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JUST TALK? STRATEGIC PLAN ANNOUNCEMENTS AND MARKET REACTIONS

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Just Talk?

Strategic Plan Announcements and Market Reactions

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ABSTRACT

This paper analyses market reactions to public strategic plan announcements by NYSE and NASDAQ companies. Contrary to the low expectations set by 'cheap talk' and 'soft talk' perspectives, we find that a substantial minority of such strategic plans elicit significant cumulative abnormal returns, either in a positive or a negative direction. We also find that new chief executives are likely to increase the effects of positively-evaluated strategic plans. We propose that research on strategic planning and performance should discriminate more between the quality of plans rather than whether companies have plans or not. We also suggest avenues for research on the discourse of these strategic plan announcements and on the adoption of strategic plan announcements, from institutionalist and strategy theory perspectives.

Keywords: Strategy communications, corporate reputation, event study

INTRODUCTION

Research on the benefits of strategic planning for economic performance has been a central but frustrating theme in the strategic management literature (Miller and Cardinal, 1994). The typical approach has been to survey companies for the presence or absence of strategic plans and consider the relationship to financial performance. Empirical results have often been equivocal and those in favour limited to particular contingencies such as environmental dynamism or organizational flexibility (Brews and Hunt, 1999; Delmar and Shane, 2004; Rudd et al, 2008). It is becoming hard to differentiate the general impact of strategic planning given its nearly universal use, at around 81% of large corporations (Rigby, 2001). This paper, therefore, takes a different approach to many by considering the impact of announced strategic plans on company stock-prices. Our approach discriminates not between planners and non-planners, but between attractive and unattractive plans, as well as those introduced by new chief executive officers and more established ones. In effect, we test whether financial markets see strategic plans as more than just empty talk.

Our empirical focus is on the plans communicated at 'strategy meetings', 'strategy presentations', 'strategy reviews', or 'strategy updates' carried out typically with financial analysts, prominent institutional shareholders and specialist media. These are the published versions of internally-generated plans, and typically reveal only the highlights of the company's overall plans and, of course, confine themselves to non-confidential information. However, these announced plans are in earnest, involving public commitments recorded in full-text or PowerPoint, frequently with the whole session subsequently available on podcasts or vodcasts. Their immediate audiences are

highly informed, have a good deal at stake and are able to engage directly after plan presentations in 'question and answer' discussion with the company's senior management.

Two prominent examples can illustrate the nature of these strategic plan announcements. In August 2006, IBM, the leading information technology company, held a 'business strategy meeting' at the Linux World Conference and Exp (Market Wire, August 15, 2006). IBM announced a planned strategic shift towards open-sourcing throughout its business, going beyond Linux to include, for example, the Apache and Eclipse open systems and new collaborations with leading gaming companies. The strategy was well-received: IBM's stock-price increased by about 6 per cent over two days. Less well-received was Time Warner's 'business strategy update' of August 2006. Here the company's top management communicated to analysts a strategy that included a shift for AOL, its broadband internet business, towards free rather than paid access, with advertising as the new main source of revenues (Voxant FD Wire, 2 August, 2006). Time Warner's stock price fell by more than 4 per cent the same day, costing shareholders about \$2bn. While we shall see later that most such strategic plan announcements do not evoke such strong reactions, it is clear that the plans announced at such events can convey important information.

This paper makes several contributions. In the first place, we identify a new indicator of strategic planning activity, strategic plan announcements, one supported by plentiful public data. We construct a data-base of strategic plan announcements and apply an analytical approach that allows us to distinguish between strategy content that is positively-evaluated, negatively-evaluated and neutral. Instead of examining the effects of plans in general, we are able to

discriminate between better and worse plans. We suggest that an important way forward for research on strategic planning is to move beyond general arguments about pros and cons, to consider more the actual content of such plans in terms of strategic direction.

Our paper continues in the next section by reviewing the literature on strategic planning and performance, especially with regard to market reactions. Here we draw on theories of cheap and soft talk (Farrell, 1987; Hutton et al, 2003) and differentiate our approach from other kinds of strategy event studies. We also consider the possible effect of these plans being announced by new rather than established chief executives. The following section introduces our data and methodology, highlighting some implications of our focus on public announcements and market reactions. We then introduce our initial analysis, which finds a significant impact on stock-prices for a substantial minority of announced plans, and some impact from new chief executives. We conclude by discussing implications of our analysis so far both for theory and for further research and analysis.

