

# THE EFFECT OF COMPETITION IN THE PRODUCT MARKET AND FINANCIAL FLEXIBILITY ON BUSINESS STRATEGY: A PAKISTANI CONTEXT

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## ABSTRACT

**Purpose:** This study examines the relationship between competition in the product market (PMC), financial flexibility (FF), and business strategies in Pakistan, providing both theoretical and practical implications for companies. It contributes to the body of knowledge on strategic management, particularly related to emerging markets, and addresses the institutional voids impacting firms.

**Design/Methodology:** For data collection, 200 companies listed on the Pakistan Stock Exchange (PSX) were chosen via using the systematic elimination method for 2010-2020. Since the study involved binary dependent variables, probit and logit regression models were applied to test the hypothesis. The study adopted Ittner and Larcker (1997), Herfindahl-Hirschman Index (HHI), and Frank and Goyal (2009) models to assess Business Strategy, PMC, and FF respectively.

**Findings:** PMC has a significant impact on companies to adopt a certain business strategy (i.e., defensive, opportunistic, analytical, and invasive) and the level of financial flexibility. Similarly, financial flexibility provides companies to adapt defensive and opportunistic strategies, and it also make companies decrease the adaptation of analytical and invasive strategies.

**Originality:** This study endeavors to provide a significant insight for companies to focus on the importance of PMC and keep track of their level of financial flexibility. The study also suggests that exploring the opportunities of investment, which are competitive in nature, can be effective and helpful in selecting the appropriate business strategy. Following this roadmap, companies can better be able to maximize their performance and value to sustain their competitiveness.

**Keywords:** *product market competition, financial flexibility, business strategy*

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## **INTRODUCTION**

Business strategy, a central concept in management, has evolved with the growing complexities of markets, especially in emerging economies like Pakistan. While Jofre (2011) and Salehi et al. (2020) emphasize the universality of strategic processes, this study delves into the unique interplay of PMC and FF in guiding firms towards optimal strategies. Emerging markets, characterized by institutional voids and resource dependencies, present a fertile ground for such exploration. The process of setting long-term goals has always been there, whether we call it a strategy, or we name it something else.

For that reason, business researchers have identified that strategy is an essential element of any business through which the idea of success or a failure of any business can be anticipated. The capabilities and competency of management in making strategic decisions is very important to be analysed in order to quantify the impact of these strategic choices (Augier & Teece, 2009).

For the sake of an explanation, Khanna & Palepu (1997) have described institutional voids as the lack of efficient market intermediaries, appropriate legal systems, and structures; these are common in developing countries such as Pakistan. These voids require firms to seek other forms of risk management mechanisms like the financial flexibility to support their operations. Resource dependency theory Pfeffer & Salancik (2015) builds on this by showing how firms respond to those environmental forces by managing their resources such as financial and competitive assets. In the context of Pakistan where market is fragmented and capital is a major constraint PMC and FF remain central to building sound business strategies.

This research aims to fill gaps by providing managers with actionable insights tailored to the Pakistani context, enabling them to select strategies that align with both market dynamics and financial constraints. In particular, this study tries to deliver a precise guidance to the managers by recommending them the steps to be taken in selecting appropriate strategy for their businesses in order to achieve the goal of being and staying competitive in the marketplace.

## **LITRATURE REVIEW**

### **Business Strategy and Competition in the Product's Market**

It is too early to say that strategy is no longer a core discipline in the business world. Porter (1997) first proposed the strategic analysis method, and it is considered to be the beginning of business analysis. In other words, the influence of competitors and sustainable competitive advantage on business strategy is the same as the influence of customers and marketing concepts. The principle of sustainable competitive advantage holds that a company can't succeed in the market if it doesn't have competitive advantages over its competitors. These advantages should be maintained

through and with the customers through the provision of competitive products (Easton, 1988).

