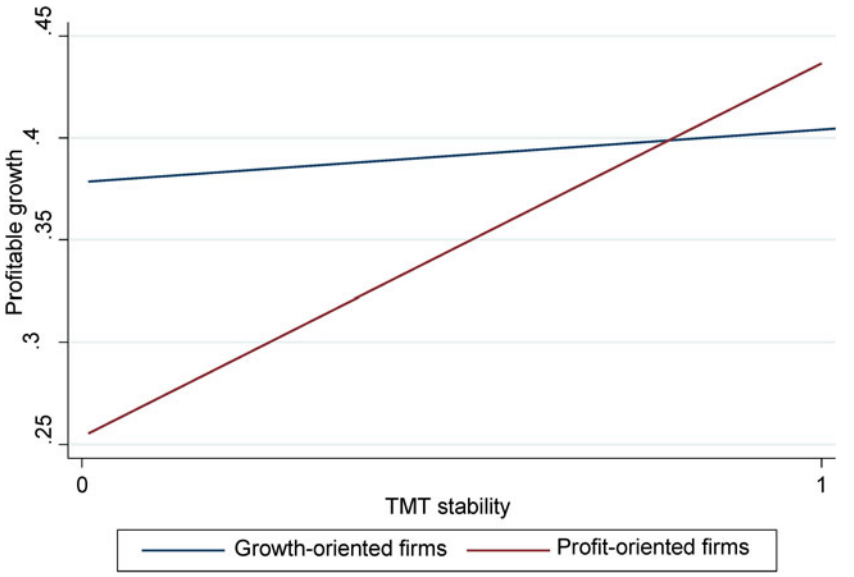

Figure 3. The impact of TMT stability on profitable growth for growth-oriented and profit-oriented firms

the results are summarized in model 2 of Table 6. The results are consistent with those in Model 8 of Table 5.

We also check the robustness of the results by using alternative ways to define sustained profitable growth. Instead of using the industry average, we use the industry value median as a performance benchmark. The results are summarized in Model 3 of Table 6. They are consistent with those in Model 8 of Table 5.

Next, we used alternative measures for growth and profit. Instead of using sales growth, we used growth in total assets as the measure of growth. The results are summarized in Model 4 of Table 6. In Model 5 of Table 6, we used ROE as the measure of profit rather than ROA. The results in Models 4 and 5 are consistent with the main results.

Models 6 and 7 split the sample into emerging markets and developed countries. Model 6 represents the results in emerging markets, and model 7 represents those in developed countries. Developed countries are classified according to the OECD country list. The results in Models 6 and 7 are consistent with those in Model 8 of Table 5. Moreover, the coefficients of the interaction terms of the two models do not show significant differences. Growth-oriented strategy, which is negative and significant for firms in developed countries, is not significant for firms in emerging markets. This difference suggests that pursuing growth may bring more benefits and thus be more justifiable in emerging markets.

We further test the hypotheses by splitting the sample into growth-oriented and profit-oriented firms, and the results are summarized in models 8–9 of Table 6. We compare the coefficients of *R&D ratio*, *advertising ratio*, *TMT stability,* and *current ratio* of these two models by calculating the *Z*-value. The tests yield *p*-value of 0.027, 0.010, 0.002, and 0.101, respectively, indicating the coefficients of *R&D ratio*, *advertising ratio,* and *TMT stability* are significantly different for these two groups of firms, supporting H1–H3.

Finally, instead of using firm as the unit of analysis, we use firm-year as the unit of analysis. The results are summarized in model 10 of Table 6. The results are consistent with the main results; three of the four interaction terms are significant. Overall, hypotheses H1–H3 receive robust empirical support.

Discussion

The most important strategic goal for listed companies is to achieve sustained profitable growth (Chakravarthy & Lorange, 2008). However, the academic literature and popular press prove this is an elusive target. Chakravarthy and Lorange's study (2008) of 6,000 public companies worldwide reported that less than five percent could sustain profitable growth over 10 years. This number dropped to one percent over 15 years. Even so, sustained competitive advantage sets the foundation for strategic thinking. We found that growth-oriented firms need to develop more VRIN resources, such as R&D and marketing capabilities, to achieve sustained profitable growth. In contrast, profit-oriented firms need to rely on more versatile resources such as stable TMT. Our findings offer valuable insights into how firms could adopt appropriate strategies to improve their chance of achieving sustained profitable growth. This study contributes to both academic literature and business practice.