Strategic Planning and Performance

The efficacy of strategic planning is a matter of fierce dispute between members of a so-called 'design school' (e.g. Ansoff, 1990) and those sympathetic to a more 'emergent' approach (e.g. Mintzberg, 1990). On the one hand, 'design school' members expect that deliberate strategic planning should be beneficial to companies, allowing systematic reflection and indeed the incorporation of the tools and knowledge developed within our own discipline of strategic management. On the other hand, critics of deliberate strategic planning warn that strategic

planning is likely to encourage damaging kinds of inflexibility. Companies are liable to miss unanticipated opportunities and be slow to adjust to changed conditions (Mintzberg, 1994), as well as to accept undemanding 'business as usual' targets (Hamel and Prahalad, 1994).

Research aimed at resolving the pros and cons of strategic planning has been voluminous but indecisive (Rudd et al, 2008). At most, it has developed various contingencies under which strategic planning might be more effective (e.g. Brews and Hunt, 1999). Most such research relies on questionnaire responses from managers regarding both the use of strategic planning and the performance outcomes (e.g. Brews and Hunt, 1999; Slater et al, 2006; Rudd et al, 2008). The concern has typically been with the types of strategic plans and planning that a particular company undertakes, for example whether these plans include mission statements, action plans and evaluation procedures (Brews and Hunt, 1999). This stream of research typically does not consider whether the strategy contained within the plan itself actually makes sense. Moreover, while researchers have often been ingenious and rigorous in controlling for the possible biases of the questionnaire method (single respondent bias, common method bias and similar), it may be that the questionnaire approach is inherently limited and its potential exhausted (Pearce et al, 1987). Certainly there has been a collapse in the published literature on the question of strategic planning and performance in the last decade (Whittington and Caillaet, 2008). In focusing on actual published plans, and the financial market reactions to them, we offer a new approach that is independent of managerial questionnaire responses and that can be more discriminating with regard to the quality of the strategy itself.

Essentially we shall treat the announcement of a strategy plan at a 'strategy presentation', 'strategy update' and similar as an event whose information-content will influence the market-price of company stock. Accordingly, these announcements lend themselves to the event study methods long-used in the finance and accounting literature and applied increasingly elsewhere (MacKinlay, 1997). Indeed, such event methods have already been applied to strategy issues, for example tracking the abnormal stock market returns following the announcement of different kinds of acquisition or joint venture (Capron and Pistre, 2002; Gulati et al, 2009). They have also been applied to the release of strategically-significant pieces of information, such as the winning of large new customer contracts (Gietzmann and Ireland, 2003). However, our interest here is broader, concerned not with particular strategic moves or incidents but with the impact of broader strategic plans regarding the future of the firm overall. The event here is the announcement of the intended future strategy, rather than specific concrete steps entailed in the realisation of this strategy (e.g. particular acquisitions). Abnormal increases in stock-prices in response to the announcement indicate investor confidence of improved performance as a result of the strategic plan; falling prices indicate expectations of declining performance.

While the strategy literature is divided on the potential benefits of strategic plans, the finance and accounting literature on the voluntary disclosure of forward-looking information sets low expectations of any kind of impact at all. There are two fundamental checks on the value of strategy announcements: 'cheap talk' and 'soft talk'. First, cheap talk theory suspects that the public announcement of a strategic plan is mainly intended to confuse or warn off competitors, rather than to project true intentions. For the company, the apparent advantage of such strategy announcements is how cheap they are, at least relative to the likely cost of a competitor entering

an attractive market (Farrell, 1987). Announcements can serve as low cost warning shots to competitors. However, the paradox of such 'cheap talk' is that investors are likely to discount it precisely because of its cheapness: firms are not putting serious money behind their claims. In this respect, the market is unlikely to react to strategic plan announcements. Consistent with this 'cheap talk' hypothesis, Brooks et al (1997) have found that Chief Executive Officer presentations to analysts, which often include strategy alongside a range of other kinds of information, have very little impact on market measures such as stock trading volumes and bid-ask pricing spreads.

The second problem with strategy announcements from a finance and accounting perspective is that of 'soft talk'. Soft talk is qualitative information from companies, for example with regard to factors influencing performance or long-term prospects (Hutton et al, 2003). In these terms, strategy is clearly soft talk. But the problem of such soft talk for analysts is how difficult it is to evaluate, relative at least to the 'hard talk' of financial data and forecasts. Analysts are consequently liable to under-utilise this kind of information. Thus Hutton et al (2003) finds that the addition of soft talk to earnings forecasts makes no significant difference to stock market reactions. Similarly, Bagnoli et al (2005 a; 2005b) find that quantitative earnings guidance from companies elicited much larger market responses than the release of 'strategic' information (ranging from corporate presentations to joint venture or M&A announcements), and that the markets took significantly longer to absorb such strategic information than the more quantitative information.