In order to compete in the general market field, enterprises must constantly increase their efforts to improve their product and process related activities (Mossaraf & Ahmed, 2008). If the company wants to be the leader of competitors, it must provide the highest product quality and provide customers with value-added products (Cooper, 1995; DeFond & Park, 1999; Hoque et al., 2001). While, Gilbert & Strebel (1987) argue for product characteristics as competitive differentiators, their relevance to Pakistan's fragmented industries is limited. This study instead emphasizes the role of regulatory environments and cultural factors, often overlooked in prior research.

In the management literature, various typologies of business strategies can be found which describe ways firms endeavour to compete in the market in which they operate. The typology presented by Porter (2011) divides the business strategies into two major types, namely, cost leadership and distinction strategy. In addition to that, typologies given by Miles & Snow (1978) suggest four types of strategies that businesses mostly use based on the number of modifications a firm make in its product or market.

Let us build our discourse on the basis of a few types of typologies. First, *defenders* are characterized by operating in a narrow product market, high output, low product diversity, and fierce competition in terms of price, quality, and customer service. Operational efficiency is emphasized almost without product/market development. Second, *prospectors* look for market opportunities and test the response to emerging environmental trends. New products and market development are what they compete on. The search for new market opportunities will change as the product line progresses. The product line will become more refined, and the research will get more specific. As this happens, the marketer must be careful not to lose sight of what was learned earlier in the process. The lessons learned early on can help guide later decisions. Third, *analysers* have the same characteristics of prospectors and defenders when they operate on two different types of products (i.e., stable or changing). Last but not the least, *reactors* do not follow conscious strategies and are considered to be an organization type with unbalanced functions. (Miles et al., 1978) argued that reactors do not have prominent structure of strategy and they usually make adjustments only when they are pressurized by environment.

Hajar (2015) concluded that organizations adopting invasive business strategies can yield positive results through advanced financial innovation and level of performance. On the contrary, Zhang (2016) argue that organizations adopting defensive strategy yield better performance as compared to those organizations practicing futuristic business strategy. Subsequently, Habib & Hasan (2017) found that companies which adopt invasive strategies have more danger of dropping in the value of their prospect share value as compared to those firms which adopt defensive business strategy. In addition to that, Higgins et al. (2015) tries to explain that organisations which adopt invasive strategy are more likely to be involved in tax

avoidance as compared to the firms having analytical and defensive business strategies.

By analysing the literature, we formed following hypothesis:

*Hypothesis 1. PMC and defensive strategy are related to each other.*

*Hypothesis 2. PMC and an invasive strategy are related to each other.*

### **Competition in the Product Market, Financial Flexibility, and Business Strategy**

According to Porter & Gibbs (2001) “competitive advantage is something which enable firms to provide superior services to customers with the help of its distinctive features or dimensions”. One of the major goals of building a competitive advantage is to achieve competitiveness while attaining a distinguishing place according to their level of performance in marketplace (Banker et al., 2014). To achieve a sustainable position in the industry, companies opt for defensive and invasive strategies to get to the top while staying in the competition, which ultimately give them higher rate of return and helps them to raise more capital (Porter, 1985).

In other way round, the financial flexibility is the most important determinant of the company's capital structure according to the chief financial officers who were surveyed by (Graham & Harvey, 2001a). For example, the accumulated internal funds allow companies to compete for growth at an appropriate time and carry out projects with a positive net present value (Vaez et al., 2021). Business units which focus on attaining financial flexibility not only can confront financial pressures, and exploit better business opportunities but also, they are able to provide finances to the competitive investments at least cost (Hooshyar et al., 2017).

Based on the above discourse, we build following hypothesis:

*Hypothesis 3. There is a relationship between competition and analytical strategy.*

*Hypothesis 4. There is a relationship between competition and opportunistic strategy.*

### **Financial flexibility and Business Strategy**

Financial Flexibility is “the capability of firm to exploit positive or negative shock in a given level of opportunities for investment” (Lambrinoudakis et al., 2019). The findings of (Graham & Harvey, 2001b) also support the importance of financial flexibility, as they conducted a survey of firms in the United States of America in which 392 CFOs were interviewed. Moreover, Volberda (1998) divided financial flexibility in to two perspectives: based on internal matters, and based on external matters. To measure internal financial flexibility two indices of debt capacity can be used as a tool. One is the performance of the firm in terms of utilizing proper opportunities of investment, and the other is, the level of cash holding which determine ability of the firm to stand still when it is faced by risk. The literature so far is about business-to-company liquidity, and it provides theory and evidence to

support the view that financial flexibility can be achieved by managing capital structure policies and payment policies (Denis, 2011).

