



Does corporate growth really matter in the restaurant industry?

Prakash K. Chathoth^{a,*}, Michael D. Olsen^b

^a*School of Hotel and Tourism Management, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong*

^b*Department of Hospitality and Tourism Management, Pamplin College of Business, Virginia Polytechnic Institute and State University, Blacksburg, VA, USA*

Abstract

In this study, the authors hypothesize that growth strategies are not necessarily always performance-enhancing strategies that are sustainable. This is contrary to what industry managers tend to believe to be the outcome of growth strategies. Based on past research, a second hypothesis is developed that corporate liquidity impacts performance in a more positive way than growth strategies, and therefore, should be considered in the decision-making framework of firms before they launch into new products and/or markets. The interrelationship between corporate growth and liquidity is also tested, which further highlights the importance of pursuing corporate liquidity.

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1. Introduction

The imperative for every executive of a publicly traded firm is growth. The growth expectation is for a combination of metrics such as sales, earnings and overall returns. In the hospitality industry, this growth imperative has also been demonstrated through quest to increase the number of units and improved customer counts in existing units. To accomplish this imperative firms have used vehicles such as management contracts,

*Corresponding author. Tel.: +852 2766 6375/6376; fax: +852 2362 9362.
E-mail address: hmprakash@inet.polyu.edu.hk (P.K. Chathoth).

franchising and various combinations of ownership and joint ventures to enter new markets, both domestic and international over the past four decades. These growth vehicles are considered attractive, as firms are able to distribute their products and services with less risk and capital investment. While growth has always been assumed to add value to the firm, it has seldom been empirically tested and/or proven in the hospitality industry context. It has just been assumed that this was the case. In part, this assumption is driven by the unrelenting pressure of industry analysts and investors for continued growth.

While no argument is made against the growth imperative, the question as to whether or not this always results in increased shareholder value must be raised. To date, little or no research has been conducted to address this question in the context of the hospitality industry. This lack of evidence has served as the underpinning for the research effort reported herein. More specifically, the primary research question is: Do firm growth strategies such as increased assets, increased sales growth, and increased potential growth necessarily lead to increased sustainable firm performance?

In the context of the hospitality industry, several situations within the restaurant industry sector can be cited wherein firms have used aggressive growth strategies when conditions are favorable, i.e., economic boom, only to have resorted to asset-retrenchment strategies during economic downturns. These include Shoney's Inc., Burger King, and recently McDonald's¹. Although the argument that growth strategies positively impact the stock performance of firms in the short run as has been seen in cases such as Boston Market, KFC, and McDonald's, the broader question is: what impact does growth have on firm performance in the long-term²? This is because it is firm performance on a long-term basis that determines the sustainability of the growth strategy that was implemented in the first place. Therefore, the positive market reaction to growth strategies at the outset can turn negative if growth strategies do not necessarily impact firm performance in a positive way over a definite time interval. Thus, testing the effects of growth strategies on long-term performance is a more valid form of evaluating these strategies than just the initial reaction of the stock market when the firm announced and initiated a growth strategy. This is exemplified as seen in the case of Boston Market, which could not sustain the positive reaction of the stock market to its growth strategies through improved firm performance in the long term.

1.1. Objectives of the study

We hypothesize that growth strategies are not necessarily always performance-enhancing strategies that are sustainable. This hypothesis is contrary to what industry managers tend to believe to be the outcome of growth strategies. Based on past research, we develop a second hypothesis that corporate liquidity impacts performance in a more positive way than growth strategies, and therefore, should be considered in the decision-making framework of firms before they launch into new products and/or markets. We also test the interrelationship between corporate growth and liquidity to understand the

¹Shoney's Inc. reported a decline in performance during the late 1990s, while McDonald's has faced downturn in the past few years (*The Economist*, 2004). Burger King, like McDonald's, has also been facing downturn over the past 2 years (*Grow*, 2005).

²In this study, long-term is considered as a time period of at least 5 years.

dynamics of the relationship between these types of corporate strategies, which further highlights the importance of pursuing corporate liquidity.