First, this study contributes to RBV by differentiating between VRIN resources (Barney, 1991) and versatile resources (Penrose, 1959). While prior research has often treated these two types of resources as synonymous in their influence on firm performance — with Nason and Wiklund (2018) and Zhou and Park (2024) being notable exceptions — our findings reveal a crucial distinction. Specifically, the findings of this article confirm that VRIN resources play a more pivotal role in determining firm profitability, whereas versatile resources are more critical for driving firm growth. This nuanced differentiation enhances our understanding of the complex dynamics between various resource types and their distinct impacts on different dimensions of firm performance. Moreover, we link these two types of resources to sustained profitable growth. Relying on the difference between VRIN and versatile resources, we conceptualize the conditions affecting a firm's sustained profitable growth. By refining the theoretical framework of RBV and integrating it into the study of sustained profitable growth, this study helps us better understand the nuanced differences between VRIN and versatile resources in driving sustained profitable growth. Our study thus paves the way for more precise strategic management practices and future research that further explores the multifaceted nature of firm resources.

Our study differs from Zhou and Park (2024) in two important ways. First, the dependent variables examined are different. Zhou and Park (2024) focused on the determinants of growth and profit, while this study focuses on sustained profitable growth. Sustained profitable growth is a firm's ultimate goal, rather than growth or profit. This study thus further extends Zhou and Park (2024) by linking VRIN and versatile resources to growth-oriented and profit-oriented strategy and future sustained profitable growth, one step further than growth or profit. Second, while Zhou and Park (2024) discussed VRIN and versatile resources in general, they did not identify specific types of resources. Our study identifies two types of VRIN resources, R&D and marketing capability, and two types of versatile resources,

Table 6. Robustness checks

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Model specification	Probit	Event history	Industry median	Asset growth	ROE	Emerging markets	Developed countries
Independent variables							
R&D ratio × Growth-oriented firms	0.14 (0.05) [0.003]	0.22 (0.11) [0.044]	0.49 (0.24) [0.046]	0.27 (0.04) [0.000]	0.72 (0.35) [0.043]	0.27 (0.10) [0.003]	0.30 (0.04) [0.000]
Advertising ratio × Growth-oriented firms	0.04 (0.02) [0.048]	0.04 (0.02) [0.042]	0.16 (0.05) [0.001]	0.07 (0.03) [0.038]	0.02 (0.01) [0.048]	0.03 (0.01) [0.004]	0.05 (0.02) [0.030]
TMT stability × Growth-oriented firms	−0.73 (0.34) [0.032]	−0.71 (0.35) [0.048]	−0.78 (0.30) [0.010]	−0.49 (0.18) [0.008]	−0.30 (0.05) [0.002]	−0.23 (0.10) [0.026]	−0.24 (0.12) [0.042]
Current ratio × Growth-oriented firms	−0.18 (0.17) [0.294]	−0.12 (0.22) [0.601]	−0.26 (0.30) [0.384]	−0.13 (0.11) [0.239]	−0.57 (0.53) [0.276]	−0.20 (0.44) [0.652]	−0.15 (3.81) [0.968]
Control variables							
Growth-oriented firms	−0.95 (0.31) [0.002]	−0.92 (0.48) [0.057]	−1.56 (0.57) [0.006]	−1.29 (1.36) [0.346]	−0.50 (1.33) [0.708]	−1.20 (0.99) [0.227]	−2.40 (0.80) [0.003]
R&D ratio	0.17 (1.12) [0.878]	0.27 (0.40) [0.494]	0.70 (18.52) [0.970]	0.15 (0.58) [0.796]	0.16 (1.57) [0.778]	0.55 (0.42) [0.190]	0.16 (0.32) [0.623]
Advertising ratio	0.33 (0.20) [0.099]	0.54 (0.17) [0.001]	0.56 (0.32) [0.079]	0.38 (1.79) [0.830]	0.10 (1.73) [0.955]	0.22 (0.13) [0.084]	0.45 (0.39) [0.249]
TMT stability	0.35 (0.15) [0.019]	0.51 (0.23) [0.025]	0.11 (0.28) [0.700]	1.17 (0.30) [0.000]	1.20 (0.29) [0.000]	0.16 (0.41) [0.706]	0.48 (0.48) [0.320]
Current ratio	0.01 (0.01) [0.214]	0.02 (0.01) [0.012]	0.02 (0.02) [0.236]	0.03 (0.01) [0.037]	0.03 (0.01) [0.021]	0.02 (0.01) [0.168]	0.00 (0.02) [0.967]
Intangible asset ratio	0.43 (0.22) [0.048]	0.10 (0.32) [0.756]	0.07 (0.42) [0.864]	0.36 (0.34) [0.290]	0.24 (0.34) [0.475]	0.89 (0.82) [0.278]	1.23 (0.55) [0.025]
SGA ratio	4.03 (0.32) [0.000]	0.59 (0.39) [0.132]	4.17 (0.68) [0.000]	0.04 (0.08) [0.606]	0.54 (1.02) [0.597]	1.71 (0.33) [0.000]	1.11 (198.31) [0.996]
Firm size	0.06 (0.02) [0.001]	0.09 (0.02) [0.001]	0.01 (0.04) [0.796]	0.22 (0.11) [0.040]	0.27 (0.04) [0.000]	0.07 (0.05) [0.199]	0.08 (0.05) [0.148]
Firm age	−0.06 (0.01) [0.000]	−0.04 (0.01) [0.000]	−0.04 (0.01) [0.000]	−0.03 (0.01) [0.000]	−0.02 (0.01) [0.021]	−0.12 (0.02) [0.000]	−0.09 (0.01) [0.000]
Number of subsidiaries	0.00 (0.00) [0.224]	0.00 (0.00) [0.623]	0.00 (0.00) [0.724]	0.00 (0.00) [0.329]	0.00 (0.00) [0.286]	0.00 (0.00) [0.169]	0.00 (0.00) [0.983]
Number of shareholders	0.00 (0.00) [0.848]	0.00 (0.00) [0.279]	0.00 (0.00) [0.675]	0.00 (0.00) [0.702]	0.00 (0.00) [0.776]	0.00 (0.00) [0.598]	0.03 (0.00) [0.000]
Inverse Mill's ratio	0.03 (0.12) [0.755]	0.02 (0.48) [0.922]	0.30 (0.25) [0.223]	0.48 (1.11) [0.665]	0.11 (1.05) [0.913]	0.12 (0.99) [0.681]	0.10 (0.35) [0.768]
Industry & Country dummies	Included	Included	Included	Included	Included	Included	Included
Number of observations	3,802	3,802	3,802	2,789	2,850	2,242	1,560
LR Chi-square	1,159.98	167.47	204.80	276.45	265.06	814.07	332.13
Log-likelihood	−1,154.33	−4,165.42	−1,119.89	−1,185.52	−1,206.38	−590.369	−476.23
Pseudo *R*-square	0.334	/	0.084	0.104	0.099	0.408	0.259