In developing countries like Pakistan, gaining access to external financing is the key challenge for most of the organizations because high volatility of capital flow prevails in the market (Bekaert & Harvey, 2002). It has been observed that PMC has a strong impact on the business risk of enterprises, according to research (Gaspar & Massa, 2006). Recent studies like, (Hoberg et al., 2014) explain the cash holding as an indicator of countering the competition prevailing at marketplace. Furthermore, Salehi et al. (2018) tries to expand the concept of financial flexibility by noting that financial flexibility can increase the operational ability of a company and reduce the risk of financial operation. Also, the firms have more ability to manage risk than the firms having lower level of financial flexibility (Chua, 2012).

Similarly, an analysis conducted by Mura and Marchica (2010) finds that companies that are tough as unlike other companies are able to gain higher stability in their financial incomes which have positive impacts on the value of the company. However, there is a view in the economic literature that the fierce PMC spurs the effective action of enterprise managers (Vives, 2000).

By following the direction of the literature, we build following hypothesis:

*Hypothesis 5. FF and the defensive strategy haave a significant relationship.*

*Hypothesis 6. FF and the invasive strategy has a significant relationship.*

*Hypothesis 7. FF and the opportunistic strategy has a significant relationship.*

*Hypothesis 8. FF and the analyticl strategy has a significant relationship*

## **RESEARCH METHODOLOGY**

### **Sample and Data Sources**

Our sample consisted of 200 listed companies on the Pakistan Stock Exchange (PSX) from year 2011 to 2020 through the process of systematic elimination. Reason to choose companies listed on Pakistan Stock Exchange (PSX) market was the timely availability of data on respective companies' websites and published financial reports. These factors were really helpful to us in getting access to the detailed information for our study. As our model includes a binary dependent variable, we used Probit and Logit regression model to test the hypotheses of our study. Business strategy as a dependent variable has been assessed through the (Ittner & Larcker, 1997) model. It comprises of scores that have been mentioned in the descriptive statistics section before. Conversely, competition as an independent variable has been assessed through the Herfindahl-Hirschman Index (HHI) model. Finally, we chose (Frank & Goyal, 2009) model to investigate the financial flexibility as an independent variable. Data have been collected from multiples secondary sources. In our study, the major data collection sources have been Business Recorder, Annual Reports of Companies, and PSX Data Portal, and the data available on the website of opendoors.pk.

For a justification, the HHI effectively captures market concentration, which is critical in Pakistan's oligopolistic industries. Frank & Goyal's model aligns well with the financial structures prevalent in emerging markets. The data winsorization at 10% was applied because it minimizes extreme value distortions in the data.

Control variables like firm size and cash holdings were included to address omitted variable bias. Interaction terms were incorporated to explore synergistic effects between PMC and FF.

### Statistical Model

To testing the proposed study hypothesis, following statistical patterns have been followed:

$$\begin{aligned}
 \mathbf{BusinessStrategy}_{i,t} &= \beta_0 & (1) \\
 &+ \beta_1 \mathbf{Product\ Market\ Competition}_{i,t} \\
 &+ \beta_2 \mathbf{Flexibility}_{i,t} + \beta_3 \mathbf{PMC}_{i,t} * \mathbf{Flexibility}_{i,t} \\
 &+ \beta_4 \mathbf{Lev}_{i,t} + \beta_5 \mathbf{FirmSize}_{i,t} \\
 &+ \beta_6 \mathbf{CompanyCashholding}_{i,t} + \varepsilon_{i,t}
 \end{aligned}$$

Here, *Business Strategy* is Strategy for business opted by the given firm during the given period of time. *Flexibility* is flexibility related to financial matters of the company *i* for the year *t*.  $\mathbf{PMC}_{i,t} * \mathbf{FF}_{i,t}$  is the interactional relationship between two variables of firm *i* for the period *t*. *Lev<sub>i,t</sub>* is financial leverage. *Company Age<sub>i,t</sub>* is numbers of the years company has existed during period *t* of the firm *i*. *Firm Size<sub>i,t</sub>* is the overall size of the company *i* during the given time *t*. *Company Cash holding<sub>i,t</sub>* is ratio of cash holding during time *t* of firm *i*.

