

## ABSTRACT

Financial Slack plays a pivotal role in influencing strategic decisions (Cyert and March, 1963; Penrose, 1959) within a firm. While the relationship with some strategic decisions like R&D/innovation has been widely studied (Kim, Kim, and Lee, 2008; Voss, Sirdeshmukh, and Voss, 2008); others like foreign expansion or corporate social performance (CSP) have been barely touched (Margolis and Walsh, 2003; Tseng, Tansuhaj, Hallagan, and McCullough, 2007). In addition, existing research suffers from both theoretical and methodological issues. The prominent among them being the treatment of slack as an inefficiency (Nohria and Gulati, 1996) and lack of robustness checks (Shaikh, O'Brien, and Peters, 2018) to confirm the curvilinear relationship between slack and strategic decisions.

This research attempts to provide a comprehensive understanding of the impact of slack on key strategic decisions made by a firm. It does so by including unexamined strategic decisions, proposing an alternate perspective on slack and strategic decisions relationship, and following the contemporary literature (Haans, Pieters, and He, 2016) on testing proposed relationships for curvilinearity. Financial slack constitutes the most discretionary of all slack types (George, 2005; Sharfman, Wolf, Chase and Tansik, 1988) and is represented in this study by current ratio.

The thesis comprises of three essays. The first essay revisits the relationship between slack and research and development (R&D). The existing literature proposes an inverse U relationship between slack and R&D, where higher levels of slack are considered a source of agency problems and antecedent to poor performance. However, companies rich in slack are using it to fuel innovation (Davidson, 2016). In an attempt to resolve this prevailing dichotomy, I re-examine the slack and R&D relationship using data from high-technology firms and find

evidence of a U shaped relationship (i.e., slack promotes R&D at both lower and higher levels). This supports the Behavioral Theory of Firm (BTOF) perspective on slack and strategic choice.

I also explore the moderating impact of technology acquisition on the slack and R&D relationship. Increasingly, firms are acquiring technology from outside the firm to complement (Cassiman and Veugelers, 2006) or substitute (Hitt, Hoskinsson, and Ireland, 1990) their internal R&D efforts, necessitating an inquiry into the moderating impact of technology acquisition on this relationship. Results of this study indicate that the technology acquisition complements internal R&D and positively moderates the slack and R&D relationship.

The second essay examines the slack and CSP relationship. It makes up for the inconsistencies in prevailing literature by taking into account the strategic intent behind CSP (Porter and Kramer, 2002; Porter and Kramer, 2006) and employing a multidimensional measure of CSP (i.e., CSR ratings) in place of uni-dimensional measures like corporate philanthropy/ pollution control measures (Seifert, Morris, and Bartkus, 2004; Shane and Spicer, 1983) and financial slack in place of financial performance. Results point towards a U shaped relationship between slack and CSP, indicative of the strategic nature of CSP. This shows that CSP is not a discretionary activity just to be undertaken when slack is high but also a strategic activity to improve performance. I also examine the moderating impact of corporate governance (i.e., board characteristics - gender diversity and director independence, and institutional ownership) on this relationship in an under-researched emerging economy context (Matten and Moon, 2008; Ntim and Soobaroyen, 2013). The results indicate that independent directors positively moderate, and domestic institutional investors negatively moderate the slack and CSP relationship.

The final essay explores the relationship between slack and export intensity. Extant studies exploring the slack and export intensity relationship are inconclusive. Moreover, researchers

(Kiss, Fernhaber, and Covin, 2017; Tseng et al., 2007) have vehemently called for studying this relationship in developing country context to extend the generalizability of findings. The sample for this study comprises of manufacturing firms as it is largest exporter. The moderating impact of Business Group (BG) affiliation and family ownership, two prominent phenomena in an emerging economy (Khanna and Palepu, 1997; Sarkar and Sarkar, 2000) are also studied. Results indicate that family ownership negatively moderates this relationship. This shows that the family-owned firms are not equipped to manage the complexities associated with foreign expansion.

This research answers the call to methodological robustness by Haans et al. (2016). All the proposed curvilinear relationships in this research are examined following the Lind and Mehlum (2010) procedure. Overall, this research offers new insights on the relationship between slack and strategic decisions and lays the foundation for methodological robustness in this field of inquiry.