Variables	Model 8	Model 9	Model 10
Model specification	Growth-oriented firms	Profit-oriented firms	Panel data
Independent Variables			
R&D ratio × Growth-oriented firms	/	/	1.53 (0.47) [0.001]
Advertising ratio × Growth-oriented firms	/	/	0.03 (0.01) [0.000]
TMT stability × Growth-oriented firms	/	/	−0.45 (0.17) [0.008]
Current ratio × Growth-oriented firms	/	/	−0.98 (2.93) [0.738]
Control Variables			
Growth-oriented firms	/	/	−0.18 (0.13) [0.155]
R&D ratio	0.28 (0.74) [0.000]	0.04 (0.08) [0.649]	1.53 (0.47) [0.001]
Advertising ratio	2.65 (0.65) [0.000]	0.54 (0.49) [0.270]	0.45 (0.15) [0.003]
TMT stability	0.23 (0.35) [0.507]	2.44 (0.61) [0.000]	0.94 (0.11) [0.000]
Current ratio	0.01 (0.01) [0.589]	0.04 (0.02) [0.014]	0.00 (0.01) [0.874]
Intangible asset ratio	1.13 (0.61) [0.065]	0.60 (0.52) [0.248]	0.03 (0.12) [0.778]
SGA ratio	0.63 (0.54) [0.246]	94.57 (15.43) [0.000]	1.63 (0.11) [0.000]
Firm size	0.22 (0.04) [0.000]	0.11 (0.04) [0.003]	0.24 (0.01) [0.000]
Firm age	−0.13 (0.02) [0.000]	−0.09 (0.01) [0.000]	−0.01 (0.01) [0.026]
Number of subsidiaries	0.00 (0.00) [0.251]	0.00 (0.00) [0.950]	0.00 (0.00) [0.005]
Number of shareholders	0.00 (0.00) [0.151]	0.00 (0.00) [0.598]	0.00 (0.00) [0.008]
Inverse Mill's ratio	0.26 (0.26) [0.316]	0.00 (0.21) [0.986]	0.12 (0.20) [0.556]
Industry & Country dummies	Included	Included	Included
Number of observations	1,467	2,335	21,081
LR Chi-square	176.10	744.28.47	2,443.78
Log-likelihood	−507.16	−759.34	−10,777.39
Pseudo *R*-square	0.148	0.329	0.102