### Variables Descriptions

#### Dependent Variable

#### Business Strategy

For measuring business level strategy as a criterion variable, this study adopted Ittner and Larcker's (1997) joint scheme of scores, so that 5 ratios are inculcated namely: growth in sales ratio, advertising cost to net sales, number of employees, market to book value of the company, long-term assets to net revenue. According to this scoring system, firstly, on the basis of first four above mentioned ratios companies are divided into five groups. Ratios from top to bottom are expressed in such a way that the company having positioned at the apex of quintile gets five scores, and the company which possess the bottommost position going to get one score, and score of other companies is assigned as per the proportion to quintile. After this, based on the newest ratio, firms are going to be divided into 5 groups. Now, the positions of firms will be reversed according to their respective scores, such that company residing at

the top scores will be assigned 1, and the firm having the lowest position will get score 5. Subsequently, scores obtained from the above two stages will be accumulated to the last stage, and the conclusive score will be acquired. According to the model proposed by Ittner and Larcker (1997) these accumulated scores (total 5 above ratios) of every company during a period will be 5–25. Companies having the net score between five and ten are referred as defensive firms. Unlike, companies with total score between ten and fifteen are defined as opportunistic companies. However, firms having score between 15 and 20 are denoted as analytical firms. Finally, firms gaining the score between 20 and 25 are considered as invasive firms.

Sales represent the total number of sales during a given period, while the Number of Firms refers to the net number of active firms in the industry at the period's end. Market Share of the Firm indicates a company's share in the industry at the end of the period. Market Value to Book Value reflects growth opportunities through the ratio of total liabilities and market share value to total assets. Fixed to Total Assets measures a firm's ability to bail assets using the ratio of non-current assets to net assets. Profitability is evaluated as the ratio of profit before interest and taxes (PBIT) to net assets. Inflation is determined by the year-end inflation rate based on consumer index growth declared by the central authority. Lastly, model residuals, denoted as  $\epsilon_{i,t}$ , represent error terms in the model.

## Independent Variables

### Competition in the Product Market

In the literature we found that model by Dhaliwal et al. (2008) and the HHI are adopted to measure the PMC as predictor which help in analysing the concentration in the industry. According to the above-mentioned index, if the calculated index's amount is higher, it means there is higher concentration value in the industry and there would be lower competition in the industry or vice versa.

$$HHI = \sum_{i=1}^n S_{i,t}^2 = \sum_{i=1}^n \left( \frac{sale_{i,j,t}}{SALE_{j,t}} \right)^2 \quad (2)$$

The HHI Model measures market concentration using firm-specific data, where  $sale_{i,j,t}$  represents the sales of firm  $i$  in industry  $j$  at the end of year  $t$ ,  $SALE_{j,t}$  denotes the total sales of all firms in industry  $j$  at the same time,  $n_{j,t}$  is the number of active firms in industry  $j$ , and  $S_{i,j,t}$  is the market share of firm  $i$  in industry  $j$ . This index plays a crucial role in analyzing financial flexibility. We used Frank and Goyal (2009) model to calculate the level of flexibility in financials.

$$\begin{aligned}
LEV_{i,t} = & \beta_0 LEV_{i,t-1} + \beta_1 LndLEV_{i,t} + \beta_2 M/B_{i,t} \\
& + \beta_3 Size_{i,t} \\
& + \beta_4 Tan_{i,t} + \beta_5 Profitability_{i,t} \\
& + \beta_6 Inflation_{i,t} + \varepsilon_{i,t}
\end{aligned}
\tag{3}$$