2. Corporate strategy

At the corporate level, strategy entails decisions made by corporate managers to insure that company stakeholders are satisfied at all times. With this as the goal, the managers at the corporate level of a firm decide to invest in business(es) that result in long-term profit maximization and increased returns to the firm's stockholders. Corporate strategies encompass two distinct dimensions that include measures pertaining to growth (Zook and Rogers, 2001) and liquidity (Kim et al., 1998). Corporate managers decide what businesses to invest in and how liquid the assets of the firm should be to maximize the value of the firm, both in short- and long-term scenarios. This study will explore these two dimensions in detail.

2.1. Dimensions of corporate strategy

2.1.1. Growth

Growth is considered to be one of the key benchmarks of success by practitioners in most industry settings and is mandated by investors. The restaurant industry setting is no different, in that firms within the industry have used this strategy as one of the key elements of success. Although firms that are successful might use growth strategies as part of a portfolio of strategies, general facts on growth strategies applicable to all industries suggest that they are not always the essence of profitability. According to Zook and Rogers (2001), "the 240 companies in the top seven industrialized nations that achieved profitable growth tended to: (1) reduce rather than extend the scope of their business, (2) find profitable opportunities within the scope of their current operations, (3) search ceaselessly for ways to improve the performance of their core business" (p. 83). Thus, it is important to question this basic assumption behind an almost blind adherence to growth strategies.

There has been little empirical research done in the area of growth strategies of restaurant firms. The growth strategy of firms in the restaurant industry can be best summarized by the excerpt extracted from Jekanowski (1999) that highlights the growth strategy of one of the most successful firms in the industry over the past four decades. "McDonald's wants to have a site wherever people live, work, shop, play, or gather" (p. 13). This strategy is not only applicable to McDonalds, but also to firms such as Boston Market³ and Shoney's Inc, Applebees and Subway Sandwiches. These firms may not be as big in size as McDonalds but had/have growth objectives comparable to that of McDonalds. And the list of firms that have similar objectives may be greater than a handful. In fact, firms such as KFC and McDonalds have been the role models for firms in the restaurant industry, vis-à-vis, growth in number of units domestically as well as internationally.

But the question that corporate managers of the restaurant industry need to ask themselves is that: do growth strategies really help a firm add value, and thereby benefit its stockholders in the long run? The answer to this question has not been empirically

³Boston Market is currently owned by McDonalds.

determined by hospitality researchers and only assumed to be true by practitioners in the industry.

Several researchers have suggested that growth strategies need to be managed well so that the firm can maneuver its orientation towards its market as well as its stakeholders appropriately. For instance, “aggressive and rapid growth could increase risk by straining a firm’s human resources and its ability to develop efficient controls and an effective internal structure. Growth ought to be carefully managed while developing an internal structure that is capable of coping with that growth while maintaining control of the firm’s operations” (Borde, 1998, p. 68).

The above thesis is supported through an example of a firm within the restaurant industry that became infamous because of its growth strategy. The failed Boston Market brand used growth of stores to increase its sales, while at the same time increasing its debt position and hence the overall firm risk of bankruptcy, which later proved to be the case. It was the firm’s objective to aggressively pursue growth that led to its failure. As stated earlier, other restaurant firms have also failed while pursuing growth strategies, which is the precursor to testing the relationship between firms’ growth strategies and performance in the restaurant industry setting in this study. This will help to empirically determine if there exists a significant relationship between the two constructs.

Three measures of firm growth were used in this study. The first measure, i.e., sales growth will capture increased sales through same store sales as well as increased store sales. It is essential for both researchers and practitioners to find out if sales growth impacts firm performance⁴ (measured as return on equity), which will be tested in this study. Industry practice of focusing on growth is evident as was seen in the case of Boston Market, which used both sales growth and asset growth as primary vehicles to achieve the growth imperative. The second measure, i.e., asset growth, captures the growth in the market value of assets, which would imply that if a firm adds to its asset base it will at the same time add more value to the firm. The third measure, i.e., growth potential, captures the future growth of the firm, which is operationalized by using the ratio of market value of assets to book value of assets. Note that this measure will tell us about the firm’s growth strategy in the future as reflected in the ratio of market to book value of assets, which would in turn determine its potential to grow (Kim et al., 1998). Although researchers have used growth in earnings before interest and taxes as a proxy for growth (e.g., Borde, 1998), the assumption of these researchers while using this measure is that sales growth, asset growth and growth potential of the firm translate into earnings growth, which may not always be the case. A firm that may not pursue aggressive sales or asset growth may in fact grow in earnings based on how its managers are able to manage the firm’s profitability.