Notes: Two-tailed tests. Values are unstandardized coefficients. Standard errors are in parentheses. *P*-values are in brackets.

managerial attention and financial capital. We examine the different impacts of these specific types of resources on the relationship between growth/profit-oriented strategy and future sustained profitable growth. Our study thus provides a more detailed examination of VRIN and versatile resources and how they influence firm performance.

Second, this study advances our understanding of sustained competitive advantage and sustained profitable growth by pointing out possible paths. We argue that given limited resources, firms could adopt a two-stage strategy to achieve sustained profitable growth. Firms could either adopt a growth-oriented or profit-oriented strategy at the first stage. They could further achieve sustained profitable growth after achieving either growth or profit in the second stage because the resources accumulated in the first stage can be used to help the development of other resources in the second stage. This article also demonstrates that growth-oriented and profit-oriented firms need to focus on different types of resources in the second stage. We conduct large-scale empirical testing that delineates different conditions that lead to profitable growth over an extended period, and our study covers a sufficient duration of firm performance to test our hypotheses. Thus, this study helps us understand how to achieve sustainable competitive advantage and sustained profitable growth.

Third, this study contributes to understanding growth and profit, the two most popular strategic goals for public firms. Chakravarthy and Lorange (2008: 4) regard them as 'two elements of the holy grail of business success'. We define firm strategy according to its primary focus on either of these goals, i.e., growth-oriented vs profit-oriented. The study defines sustained profitable growth as simultaneously achieving two potentially conflicting goals. On the path toward sustained profitable growth, firms often prioritize one goal over the other and make strategic choices regarding resource allocations and organizational settings according to their goal orientation (Gupta, Smith, & Shalley, 2006). This study illuminates the importance of considering growth-oriented and profit-oriented strategies. It also shows that firms need to manage initial growth–profit contradictions to complement each other to achieve long-term sustained profitable growth. Growth-oriented firms benefit by complementing their growth capabilities with investment in developing VRIN resources, such as R&D and advertising. In contrast, profit-oriented firms need to acquire more versatile resources to leverage their profit-generating capabilities by relying on top management. Our results suggest that it is possible to manage the growth–profit tension by managing the two conflicting goals sequentially. This concurs with Levinthal and March (1993: 98), stating, 'prominent in more descriptive accounts (Cyert & March, 1963) is the sequential allocation of attention to divergent goals'.

This study deals with the practical topic of achieving sustained profitable growth. Our findings strongly suggest that practicing managers align the strategy for sustained profitable growth to the firm's prior strategy and capabilities. Our findings also highlight the importance of designing appropriate strategies for the long-term benefit of sustained profitable growth, which does not necessarily coincide with short-term gains. Lastly, our findings suggest that managers adopt the sustainability of profitable growth as the guiding principle in their strategic choices. Sustained profitable growth is achievable as long as firms properly design and implement strategy.

Limitations and Future Research Directions

The study faces several limitations. There is no consensus in the field about the operational definition of sustainability. There is no agreed conceptual basis for defining the period of advantage that would qualify as sustained. We applied the method of Wiggins and Ruefli (2002) to define profitable growth. Future studies might consider other ways of defining sustained profitable growth. Second, this study could not consider national contexts even though our sample involved firms from 96 countries. There is likely to be substantial variation across countries regarding the firms' view of the growth–profit tensions and the long-term performance implications. Studies show that institutional and cultural backgrounds affect the perception of patient capital and the firm's long-term performance (North, 1990; Sirmon & Hitt, 2009). Future studies may consider these country-level contexts in examining firms' strategies for sustained profitable growth. Finally, we assume that firms adopt a sequential strategy to achieve sustained profitable growth. It is only one possible way and may not be appropriate for

all firms. Future studies could explore other ways to achieve sustained profitable growth by focusing on factors such as competitive dynamics or market positions.

While sustained profitable growth will require a more careful and thorough examination, this study can enhance our understanding of the issue. Sustained profitable growth is a challenging goal for all firms. This study reveals potentially beneficial insights that firms can apply to improve long-term performance. Our findings may also contribute to the theoretical development of sustained profitable growth.

Data availability statement. Data are available on request from the authors.

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