Where,  $LEV_{i,t}$ : is total liabilities to net assets of a company;  $LEV_{i,t-1}$ : is total liabilities to net assets of a company in the previous year;  $LndLEV_{i,t}$ : is average liabilities of current firms in the industry;  $M/B_{i,t}$ : is market value to book value (indicating growth opportunities of a company) which is calculated through market value divided by book value of a company;  $Size_{i,t}$ : calculated by taking log of company net assets;  $Tan_{i,t}$ : fixed assets to total assets;  $Profitability_{i,t}$ : earnings before interest and tax (EBIT) to net assets;  $Inflation_{i,t}$ : rate of inflation provided by central bank of the country ; and  $\varepsilon_{i,t}$ : error term (other factors or model residuals).

### Control Variables

For the purpose of controlling the undesired effects of disruptive variables, various control variables have been utilized as aligned to the aims of the research likewise:

*Degree of financial leverage*: it has been acquired by dividing total liabilities of firm to total assets at the closing period; *firm age*: total number of years that the firm has been registered at stock exchange; *firm size*: it is calculated by attaining the log of the firm's total shares; *cash holding ratio*: it is calculated with the help of formula cash sum divided by total number of assets of the company at a given period of time.

## DATA ANALYSIS AND RESULTS

### Descriptive Analysis

#### Descriptive Statistics of Independent Variables

**Table 1** illustrates the results of descriptive statistics for each selected dependent and independent variable. However, it is important to mention that to ensure the reliability in our data, we have *winsorized* the data to 10% level.

**Table 1: Descriptive Statistics of Independent Variables**

Variable		Mean	Std. Dev.	Min	Max
Product	Market	0.279	0.202	0.075	1
Financial Flexibility		1.17e-10	0.337	-0.650	3.061
LEV		0.587	0.346	.0310	3.739
SIZE		15.864	1.486	13.265	18.758



Profitability	0.093	0.372	-4.125	14.644
Cash Holding	1.38	2.595	-0.251	6.848
Sales Growth Rate	0.089	0.331	-0.010	2.375
Advertisement to Sales	0.238	1.227	0.00	10.415
Staff to Assets	.0001687	.0001911	4.22e-06	.0010482
Fixed to Total Assets	0.526	0.255	0.005	3.724
Market to Book	1.776	2.129	-0.066	8.428

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The results of summary statistics show that PMC lies ranges between 0.075 and 1, which means that there is a variation in highly and slightly competitive industries in our data. Mean value (0.279) of PMC denotes that on average 27.9% companies are competitive, and standard deviation of 0.202 shows that there is no significant variation in the value of this independent variable.

The mean value of Financial Flexibility shows that on average there is low level of financial flexibility among the firms. The value of standard deviation (0.337) shows the significant mean deviation in financial flexibility. Contrary to that, the mean value of Leverage (LEV) is 0.587 which indicates that companies have moderate level of leverage on average. The standard deviation of 0.346 shows that the leverage ratio of the entire data set has a lot of variability. If we look at the descriptive statistics of Firm Size which represents the market capitalization of the firms. The minimum value for firm size is 13.265 and the maximum value is 18.758. It has the mean value of 15.864 which represents that companies have moderate level of size in our data. The value of standard deviation is 1.486 indicating that there exists a moderate level of variability in size of the companies in a given industry.

Profitability ratio is a measure of a company's cost-effectiveness. A relatively low average profitability is indicated by an average of 0.093. A standard deviation of 0.372 shows a reasonable variability in our data set of profitability. Also, the amount of cash and cash equivalents held by a company is referred to as the cash holdings. On average the cash balance held by the company is equivalent to 1.38 times the annual expenditure or other related financial indicators as depicted by the mean value. Significant differences in cash holdings among companies are shown by the standard deviation of 2.595. Sales Growth Rate has a mean value of 0.089 indicates that in our data this independent variable has a modest average sales growth rate. Conversely, there is a significant variability in sales growth rate between the firms in our dataset as explained by the standard deviation of 0.331. The ratio of advertising to sales has mean value of 0.238 shows that the company spends an appropriate portion of their

sales revenue on advertising. A high standard deviation of 1.227 indicates a wide range of advertising expenditure levels is spent by companies in our dataset.