The prediction from this finance and accounting literature, therefore, is that strategic plan announcements are both too cheap and too soft to make much difference. This contradicts both the more positive expectations from the 'design school' approach (Ansoff, 1990) and the negative ones from the emergent perspective (Mintzberg, 1990). Given the strategy literature is so divided, therefore, we formulate our first hypothesis simply according to the low expectations set by the finance and accounting literature from which our event methodology is drawn:

Hypothesis 1: Strategic plan announcements will have no significant impact on stock prices

However, the strategic plan announcements of new chief executives may have greater substantive content. New chief executives bring in new cognitive orientations (Bigley and Wiersema, 2002) and can break existing political coalitions favouring conservatism within corporations (Tushman and Romanelli, 1985). The appointment of a new chief executive may be representative too of a resolution at non-executive board level to drive strategic change (Westphal and Frederickson, 2001). Analysts will therefore have higher expectations of substantive new information from the strategic plan announcements of new chief executives. They will also be interested in the apparent personal credibility of the chief executive at the event with regard to effectiveness of strategy implementation. The new strategic plan may of course be either sensible or not, and the new chief executive credible or not. In any case, our second hypothesis reflects greater expectations of strategic planning impact under conditions of a new chief executive:

Hypothesis 2: Strategic plan announcements will have a significant impact on stock prices in the context of a new chief executive, in either a negative or a positive direction

DATA AND METHODOLOGY

The objective of our study is to analyse the stock price responses to strategic plan announcements. We treat these announcements as events liable to generate cumulative abnormal returns in the financial market (McWilliams and Siegel, 1997). In order to allow for good quality strategies, poor strategies and simply indifferent ones, we follow MacKinlay (1997) in discriminating between positive, negative, and neutral events in terms of returns. While MacKinlay (1997) categorizes positive/negative/neutral abnormal returns using a cut-off point of 2%, we differentiate using significance tests at the 0.05 level. Our approach contrasts with Mazzola et al's (2007) unpublished study of strategy announcements on the Milan stock exchange, in which cumulative abnormal returns were averaged together. Mazzola et al (2007) found significant impacts on average cumulative abnormal returns only for small companies uncovered by analysts, in other words companies with a substantial information deficit.

Our dataset comprises of companies on the NYSE or NASDAQ exchange, larger markets than Milan, and that made strategic plan announcements in the period from 1 January 2005 to 30 December 2009¹. We electronically searched SEC files, Factiva and Lexis/Nexis for these announcements under the search terms 'strategy announcement', 'strategy review', 'strategy presentation', 'strategy meeting', and 'strategy update'. We screened all apparently relevant announcements, including them in our dataset if they were public (i.e. open to or directed at investors, analysts and media) and if the announcement was relevant to the whole business (e.g. not just concerning a particular division, function or region). We excluded reported strategy

¹ Source: SEC files, Factiva, and Lexis/Nexis

reviews, meetings etc which were not public, e.g. regular internal strategy meetings etc. We also excluded announcements about an actual event, e.g. a new merger, acquisition, joint venture or divestment, as our focus is on plans for the future. Our final set of events numbered 284, twice that in Mazzola et al (2007).

We calculated abnormal returns using a market model for each firm with an estimation window. The deviation was calculated using expected returns and actual returns for every firm². The model to capture CAR was:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad E[\varepsilon_{it}] = 0 \text{ and } Var[\varepsilon_{it}] = \sigma_{\varepsilon_{it}}^2 \quad (1)$$

We used the S&P 500 as the index of market portfolio which is a weighted index which indicates the price trend movements based on a broad cross-section of the market. To estimate the market model, we used the 260 trading day period prior to the event window as the estimation window (see MacKinlay, 1997). The length of the period used in our study was consistent with prior studies in management literature (McWilliams and Siegel, 1997). To calculate CAR, a 5-day event window (t= -2 to +2) was used. In order to calculate the expected return over the t= [-2, +2] event window, we used the coefficient found from regression (1). Inferences about the cumulative abnormal returns were drawn using the formula below to test the null hypothesis that the abnormal returns are zero:

$$\overline{CAR}(\tau_1, \tau_2) \sim N[0, \text{var}(\overline{CAR}(\tau_1, \tau_2))] \quad (2)$$

² Source: Datastream

For our estimation model, we used a static linear panel data model where CAR_{ij} is the cumulative abnormal return for firm i for event j . In the regression model used for Hypothesis 2, we categorised the data as positive or negative and ran the regression for the absolute value of CAR. We used the absolute value of CAR for ease in interpretation of the model.

