

Strategic Aggressiveness and Innovation

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Abstract: Innovation-driven development is currently an important tool for countries to build new engines of economic growth and participate in international competition, while companies are the main innovation agents in market activities, and strategically aggressive companies rely more on enhancing company value through innovation, therefore, how to promote strategically aggressive companies to improve the efficiency of innovation and thus increase company value is a key issue in the implementation of innovation-driven development strategies. By analyzing the impact of strategic aggressiveness on firm innovation, this paper provides a reference for how firm management can develop strategic plans to improve innovation, and also how firm governance can improve firm innovation through management incentives and improved failure-bearing capacity.

Keywords: Strategic Aggressiveness, Strategically Aggressive Companies, Innovation.

1. Introduction

In recent years, innovation-driven development has become an important means for countries to build new engines of economic growth and participate in international competition, and it is also a strategic consensus in the economic development of countries around the world. Companies are innovative subjects in market activities, and the important goal of company management is to enhance the value of the company.

Miles et al. (1978) classify corporate strategy into offensive, defensive and analytical strategies according to the degree to which the organization adapts to the type of external environment. Strategic aggressiveness is the degree to which an organization adapts to the external environment, and the higher the aggressiveness of a company, the higher the degree to which it strives to adapt to changes in the external environment and the more it tends to adopt an offensive strategy.

A strategically aggressive company is one that has a high degree of strategic aggressiveness and tends to develop new products and services, new technologies and new markets with high risks and high returns, so a strategically aggressive company relies more on increasing company value through innovation. Therefore, how to promote strategic aggressive companies to improve the efficiency of innovation and thus increase the company value is a key issue in the implementation of innovation-driven development strategy.

2. Strategic Aggressiveness and Its Measurement

Various classifications exist in the existing studies of strategic classification. Among them, Miles et al. (1978) classify strategies as offensive, defensive and analytical based on the characteristics that companies exhibit when dealing with problems at the three levels of entrepreneurial management, operational management and decision execution. According to existing studies, the degree of strategic aggressiveness can be measured using financial data, and it can be concluded that the higher the degree of strategic aggressiveness, the lower the accounting soundness, the higher the level of surplus management, the higher the level

of tax avoidance, the higher the risk of stock price collapse, and the more severe the overinvestment.

Specifically for the construction of metrics of strategic aggressiveness, a synthesis of existing studies shows that the strategic aggressiveness of a company can be measured in six dimensions. These include.

A. Investment in developing new products. The measure is the share of R&D expenditures in operating revenue. Aggressive companies tend to develop new products and expand into new markets, usually have more innovative behaviors and will have more R&D expenditures.

B. Efficiency in producing products and providing services: The measure is the ratio of the number of employees to operating revenue. Compared to defensive companies, offensive companies require less efficiency and therefore more people per unit of revenue.

C. Growth opportunity: The measure is the historical growth rate of revenue. Offensive companies usually have a greater ability to grow.

D. Investment in promoting new products and entering new markets: The measure is selling expenses as a percentage of revenue. Aggressive companies need to promote new products more to enter new markets, so they usually have higher sales expenses.

E. Organizational stability: The measure is the volatility of the number of employees. Aggressive companies usually have less organizational stability and shorter employee tenure.

F. Capital intensity: The measure is the proportion of fixed assets to total assets. Offensive companies usually have a higher human resource density, while defensive companies usually have a higher capital density.

By taking the rolling average of the above six indicators over the past five years, each indicator is sorted into five groups from smallest to largest, and assigned a value of 1-5 (the smaller the indicator F, the more offensive the company tends to be, so for this indicator, it is sorted into five groups from smallest to largest, and assigned a value of 5-1). Finally, the scores of the six indicators were summed for each company, and the total score ranged from 6 to 30, with the higher the score, the more aggressive the company's strategy.

3. Impact on Innovation

Companies with an aggressive strategy pursue markets and need to sell new products and expand product differentiation to achieve rapid company growth, while companies with a defensive strategy fixate on existing product markets and have a lower need for new product production. The impact of a company's adoption of an aggressive strategy on innovation can be seen in three main ways.

First, the type of strategy affects the management compensation structure and thus the firm's innovation. The division between aggressive and defensive types of strategy is actually a division of the type of adaptation of the organization to the external environment, where each organization chooses its own target market and has a set of products and services that are compatible with it. In the process of adaptation, management perceives the external environment and makes relevant decisions that become the dominant factor in the effectiveness of the organization, both in terms of maintaining the integration of the organization with the external environment and in terms of managing the organization internally and making it interdependent. A company with an aggressive strategy is constantly developing new markets and positioning itself in a wide range of areas, thus requiring constant monitoring and timely feedback on changes in the market. In such an organization, high human and material resources are spent on monitoring the environment and observing product markets, making the operating teams more dispersed and therefore flatter. In order to accommodate such an organizational structure, there is a need to allocate work flexibly and to keep the organization evolving by designing a compensation structure based on market performance and rewarding newness, so a variable compensation management model is more often used to stimulate management to sense the external environment.

Secondly, aggressive companies face high uncertainties and risks in the competitive market environment, so in order to encourage management to actively take risks, long-term incentives are needed to make managers actively pursue the market and create new profit growth points, and variable compensation incentives are mostly used.

Once again, companies with high strategic aggressiveness have a higher tolerance for failure in innovation and thus more innovative results. On the one hand, companies with a high degree of strategic aggressiveness have a higher tolerance for failure in innovation. The degree of a company's response to the external environment is expressed in the difference in the

degree of strategic aggressiveness. When a company adopts an aggressive strategy, on the one hand, it can achieve reasonable adjustment of internal resources by timely and extensive testing of the market in order to provide feedback to the organization in real time; on the other hand, its organizational structure is flatter, so that it can deliver timely information both vertically and horizontally within the organization and achieve flexible cooperation between departments and superiors and subordinates. In the company's innovation activities, due to this timely transmission and feedback mechanism, the risk-taking capacity is improved, and the R&D direction can be better determined, and the trial-and-error cost in the R&D process can be reduced, thus increasing the failure tolerance. On the other hand, innovation is facilitated when a company has a high tolerance for failure. Unlike other economic activities of a company, innovation is a long-term and uncertain activity in which numerous failures will be experienced before the innovation can be successful. Therefore, the higher the organization's tolerance for failure, the higher the probability of successful innovation.

4. Conclusion

The higher the level of strategic aggressiveness of a company, the more innovation is achieved, i.e., aggressive companies have more innovative outcomes compared to defensive companies. Theoretically, the effect of strategic aggressiveness on innovation should be more significant for private firms and in the case of more competitive products. In addition, there is a correlation between management incentives and failure tolerance, i.e., the higher the strategic aggressiveness, the higher the level of management incentives, the higher the failure tolerance, and the more innovative outcomes.

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