2.1.2. *Liquidity*

The second dimension of corporate strategy that was explored in this study is the firm’s approach to corporate liquidity management. According to Kallberg and Parkinson (1992), corporate liquidity is a strategy that top management pays attention to in connection with the management of the firm’s assets. Firms typically manage their liquidity through resource allocation decisions that are directed towards more liquid assets (Kim et al., 1998). The objective is to increase the liquidity of the firm but while doing so,

⁴See section on “Firm Performance” for the variables that represent this construct. Also, the section on “Key Hypotheses” describes the relationships between sales growth and firm performance.

managers may have to consider the pros and cons associated with the trade-off between investment in liquid or illiquid assets. The literature on the investment preference of firms in liquid assets purports that either firms should hold large amounts of liquid assets (e.g. Myers and Majluf, 1984) or no liquid assets (e.g., Jensen, 1986). According to John (1993), “liquid assets constitute a considerable portion of total assets and have important implications for the firm’s risk and profitability” (p. 91).

Kim et al. (1998) proposed that the relationship between the liquid asset holdings and the firm’s growth opportunities may be positive. This notion is supported by Lakonishok et al. (1992), who argued that firms with large intangible assets would have higher costs of financial distress and therefore would invest more in liquid assets to minimize this potential distress. This is further supported by Myers (1977), who also posited that maintaining high liquidity may help in reduction of financial distress. In this paper, the authors support the viewpoint of Lakonishok et al. (1992) and Myers (1977), in that firms with more intangible assets such as the case of hospitality firms would need to invest more in liquid assets due to financial distress costs.

Kim et al. (1998) also proposed that investment in liquid assets is positively related to the return on liquid assets, while it will be negatively related to the current rate of return on investment in manufacturing and production related activities. Also, the authors state that the future economic conditions affect investment in liquid assets. The better the future is in terms of investment opportunities, the more the investment will be in liquid assets. Baskin (1987) pointed out that as the firm’s debt ratio increases, the cost of funding the assets to maintain a higher level of liquidity increases, thereby reducing the level of funds that will be used to maintain higher levels of liquidity.

There are industry effects associated with liquidity. Different industries have different levels of liquidity to take care of operational requirements as well as managing the rate of return of the firm. Damodaran (1997) points out that the difference in how firms maintain different levels of liquidity with respect to cash and marketable securities is reflected across industry groupings. This is reflected in the ratio of cash and marketable securities taken as a percentage of total assets, which Damodaran suggests is the case as the demand for cash and cash equivalents is different across industries. Because of the industry effects of liquidity, the need to test the liquidity of firms in the restaurant industry is warranted, as similar studies in hospitality research have not been conducted.

Lancaster et al. (1999) tested the industry effects of the “distinctive relationships between cash flow, accrual income and liquidity measures” (p. 37). The results supported the proposition that significant industry effects exist in many of the relationships. The authors point out that “these findings are consistent with other studies where industry effects are found in capital structure, risk, returns, and financial ratio patterns” (p. 43). However, they could not generalize the effects of cash flow from operations to have significant incremental explanatory power for change in static liquidity, which were found only in the case of manufacturing firms. This will be tested in the present study with respect to the sample of firms, which will be service-industry based, i.e., firms within the hospitality industry.

3. Firm performance

A firm’s performance can be measured in terms of its profitability and market performance. Typically, profitability is measured in terms of return on the capital invested

in the business or return on the revenues generated during a given period. On the other hand, market performance is measured in terms of market indicators such as share price and dividend yield ratio. Studies on performance measures include Beard and Dess (1981), and Hall and Weiss (1967). Beard and Dess (1981) used return on investment as the measure of firm performance, which was used to test the relationship between corporate level strategies and firm performance using regression analysis. Hall and Weiss (1967) used “Return on Assets” as the performance measure to test the relationship between firm size and profitability. Correlation analysis was used as the statistical method and results indicate that a negative correlation exists between firm size and profitability.