We defined new chief executives as those appointed in the six month period prior to strategic plan announcement (such announcements are typically not made more than once a year, but CEOs tend to appear more regularly in front of analysts and investors at quarterly earnings events and the like). New chief executives were identified by searching OneSource and Factiva for appointments.

We introduced a variety of control variables for factors that were likely to impact on market reactions. Finance theory suggests that market reactions are likely to be larger for companies subject to greater information failures, e.g. small companies, those without substantial institutional ownership and without substantial analyst following (Mazzola et al, 2006; Griffin, 2003). For size, we calculated Marketcap using OneSource Financial Reports and Stock Reports. To assess institutional ownership, following Eng and Mak (2003), we calculated the proportion of ordinary shares held by institutions, drawing data from Capital IQ's Company Intelligence pages and Major Shareholders. To determine the number of analysts following the company, we used Investext by Thomson Reuters. We also controlled for other circumstances likely to be sensitive for market reactions. Thus we determined whether an organization was underperforming, following Skinner (1994) in comparing the firm's return on assets with industry

averages (OneSource Financials). To determine whether there was a concurrent or proximate contest for corporate control, we searched both in Factiva and Lexis/Nexis for relevant key words ('share acquisition', 'share sell off', 'change in shareholders', 'change in ownership') and searched Capital IQ for substantial changes in stock-ownership. To control for whether an organization was new to the financial market, and therefore likely to be suffering an information deficit, we followed Webb (2008) by checking if the company had made a recent initial public offering (using Capital IQ, One-Source and Factiva). To determine whether there had been proximate large calls to shareholders, we used Healy and Palepu's (1995, 2005) key words searching within Capital IQ, SEC filing form 8-K*. We also differentiated between companies which made regular announcements (typically in the same month each year, separate from the usual schedule of results) and those for whom the announcements were more unusual: those who had made four or more such announcements between 2005-2009 were coded as 1, others as 0. Also, to take into account any possible effects of the financial crisis, we coded announcements before 24 October 2008 as "1" for "before the crisis".

RESULTS

Our purpose is twofold: first to establish whether strategic plan announcements have any impact on the market; second, to see whether markets are more sensitive to the plans of specifically new chief executives. Our analysis therefore proceeds in two steps.

Insert Figure 1

Our categorization of stock price responses into positive, neutral or negative returns (McKinlay, 1997) allows us to explore not simply whether strategic plans in general impact on anticipated performance, but whether good plans or bad plans make any difference. We differentiate between announcements that were carried out simultaneously (the same day) as earnings announcements and those that were 'pure' (non-earnings) strategy announcements. In Figure 1, the simultaneous announcements (108) are represented by the continuous line; the pure announcements (176) by the dotted lines. The pure announcements are more important for us, not confounding the effects of earnings (in the terms earlier, earnings are the kind of 'hard talk' likely to be attractive to analysts).

The largest numbers in both sets of announcements are neutral, i.e. have no significant effect on stock prices at the 0.5 level (56 for simultaneous and 94 for pure announcements). However, we identify a substantial minority which do have significant effects over the five days, and these may be in both directions. Thus 46 (26.1%) of the pure announcements have a significant positive effect of 3.1% on the day of the announcement, diminishing slightly over the next two days. At the same time, 36 (20.5%) of the pure announcements have negative effects, reaching -3.8% on the event day and enduring at around that level for the following two days. The strategy plan announcements that were simultaneous with an earnings announcement follow similar patterns, but, consistent with 'hard talk' theory, are slightly greater in each direction. The significant effects in the days leading up to the simultaneous announcements suggest that there is more leakage and more market sensitivity to earnings data than strategy announcements on their own.

In sum, Figure 1 shows that a substantial minority of pure strategy announcements (46.6%) have significant effects on stock-prices: these are not just cheap talk and, however 'soft', they are being responded to by the market. Moreover, not all strategy plans are the same: some are attractive and some unattractive. There are slightly more pure strategy announcements that are received positively than negatively (26.1% against 20.1%), but negative evaluations are on average slightly more harsh than positive ones (-3.8% on announcement day against +3.1% on announcement day). The overall conclusion is that strategic plan announcements do bring new information, with a potential impact (if we compare with the simultaneous sets) little short of earnings announcements. Contrary to the low expectations from proponents of cheap and soft talk perspectives, we do not find support for Hypothesis 1. But nor do we support unequivocally either the case for or against strategic planning in general: some strategic plans are good, others not so good.