The total assets of the company are compared to the number of employees in the company through Staff to Assets ratio. The average level of employees is lower than the company's assets indicated by the mean value of 0.0001687, and the standard deviation of 0.0001911 indicates that there is a certain degree of variability in the personnel allocation level of each company. The proportion of fixed assets to total assets is measured by this variable. The mean value of fixed to total assets is 0.526 indicating that on average 52.6% account for fixed asset to total assets among companies in our dataset. The standard deviation of 0.255 shows that there is a degree of variability in the amount of fixed assets. Some companies have a higher degree of dependence on fixed assets than other companies.

Finally, Market to Book is a ratio that compares the market value of a company's equity to its book value. The mean value suggests that, on average, the market value of the companies' equity is 1.776 times their book value. There is a significant variation in the market-to-book ratios across the dataset as shown by the standard deviation of 2.129. This shows that some companies may have a higher market value than others.

### Descriptive Statistics of Dependent Variable

**Table 2** as given below shows the descriptive statistics of the dependent variable in our study i.e., business strategy. Defensive strategy has a mean value of 0.06 and a standard deviation of 0.237 which shows the data is appropriate for further analysis. Similarly, Opportunistic strategy has the mean value of 0.361 which is higher than Defensive strategy. Standard deviation is 0.480 which is also larger than Defensive strategy. Whereas, Analytical strategy has a mean value of 0.409 and standard deviation of 0.492 which is higher among other variables. However, Invasive strategy has mean value of 0.038 which is smaller than other strategies and it has standard deviation of 0.191 in our dataset.

**Table 2: Descriptive Statistics of Quantitative Variables**

Variable	Mean	Std. Dev.	No. of 0	No. of 1
Defensive	0.060	0.237	1,832	116
opportunistic	0.361	0.480	1,245	703
analytical	0.409	0.492	1,152	796
invasive	0.038	0.191	1,874	74

Our study adopted the Ittner and Larcker (1997) combined scoring system, and it has been described in the **Table 3** given below. According to this scoring system, a structural approach is used for evaluation of different business strategies on the basis of financial ratios. A comparative analysis of the firms' behaviors within each group is provided by the scoring system, which divides the enterprise into five quintiles and assigns scores based on these levels. The interpretation of scores can identify defensive, opportunistic, analytical and invasive strategies and provide valuable insights for researchers, investors and stakeholders for decision making. The application of this scoring system facilitates a comprehensive assessment of business strategies, aiding in understanding the dynamics and effectiveness of different strategic approaches.

**Table 3: Ittner and Larcker Scoring System for Business Strategy**

Quintile	Sales grow	Advertisement cost to total	Number of staff to Sales	Market to Book	Fixed assets to Total
5th	1	1	1	1	5
4th	2	2	2	2	4
3rd	3	3	3	3	3
2nd	4	4	4	4	2
1st	5	5	5	5	1

### Estimating the Results for Correlation Analysis

#### Correlation Matrix

We used Pearson correlation to measure strength of linear association. For this purpose, each value of correlation has been tested by using two levels of significance i.e.,  $< 0.01$  and  $< 0.05$ . The results are presented in **Table 4** including Pearson correlation results between variables with p-values. Positive and negative correlations were observed in variables indicated by positive and negative signs.

The result of correlation matrix shows that we have problem of multi-collinearity in our data set. If we look at the table below, we can see that PMC has significantly weak negative relationship (-0.071) with Financial Flexibility with significance level three. In other words, if there is 1% increase in PMC, the value of financial flexibility will decrease by -0.071%. Likewise, PMC has weak negative relationship with the interactive term of PMC and FF, as denoted by the value of (-0.173) with a significance level three. It means if there is increase in PMC, the PMC\*FF will decrease in a moderate way. The relationship of PMC with LEV is also significantly negative (-

0.040) and it is very weak. However, it has weak positive relationship with Firm Size which means if PMC increases the Firm Size will also increase. So, the PMC has no problem of being strongly correlated with any of the other independent variable. Nevertheless, PMC also has weak negative relationship with company cash holdings (-0.130) which is also at significance level three.