Capon et al. (1990) used a meta-analytical technique to document the variables that were used by researchers in the economics, industrial organization, and management disciplines. This effort provided a summary of how researchers have defined variables in their description of firm performance across 320 empirical studies published between 1921 and 1987. According to Capon et al. (1990), in order to capture firm performance from a return on investment perspective, researchers used return on equity, return on capital, return on assets, return on sales, and price/cost margin as variables in their effort to demonstrate the relationship between the independent variable and firm performance. In this study, we use return on equity as the variable that depicts stockholder satisfaction since this variable by definition captures the return that equity holders have received. Since it is essential to include variables representing firm performance that entail both stockholder as well as bondholder satisfaction, we use free cash flow per share as the measure that bondholders of the firm may monitor (Damodaran, 1997; Ross et al., 1999) as one of the key variables that demonstrates how healthy the firm is from a performance standpoint. Both, return on investment and free cash flow per share, in essence capture the investors’ perspective on firm performance.

4. Key hypotheses

Based on the above analysis of studies addressing the growth and liquidity strategies we have developed the hypotheses in the following section to address important relationships with respect to corporate level decision making.

4.1. *Corporate strategy (growth) and firm performance*

Firms that pursue a high sales growth strategy will yield a positive impact on performance (Capon et al., 1990). Here performance is measured as the firm’s return on equity. Firms that increase sales growth using their assets efficiently that leads to optimal use of resources will impact their return on equity in a positive way. The underlying assumption is that the firm’s cost structure changes at the same rate of sales growth or at a decreased rate because of economies of scale (Hill and Jones, 1995). This leads to hypotheses 1(a):

H1(a). *There will be a significant positive relationship between sales growth and return on equity Ceteris paribus⁵. The higher the sales growth, the higher will be the return on equity.*

⁵“Ceteris paribus” is defined as all else being equal, which in this context is at the corporate-level of the firm.

Firms with a greater future potential to grow will have a negative relationship with free cash flow. Growth potential indicates a firm's ability to grow in the future as a result of its sound investment strategies. This is supported by the argument that a firm that has a higher future growth potential will have higher capital expenditures in order to fund that future growth (Barton and Gordon, 1988), which will lead to lower free cash flow per share. Note that free cash flow per share is arrived at by subtracting capital expenditures from operating cash flows. Firms will need to invest in competitive methods and core competencies today to improve their overall future growth (Prahalad and Hamel, 1990; Olsen et al., 1998), which in turn will lead to a decrease in free cash flows. This leads to hypothesis 1(b):

H1(b). *There will be a significant negative relationship between growth potential of the firm and free cash flow per share Ceteris paribus. The greater the future growth potential, the lower will be the free cash flow per share. The contrary will be true if the firm's future growth potential is lower.*

4.2. Corporate strategy (liquidity) and firm performance

Firms that pursue high liquidity will have a positive effect on free cash flow per share. Kim et al. (1998) tested the relationship between free cash flow per share and liquidity, which was found to be positive. The reverse effect will also be used in the present study. This is because the firm that pursues the goal of increasing its liquidity would typically increase its operating cash flows. This is assuming that there is no significant change in the capital expenditure of the firm during this period. The contrary will be true for firms that are more illiquid as compared to firms that are more liquid. This leads to hypothesis 2(a).

H2(a). *There will be a significant positive relationship between the liquidity of the firm and free cash flow per share Ceteris paribus. The higher the liquidity of the firm, the more the positive effect it will have on free cash flow. The contrary will hold true for firms that are low on liquidity.*

On the other hand, the relationship between firm liquidity and return on equity is hypothesized to be negative. Firms that are more liquid have more cash and marketable securities as compared to the average firm, which in other words indicates that such firms have more cash reserves. A firm that holds on to its earnings in the form of cash reserves will typically do so at a higher opportunity cost (Ross et al., 1999). In other words, such firms give up the opportunity of investing their excessive liquid assets in investments that help increase firm return in the future. This leads to hypothesis 2(b):

H2(b). *There will be a significant negative relationship between liquidity and return on equity Ceteris paribus. The higher the firm's liquidity, the lower will be the return on equity. On the other hand, firms that are not too high on liquidity will impact return on equity in a positive way.*

4.3. Interaction between corporate strategies

The corporate strategies as pointed out earlier include growth and liquidity. The relationship between the liquidity and growth of a firm would have an effect on the overall strategy of the firm. Since, we posited that growth potential will have a negative impact on

the free cash flow per share and that liquidity will impact free cash flow per share in a positive way, the interaction between liquidity and growth strategies was tested in order to verify if the firm that pursues liquidity as a strategy will help improve its sales growth and growth potential. This interaction is defined as the effect liquidity has on growth, which will help to develop an understanding of how strategy types influence the overall firm's corporate strategy formulation and implementation.