Insert Table 1

We turn now to the putative effect of a new chief executive, where there may be more substantial change and information at stake. For this we follow a regression approach, considering the effect a new chief executive might have on the stock-price reactions involved in the subset of either negatively or positively evaluated pure strategy announcements. Table 1 gives the descriptive statistics regarding our variables. Table 2 provides the regression analysis, with model 1 considering the impact of a new chief executive alone and subsequent models introducing

successive control variables. Non-significant control variables (i.e. size) are dropped as further control variables are introduced.

Insert Table 2

Table 2 shows that a new chief executive is likely to exaggerate the impact of a positively-evaluated strategic plan, but makes no significant difference to a negatively-evaluated plan. This holds across all models 1-11, as additional control variables are added. It seems that new chief executives have the capacity for positive surprise, but for strategies that are being marked down, the inexperience of the chief executive is not an additional factor. To this extent, Hypothesis 2 on the effects of new chief executives finds some support.

It is worth noting that the control variables in Table 2 show some similar asymmetric effects, some of these contrary to expectations. Thus, for example, substantial institutional ownership exaggerated stock-price reactions in both positive and negative cases (model 3), even though it might be expected that the market would generally be more informed with regard to such companies. However, while institutional investors seem to have exaggerated reactions in both directions, analyst followings seem to exaggerate only the upwards reaction to positively-evaluated strategic plans, while dampening the reactions to negatively-evaluated strategic plans (model 4). Further analysis of these control variables is probably required.

DISCUSSION AND CONCLUSION

Research on strategic planning has got into a rut. Despite fierce debates (Ansoff, 1990; Mintzberg, 1990), nearly four decades of research on the impact of strategic planning has been largely inconclusive (Rudd et al, 2008). Likely as a direct consequence, research on strategic planning in the leading journals has shrunk to a trickle: Whittington and Caillaet (2008) show that articles on strategic planning in the Strategic Management Journal has fallen from about 14 per cent in the 1980s to less than one per cent in the period 2000-2007. Yet strategic planning is a crucial topic for the strategy discipline, the arena where managers put our concepts and findings into practice. As researchers from the Strategy-as-Practice perspective have recently been arguing (Golsorkhi et al, 2010), it is time to revitalize research on strategic planning.

This paper has offered one way of taking a new approach to strategic planning research. It has identified a new source of data on strategic plans, strategic plan announcements. These announcements are in the public domain and easily captured. We have also applied an event methodology that discriminates between positive, negative and neutral plans. We have established that a substantial minority (46%) of announced strategic plans have a statistically significant effect on cumulative abnormal returns, about a quarter positive and a fifth negative. Contrary to Hypothesis 1, drawn from the sceptical finance and accounting literature on cheap and soft talk, these announcements do seem to matter. The markets at least appear to believe that strategic plans are more than 'just talk'.

Our differentiation between positive, negative and neutral plans also allows us to go beyond the old question of whether planning companies perform better than non-planners. After all, most companies do plan strategically (Rigby, 2001). As for just about all human activities, it is likely that some people do it better than others. Instead of arguing about the fundamental merits or demerits of strategic planning (Ansoff, 1990; Mintzberg, 1990), we therefore propose a different kind of question: not 'do you plan?', but 'how good is your plan?'

Before continuing to discuss further research opportunities, we need to acknowledge some limitations of our data and of our analysis so far. First of all, these published strategic plans are only the highlights of more complete internal strategic plans. As public documents too, they may be subject to the kinds of disingenuous manipulations that Farrell (1997) alludes to with his concept of cheap talk. 'Vapourware' is liable to apply to strategic plans in general as much as to the product plans of hi-tech companies. While it seems that stock-holders are prepared to buy or sell on the back of these public announcements, it is likely that the true and complete plans of companies would elicit stronger market reactions than the edited and potentially manipulated highlights with which we are dealing. Second, our analysis so far has only considered a limited range of variables that might affect market reactions. We have provided some support for Hypothesis 2, in that chief executives do affect market reactions, exaggerating positive responses at least. However, there is scope to introduce further contingencies, such as environmental dynamism, in line with those developed in the earlier strategic planning literature (e.g. Brews and Hunt, 1999). Also, our analysis to this point has produced complex and hard to interpret results for many of our control variables. Further analysis, with different controls or different measures for them, is indicated.

With these caveats in mind, we conclude by pointing to two further avenues for research using strategic plan announcements. In the first place, while we have shown that these strategic plans are more than just talk, they are also interesting talk. These strategic plan announcements, typically transcribed electronically in full, lend themselves to discourse analysis. These announcements are usually based tightly on written scripts, with transcripts of the whole communication are typically made available after the event, along with PowerPoints, podcasts or vodcasts. Discourse analysis techniques are already being applied to other kinds of top management and strategy discourse, for example new Chief Executive letters to shareholders (Fanelli et al, 2000), the documentation surrounding Initial Public Offerings (Martens, Jennings and Jennings, 2007) and actual strategic plans (Vaara et al, 2010). Discourse associated with chief executive letters and IPO documentation has already been shown to influence material outcomes such as financial analysts' recommendations and the capacity to raise money (Fanelli et al, 2009; Martens et al. 2007). The opportunity now is to analyse whether there are kinds of discourse in strategic plan announcements that can influence stock-market reactions.