The relationship of FF with PMC has been explained above. However, Financial Flexibility has a strong positive relationship (0.809) with the interactive term of PMC and FF (i.e., PMC\*FF) with the significance level to three. It is where the issue of multicollinearity has been identified in our data. In a similar manner, the FF also has a strong positive relationship with leverage (0.976) with the significance level of  $p < 0.1$ . Contrary to that, FF has weak positive relationship with Firm Size and Cash Holdings with the values of 0.095 and 0.050 respectively, and has a significance level three.

Results of the interactive term of PMC and FF indicate that it has strong positive relationship with LEV and weak positive relationship with Firm Size having values of 0.757 and 0.144 with the significance level of  $p < 0.1$ . However, its relationship with PMC, and Financial Flexibility has been already discussed above.

According to our results the relationship of LEV with Firm size is strongly weak having the value of 0.041 which also stands at the significance level of  $p < 0.1$ . In contrast, the LEV has weak positive relationship with Cash Holdings at 0.086. Likewise, the Firm Size also possess the weak negative relationship with Cash Holdings having the value of -0.264 with the significance level three.

**Table 4: Pairwise Correlations**

Variables	PMC	Financial Flexibility	PMC*FF	LEV	Firm Size	Cash Holding
PMC	1.000					
Financial Flexibility	-0.071*	1.000				
PMC*FF	-0.173*	0.809*	1.000			
LEV	-0.040*	0.976*	0.757*	1.000		
Firm Size	0.160*	0.095*	0.144*	0.041*	1.000	
Cash Holding	-0.130*	0.050*	-0.013*	0.086*	-0.264*	1.000

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

On the flip side, **Table 5** presents the values of correlation after dropping the LEV (leverage) variable which was highly correlated with the variable Financial Flexibility. The results of the above table suggested us to drop one of the correlated variables in

our study due to the problem of multi-collinearity. High multicollinearity was addressed by dropping leverage (LEV) and refining models. Despite these adjustments, the Probit and Logit regression outcomes highlighted significant relationships, reinforcing the robustness of findings.

**Table 5: Pairwise Correlations after Dropping LEV**

Variables	PMC	Financial	PMC*FF	Firm	Cash
PMC	1.000				
Financial Flexibility	-0.071*	1.000			
PMC*FF	-0.173*	0.809*	1.000		
Firm Size	0.160*	0.095*	0.144*	1.000	
Cash Holding	-0.130*	0.050*	-0.013*	-0.264*	1.000

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

#### Variance Inflation Factor (VIF)

**Table 6** below shows the Variance Inflation Factor (VIF) for various variables of our study in a regression model. In this table, Financial Flexibility has the highest VIF value of 32.266, followed by LEV with a VIF of 27.409. These values indicate a high level of multicollinearity between these variables and the other predictors. Because of higher multicollinearity between these two variables, we have to drop on of variable.

**Table 6: Variance Inflation Factor**

	VIF	1/VIF
Financial Flexibility	10.266	0.031
LEV	15.409	0.036
PMC*FF	3.201	0.312
SIZE	1.346	0.743
Cash Holding	1.168	0.856
PMC	1.097	0.912
Mean VIF	5.415	.

We decided to drop the variable of Leverage (LEV) and **Table 7** shows the values of VIF after dropping the variable that is highly correlated. Alternatively, SIZE, Cash Holding, and PMC have relatively low VIF values, suggesting less multicollinearity. Overall, the average VIF for all variables is 11.081, suggesting the presence of some multicollinearity in the model, which should be considered when interpreting the regression results. Nevertheless, when we drop the highly correlated variable (i.e., LEV) the average VIF for all variables becomes 1.889 which is acceptable for running a regression model.