The relationship between liquidity and sales growth is hypothesized to be positive. The higher the liquidity of a firm, the higher would be its sales growth. This is logical in that if a firm has better liquidity, it would probably grow in sales in a better way than a firm that may not be as liquid.

This leads to hypothesis 3(a):

H3(a). *There will be a significant positive relationship between liquidity and sales growth. The higher the liquidity of the firm, the higher will be its sales growth Ceteris paribus.*

The relationship between the firm's liquidity and growth potential will be positive (Kim et al., 1998). Although Kim et al (1998) posited that growth potential will influence liquidity in a positive way, we posit that the vice versa will also be true, as firms that are more liquid might be in a better position to grow in the future. Higher liquidity would provide the required impetus for growth, which includes the firm's ability to attract investors. A higher growth potential would necessitate that firms be more liquid in order to fund their operations and asset growth to meet the demands of growth. Moreover, it is assumed that the firm's liquidity will influence its market value, which in turn will increase its growth potential. Note that a firm's asset growth per se may not be related to its liquidity position. Illiquid firms may use high interest bearing debt instruments to fund their asset growth. Therefore, the relationships between asset growth and liquidity were considered to have no affect on each other. This is not the case with growth potential because it is dependent on how the firm's liquidity can influence its working capital and funding needs, and also to maintain its market value at higher levels in order to grow. Note that the market's reaction to growth potential of the firm translates into stock price reaction, which is also dependent on the firm's investment scenario (Pilotte, 1992). This leads to hypothesis 3(b):

H3(b). *There will be a significant positive relationship between the firm's liquidity and its growth potential Ceteris paribus. The higher the liquidity, the greater will be its growth potential.*

5. The contextual framework, data collection and methodology

The restaurant industry in the US was chosen to test the hypotheses developed in the foregoing section. The reason to choose this industry was based on the fact that most restaurant firms, especially those that are publicly traded, have focused on growth over the past few decades. Also, data were available for restaurant firms for the time frame chosen for this study, i.e., 1995 through 2000. Note that the external environment was favorable during this time frame, which is important to underscore as most firms within the industry were able to pursue growth strategies. The economy slowed down after the year 2000, which is important to note as firms typically are wary of pursuing aggressive growth strategies when the external environment is not favorable.

Forty-eight firms were short-listed that met the criteria chosen for the selection of the sample. These criteria include: the firms chosen for the study should be incorporated in the US with a significant proportion⁶ of their revenues generated from the domestic market; data on these firms should be available for 24 quarters during 1995 and 2000; and these firms should be public limited companies that are traded on one of the three indexes, i.e., Dow Jones, NYSE, or NASDAQ. Since this study used a cross-sectional analysis, the dataset was created by averaging out the measures over the six-year period between 1995 and 2000 in order to capture growth, liquidity, and performance measures on the long term. Support for using at least a five-year average as a proxy for long-term representation of a firm's strategy and its impact on performance is reflected in studies pursued by Christensen and Montgomery (1981) and Barton and Gordon (1988). Farrelly et al. (1985) used a five-year average for asset growth, which provides support to the use of such an approach in capturing growth strategies of firms.

Data were obtained from COMPUSTAT provided through the Wharton Research Data Service. Financial statements were accessed and measures were developed as described in Table 1. Regression analysis was chosen as the statistical method as it helps in testing the relationship between variables for explanatory purposes using the standardized coefficients to describe the direction and magnitude of the relationship between the independent and dependent variables. Note that the objective of the study is to test the effectiveness of firms' growth strategies and if pursuing liquidity as a strategy is more effective than just pursuing growth. Since regression analysis provides information on the validity of the model and the ability of the independent variable(s) to explain a significant variance in the dependent variable(s), this method was considered most appropriate.