The second avenue for further research is to explore why firms choose to make these strategy announcements. The overwhelming majority of NYSE and NASDAQ firms choose not to, confining themselves to earnings announcements and forecasts or similar. The strategy literature suggests a number of reasons why some firms will go public on their plans in this way. Thus incumbents trying to defend their position in an industry can signal commitment in order to deter new entry, for example by announcing ambitions with regard to market share or future capacity increments or by affirming the importance of that industry with regard to the strategy of the firm as a whole (Porter, 1985). In industries where there are large sunk costs (because of R&D or

initial capital investments), there are incentives to signal intentions clearly to competitors in order to discourage new entrants (Farrell, 1987). Similarly, in capital intensive industries such as paper and pulp, announcements of plans for new capacity help to manage aggregate investment in the industry, holding back more marginal projects, especially in competitive sub-sectors (Christensen and Caves, 1997). Strategic plan announcements can thus work to reduce competitive rivalry in an industry, and are particularly likely where large investments are required. On the other hand, there are insights from the institutionalist literature on why firms might choose to announce their strategies. Thus the institutional context in which at least American large firms have evolved in the last two decades has seen a growing emphasis on shareholder value as the guiding norm of business, associated with the rise of large institutional shareholders such as mutual funds and an accompanying increase in the numbers of financial analysts hungry for information (Fligstein, 2001; Davis, 2009). In this institutional environment, there are substantial penalties to corporations that are unable to 'sell' strategic visions that fit the preconceptions of the analyst and shareholder community, the discount suffered by conglomerates being a case in point (Zuckerman, 2000). The result has been a parallel rise within large corporations of investor relations professionals, responsible for supplying information to shareholders and analysts (Kelly et al, 2010; Sandhu, 2009). Taking an institutionalist perspective, Rao and Sivikumar (1999) find that the creation of investor relations departments by Fortune 500 firms is significantly associated with the number of financial analysis following the company, as well as the existence of board interlocks with other companies that had already instituted investor relations departments. Similar institutional factors may be at play in the decision to communicate about strategy.

In short, strategic plan announcements offer a fertile new source of data for research on strategic planning. This paper has suggested that these plans are not empty talk, but can have substantive effects, as measured by cumulative abnormal returns. The issue for the future should be not whether or not companies have plans, but what makes makes their plans better or worse.

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Figure 1: Average CAR to Strategic Plan Announcements (5-day window)