6. Results

The results are summarized in Tables 2 and 3 and discussed below in the context of each equation that was tested in this study. The equations were tested based on the hypotheses developed in the Section 4. The models were tested for the assumptions, i.e., multicollinearity and homoscedasticity. Results for multicollinearity tests indicate that variance inflation factor (VIF) and tolerance ranged between 1 and 1.14 for VIF and 0.88 to 0.98 for tolerance. Homoscedasticity was tested using the Normal P–P plots. Results indicate that the multivariate distribution of the independent variable is close to the diagonal. It should be noted that achieving perfect normality is difficult in social science research and hence distributions close to the diagonal was considered to be a good indicator of normality.

$$\text{FCFPERSHARE} = b_0 - b_1 * \text{GRPOTEN} + b_2 * \text{SIZELOG} + e. \quad (1)$$

The above model depicts the relationship between free cash flow per share and corporate strategy, i.e., growth potential. Results indicate that the overall model is significant with the *F*-statistic of 3.49 at $p = 0.05$. However, the coefficient for growth potential is not significant, as a result of which the null hypothesis is not rejected.

$$\text{FCFPERSHARE} = b_0 + b_1 * \text{LIQRAT} + b_2 * \text{SIZELOG} + e. \quad (2)$$

⁶Firms included in the sample had more than ninety percent of their revenues generated within the US.

Table 1
Variables and measures

Variable	Measure	Description
Sales growth	SALESGR	The firm's annualized quarterly sales growth rate between 1995 through 2000 was averaged to obtain SALESGR.
Asset growth	ASSETGR	First, the market value of assets was derived by adding the difference between market value of equity and book value of equity to the book value of assets (Kim et al., 1998). Then the market value of assets growth rate was calculated for the years 1995 through 2000 by using the annualized quarterly growth rate, which was then averaged to obtain ASSETGR.
Growth potential	GRPOTEN	This measure was derived by dividing the market value of assets (see Asset Growth for a description of how market value of assets was calculated) by the book value of assets, which was then averaged for the years 1995 through 2000 to obtain GRPOTEN.
Liquidity	LIQRAT	The firm's cash and short-term investments were added and then divided by total assets (John, 1993; Kim et al., 1998), which was averaged between 1995 and 2000 to obtain LIQRAT.
Free cash flow per share	FCFPERSHARE	Free cash flow was first calculated by subtracting the firm's capital expenditure from its earnings before depreciation, interest, and taxes (Kim et al., 1998) for each quarter. The free cash flow per share for each quarter was then calculated by dividing free cash flow by the number of shares outstanding. This was then averaged between 1995 and 2000 to obtain FCFPERSHARE.
Return on equity	RETONEQ	The firm's net income was divided by its total equity, which was then averaged between 1995 and 2000 to obtain RETONEQ.
Firm size	SIZELOG	The natural logarithm of the average market value of assets (see Asset Growth for a description of how market value of assets was derived) between 1995 and 2000 was calculated to obtain SIZELOG.

Table 2
Correlation matrix

Measure	1	2	3	4	5	6	7
1 SALESGR	1						
2 GRPOTEN	.74**	1					
3 LIQRAT	.54**	.47*	1				
4 DEBTRAT	−0.19	−.29*	−.28	1			
5 FCFPERSHARE	0.13	0.09	.40**	−0.09	1		
6 RETONEQ	0.03	0.14	−0.06	−.55**	−0.09	1	
7 SIZELOG	−0.15	0.13	−.35*	−0.13	−.34*	0.03	1

Note: * indicates correlation is significant at $p = 0.05$ (2-tailed), ** indicates correlation is significant at $p = 0.01$ (2-tailed).

The first column lists the numbers allotted to the measures in the second column, which correspond to the numbers in row 1 (third column through ninth column).