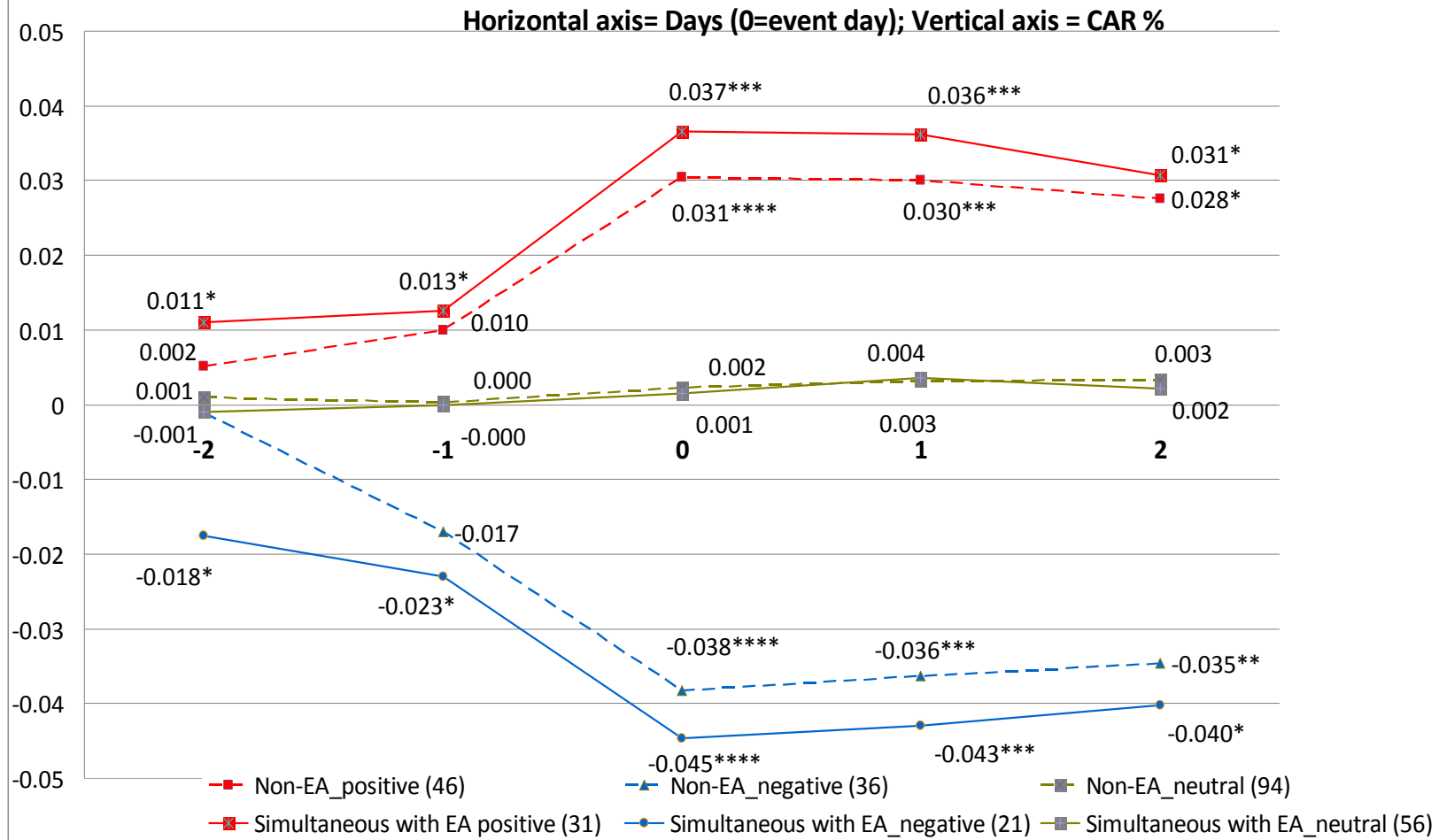


TABLE 1: Descriptive statistics and correlation matrix

Variables (176 Non-EA events out of 284 events)	N	Mean	St. Dev	1	2	3	4	5	6	7	8	9	10
1. New CEO	8	0.1101	0.3120	1									
2. Size	-	63,504,385	282563419	-0.0709	1								
3. Institutional ownership	-	0.5677	0.3142	0.0411	-0.0158	1							
4. Analyst following	-	29.8312	17.2952	-0.1342	0.1609	0.0842	1						
5. Underperformance	10	0.1232	0.3327	0.1407	-0.0690	0.2687*	0.0203	1					
6. Contest for corporate control	11	0.1312	0.3441	-0.0111	-0.0242	-0.1134	0.2812*	0.1044	1				
7. New to a particular financial market	3	0.0412	0.2011	-0.0732	-0.0343	-0.1521	0.1832	-0.0821	0.3224**	1			
8. Large calls to shareholders	61	0.7942	0.4122	0.1834	0.0443	0.4533***	0.1221	0.1913†	0.2011†	0.1121	1		
9. Regular announcements	27	0.5634	0.4972	-0.1501†	0.2432*	0.0743	0.3242*	0.0289	0.3667	0.01338	0.1647	1	
10. Before crisis	105	0.5329	0.5001	0.0332	0.0982	-0.1332	-0.0729	-0.0146	0.1443	0.3719	0.2846	0.0982	1

Significance levels at †p<0.1; *p<0.05; **p<0.01; ***p<0.001

TABLE 2: Regression results: Cumulative Abnormal Returns on Strategic Plan Announcements