The above model depicts the relationship between free cash flow per share and liquidity. Results indicate that the overall model is significant with the F -statistic of 8.96 at $p = 0.001$. The r^2 for the model indicates that 16 percent of the variance in free cash flow is explained by the liquidity of the firm. The standardized coefficient of 0.40 is significant at $p = 0.05$. The direction of relationship between liquidity and free cash flow is positive indicating that the higher the liquidity, the higher is the free cash flow of the firm. This supports hypothesis H2(a), and therefore the null hypothesis for H2(a) is rejected.

$$\text{RETONEQ} = b_0 + b_1 * \text{SALESGR} - b_2 * \text{SIZELOG} - b_3 * \text{LIQRAT} - b_4 * \text{DEBTRAT} + e.(3)$$

The above model depicts the relationship between return on equity and the sales growth strategy of the firm while controlling for size of the firm and its liquidity. Results indicate that the overall model is significant with the F -statistic of 6.54 at $p = 0.001$. The standardized coefficients suggest that sales growth and firm liquidity are not significantly related to return on equity. Therefore, the null hypotheses for H1(a) and H2(b) are not rejected.

6.1. Interaction between dimensions of corporate strategy

$$\text{SALESGR} = b_0 + b_1 * \text{LIQRAT} + b_2 * \text{SIZELOG} + e.(4)$$

Eq. (4) identifies the relationship between liquidity of the firm and its sales growth strategies. The results indicate that the overall model is significant with the F -statistic of 9.10 at $p = 0.000$. The r^2 indicates that 29 percent of the variance in sales growth is explained by liquidity. The standardized coefficient of 0.55 is significant at $p = 0.001$, which indicates that there is a positive relationship between liquidity and sales growth. The size of the firms was the control variable. The relationship between size of the firm and its sales growth is positive with a coefficient of 0.731, which is not significant at $p = 0.05$.

Table 3
Results of regression analysis

Equation	Model F -statistic	Model R^2	Adj. ^a R^2	Independent variables	Standardized Beta weights
1 FCPERSHARE = $b_0 + b_1 * LIQRAT + b_2 * SIZELOG + e$ Revised model: FCPERSHARE = $b_0 + b_1 * LIQRAT + e$	8.96****	0.16	0.15	LIQRAT	.40***
2 FCPERSHARE = $b_0 - b_1 * GRPOTEN + b_2 * SIZELOG + e$	3.49*	0.13	0.10	SIZELOG GRPOTEN	N.S. N.S.
3 RETONEQ = $b_0 + b_1 * SALESGR - b_2 * SIZELOG - b_3 * LIQRAT - b_4 * DEBTRAT + e$	<i>Note:</i> None of the variables were significant. Hence, the model was rejected				
4 SALESGR = $b_0 + b_1 * LIQRAT + SIZELOG + e$ Revised model: SALESGR = $b_0 + b_1 * LIQRAT + e$	9.01****	0.29	0.26	LIQRAT SIZELOG	.55*** N.S.
5 GRPOTEN = $b_0 + b_1 * LIQRAT + SIZELOG + e$	10.78****	0.32	0.29	LIQRAT SIZELOG	.59*** .34*

Note: * indicates significance at $p = 0.05$; ** indicates significance at $p = 0.01$; *** indicates significance at $p = 0.005$; **** indicates significance at $p = 0.001$, N.S. indicates “not significant,” i.e., $p > 0.1$.

^aAdj. R^2 stands for Adjusted R^2 .

Therefore, size of the firm does not impact the relationship between liquidity of the firm and its influence on sales growth.

$$\text{GRPOTEN} = b_0 + b_1 * \text{LIQRAT} + b_2 * \text{SIZELOG} + e. \quad (5)$$

The above model depicts the relationship between the liquidity of the firm and its growth potential. Results indicate that the overall model is significant with the F -statistic of 10.78 at $p = 0.001$. Furthermore, the r^2 of the model indicates that 32 percent of the variance in growth potential is explained by the firm's liquidity position. The standardized coefficient of 0.59 is significant at $p = 0.001$. This supports the hypothesis that there will be a positive relationship between liquidity and growth potential. Size of the firm is the control variable, which is significant at $p = 0.05$ with the standardized coefficient of 0.34. Note that the direction of relationship is positive, which indicates that the bigger the size of the firm, the higher is its growth potential, with an increase in its liquidity as size of the firm increases. Therefore, the null hypotheses for 3(a) and (b) are rejected.