Response category	Model 1		Model 2		Model 3		Model 4		Model 5	
	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
Intercept	0.0810*** (0.2026)	0.0668** (0.3065)	0.0729** (0.3761)	0.0534** (0.3127)	0.0981*** (0.2487)	0.0786** (0.2716)	0.0890** (0.2672)	0.0771** (0.2912)	0.0883** (0.2701)	0.0661** (0.2882)
Main Effect (Hypothesis 2)										
New CEO	0.0944** (0.3068)	0.03770 (0.0091)	0.0720* (0.4736)	0.0233 (0.0098)	0.0877** (0.3074)	0.0344 (0.0067)	0.0864** (0.3127)	0.0336 (0.0091)	0.0823** (0.3452)	0.0281 (0.4217)
Control Variables										
Size			0.0000 (0.0000)	0.0000 (0.0000)						
Institutional ownership					0.1103** (0.3186)	0.0667* (0.2667)	0.1100** (0.3198)	0.0609* (0.2772)	0.1019* (0.3467)	0.0599† (0.2988)
Analyst following							0.0051* (0.0055)	-0.0090** (0.0034)	0.0049* (0.0124)	-0.0082** (0.0052)
Underperformance									0.0049 (0.3065)	-0.0089 (0.2382)
Contest for corporate control										
New to a particular financial market										
Large calls to shareholders										
Regular announcements										
Before crisis										
R sq.	0.1951	0.3246	0.1878	0.2743	0.2130	0.3742	0.2257	0.3972	0.2113	0.2872
Adj. R sq.	0.1727	0.1566	0.1600	0.1446	0.1918	0.1654	0.1993	0.1754	0.1822	0.1600
p-value	4.042e-004	0.0906	0.0036	0.0944	0.0032	0.0051	0.0012	0.0036	0.0511	0.0667
RMSE	0.0970	0.0982	0.0996	0.0998	0.0930	0.0952	0.0924	0.0949	0.0959	0.0991

N=82. Standard errors shown in parentheses. †p<.10; *p<.05; **p<.01; ***p<.001 level

Response category	Model 6		Model 7		Model 8		Model 9		Model 10		Model 11	
	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
Intercept	0.0881** (0.2723)	0.0677** (0.2799)	0.0880** (0.2744)	0.0732** (0.2635)	0.0892** (0.2637)	0.0769** (0.2199)	0.0899** (0.2533)	0.0667** (0.3134)	0.0910** (0.2931)	0.0774** (0.1097)	0.0955*** (0.2186)	0.0882* (0.1022)
Main Effect (Hypothesis 2)												
New CEO	0.0825** (0.3423)	0.0263 (0.4334)	0.0856** (0.3377)	0.0293 (0.3982)	0.0866* (0.2924)	0.0331 (0.3129)	0.0859** (0.2955)	0.0299 (0.3263)	0.0857** (0.2862)	0.0342 (0.2959)	0.0722* (0.3347)	0.0243 (0.3211)
Control Variables												
Size												
Institutional ownership	0.1022** (0.3245)	0.0600* (0.2887)	0.1092** (0.3021)	0.0651* (0.2439)	0.1327** (0.2988)	0.0711* (0.2144)	0.1183** (0.3012)	0.0697* (0.2521)	0.1298** (0.2368)	0.0708* (0.2342)	0.1170* (0.3754)	0.0674* (0.3922)
Analyst following	0.0036* (0.0298)	- 0.0057** (0.0071)	0.0053* (0.0064)	- 0.0089** (0.0037)	0.0062* (0.0031)	- 0.0091** (0.0028)	0.0059* (0.0046)	- 0.0090** (0.0032)	0.0061* (0.0031)	- 0.0093** (0.0021)	0.0059* (0.0042)	- 0.0077** (0.0067)
Underperformance											0.0031 (0.4266)	-0.0067 (0.3581)
Contest for corporate control	-0.0074 (0.3089)	-0.0032 (0.4976)									-0.0062 (0.3175)	-0.0012 (0.5761)
New to a particular financial market			0.0092 (0.5334)	-0.0079 (0.6071)							0.0081 (0.6233)	-0.0059 (0.7099)
Large calls to shareholders					0.0252* (0.2640)	-0.0382* (0.1128)	0.0248* (0.2788)	-0.0307* (0.1087)	0.0249* (0.2643)	-0.0357* (0.1031)	0.0211* (0.3371)	-0.0299* (0.2854)
Regular announcements							0.0748*** (0.0399)	0.0369** (0.0211)	0.0851*** (0.0305)		0.0599* (0.0644)	0.0297* (0.0311)
Before crisis							0.0020 (0.0301)	0.0103 (0.0295)		0.0393** (0.0198)	0.0011 (0.0431)	0.0098 (0.0381)
R sq.	0.2198	0.2167	0.2223	0.2342	0.2269	0.4122	0.2377	0.4367	0.2455	0.4988	0.2023	0.3209
Adj. R sq.	0.1901	0.1722	0.1800	0.1657	0.2314	0.2532	0.2102	0.2240	0.2465	0.2677	0.1912	0.2013
p-value	0.0027	0.0505	0.0023	0.0473	0.0025	0.0311	0.0136	0.0299	0.0109	0.0122	0.0504	0.0699
RMSE	0.0939	0.0957	0.0936	0.0952	0.0928	0.0939	0.0989	0.0944	0.0922	0.0932	0.0989	0.0997

N=82. Standard errors shown in parentheses. †p<.10; *p<.05; **p<.01; ***p<.001 level

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