7. Discussion, implications and conclusion

The growth strategy construct was operationalized using two measures, i.e., sales growth and growth potential. Sales growth was used as an independent variable representing the corporate strategy construct in the model with return on equity as the dependent variable. The coefficient as tested was insignificant, indicating that sales growth strategy does not necessarily explain a significant amount of variance in return on equity. On the other hand, growth potential was tested in the model with free cash flow as the dependent variable. Results indicate that this variable does not explain a significant amount of variance in the dependent variable, i.e., free cash flow per share. The conclusion therefore is that the corporate strategy construct defined in this study using growth strategy variables were not found to be significantly related to firm performance as measured by return on equity as well as free cash flow per share.

The above confirms that growth strategies do not help explain a significant amount of variance in firm performance. Growth is essential for firms, but are growth strategies value-adding strategies, which result in improved firm performance? The answer to this research question posed at the beginning of this study is that growth strategies may not be value-adding strategies, as tested and reported in this study. Managers of restaurants may have to reconsider the firm's strategic orientation towards growth strategies. Based on the findings of this study, it could be stated that these strategies neither add to owners' return nor improve bondholders' measure (cash flows) of firm performance. On the other hand, liquidity showed significant relationship to firm performance. A positive relationship exists between firm liquidity and free cash flow per share.

The reason why the liquidity of the firm is important for firms' managers to consider during strategy formulation and implementation decisions is that liquidity was positively related to growth strategies, i.e., sales growth and growth potential. The relationship between liquidity and sales growth is positive, and bigger firms will have a more pronounced effect of liquidity on sales growth as compared to smaller firms. Note that since growth strategies appear to have a neutral impact on the dependent performance measures used in this study, the firm's manager would need to implement strategies that lead to an increase in the firm's liquidity, which, as reported in this study, has a positive impact on the firm's performance. Since liquidity also impacts sales growth and growth

potential in a positive way, a firm that tries to maintain better liquidity will in fact grow in a better way than firms that ignore their liquidity position.

Since sales growth strategy does not significantly affect firm performance, liquidity becomes, in the context of this study, the more important factor that a firm's managers should consider before growth strategies such as sales growth and growth potential. The relationship between liquidity and growth potential is positive, which indicates that as the firm's liquidity increases, its growth potential also increases. This impacts strategy formulation as firms' managers who are more oriented towards future firm growth will be more concerned about liquidity. Moreover, liquidity is also significantly related to sales growth, which further indicates that liquidity of the firm is perhaps the single most important corporate strategy in the present study that influences not only firm performance variables such as return on equity and free cash flow per share, but also other dimensions of corporate strategy such as sales growth and growth potential.

The objective of this study was to test if corporate growth strategies are viable as long-term value adding strategies for the restaurant industry. The findings of the study clearly point in the direction that pursuing growth on the longer term may not always be a source of value addition to the firm. This notion is also supported by work done by researchers (e.g., Zook et al., 2000; Zook and Rogers, 2001⁷) who studied growth strategies. Since growth strategies may not be viable on the long-term, corporate managers should focus on strategies that improve the firm's position from a value-adding standpoint, which in this study points in the direction of corporate liquidity. We suggest that corporate managers of restaurant firms should focus on a balance between corporate growth and liquidity that in combination adds value to the firm. Stockholder satisfaction on the long-term should be the goal of a firm's management and not on the short term. The fact that the industry focuses on growth strategies reflects that managers are more short-term oriented in their strategy formulation and implementation decisions, perhaps due to pressures of the capital market.

Another reason for a focus on liquidity rather than growth is the fact that in the restaurant industry today, there is approximately one restaurant for every 380 Americans and the industry is soon to reach a milestone of one million restaurants. This suggests that perhaps unbridled growth will not be the answer to meeting the growth imperatives of the investment community and that firms should concentrate on achieving higher levels of liquidity in order to make strategic investments that will add value. Such investments would include products and services that offer greater value to both the firm and the customer, reduce costs along the supply chain and enhance experiences for the customer overall.

This study provides a basis for conducting future research related to growth strategies in the hospitality industry since not much work has been done in this area. Future studies could use a bigger sample size while including domestic as well as international restaurant firms in the sample. Since the findings of this study cannot be extended across different sectors of the hospitality industry, future research could use samples from the lodging industry to test the relationships between growth and liquidity strategies on firm performance, which will help improve the generalizability of this study.

⁷It should be noted that these studies are not generalizable across firms and industries. However, they provide a good reference for the findings of this study.

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