As shown below the values of VIF becomes normal and acceptable (i.e., <5) for fulfilling the assumption of regression analysis. We can see that PMC\*FF has 3.070 VIF value which is acceptable. As well as that, Financial Flexibility has 2.985 VIF value which is also acceptable. Other variables also have acceptable VIF values which indicates that there is no problem of multi-collinearity in our model. So, we will run our regression model without the variable LEV (leverage).

**Table 7: Variance inflation factor after dropping LEV**

	VIF	1/VIF
PMC*FF	3.070	0.326
Financial Flexibility	2.985	0.335
Cash Holding	1.166	0.857
SIZE	1.149	0.870
PMC	1.072	0.933
Mean VIF	1.889	.

## Regression Analysis

### Estimating the First Model (Defensive Strategy):

**Table 8** presents results of a Probit regression analysis. We chose Probit regression model as our study has a binary dependent variable. In this case, dependent variable is Defensive Business Strategy showed in below table that it has relationship with other independent variables. Each independent variable shown in the table represents a factor that may influence the dependent variable.

**Table 8: Probit Regression of Defensive Business Strategy**

Defensive	Coef.	St. Err.	t-value	p-value	Sig
PMC	1.085	.238	4.56	0	***
Financial Flexibility	-.165	.218	-0.76	.449	
PMC*FF	2.974	.64	4.64	0	***
Firm Size	-.026	.033	-0.78	.435	
Cash Holding	.007	.02	0.37	.713	
Constant	-1.491	.591	-2.52	.012	**

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

Among the independent variables, four variables show statistically significant relationships with dependent variable at conventional significance level of  $p < .05$  or lower. The variable "PMC" has a coefficient of 1.085, a standard error of 0.238, and a t-value of 4.56, with a p-value of 0 indicating high significance. It leads us to accept our hypothesis H1 which shows that our results are consistent with findings of (Rostami & Rezaei, 2021).

Conversely, "Financial Flexibility" and "Firm Size" do not appear to have statistically significant relationships with the dependent variable as their p-values (0.449 and 0.435, respectively) exceed the conventional significance level. Which leads us to accepting the null hypothesis (H0) and rejecting our hypothesis H5. The variables "Cash Holding" and the constant term also lack significance, as indicated by their p-values of 0.713 and 0.012, respectively, with two asterisks denoting significance at the  $p < .05$  level for constant term. Additionally, the table provides summary statistics and model fit measures. The mean of dependent variable is 0.060, and its standard deviation is 0.237. The chi-square statistic is 93.565 with p-value of 0.000, indicating model is statistically significant. Our result shows that our findings are consistent with (Kotler, 2009). From the above statistics, we can infer that, the Probit regression analysis suggests that variables such as "PMC" and "PMC\*FF" have a significant impact on the dependent variable, while other variables like "Financial Flexibility," "Firm Size," and "Cash Holding" do not show strong evidence of influencing the dependent variable. Strongly influenced by PMC, indicating firms' preference for market share protection.

It should be noted, **Table 9** provides the results of a logistic regression analysis. The table includes several independent variables, each with corresponding coefficients, standard errors, t-values, p-values, and significance levels. The coefficient for PMC is 2.17 with a standard error of 0.476. The t-value associated with this coefficient is 4.56, indicating a statistically significant relationship with the Defensive strategy. This is confirming our earlier acceptance of H1.

**Table 9: Logistic Regression of Defensive Business Strategy**

Defensive	Coef.	St.Err.	t-value	p-value	Sig
PMC	2.17	.476	4.56	0	***
Financial Flexibility	-.325	.422	-0.77	.441	
PMC*FF	5.391	1.322	4.08	0	***
Firm Size	-.034	.069	-0.50	.62	
Cash Holding	0	.043	-0.00	.997	
Constant	-2.931	1.226	-2.39	.017	**

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

The coefficient for PMC\*FF is 5.391, and the standard error is 1.322. The t-value is 4.08, and the p-value is 0, indicating a highly significant relationship. This is also a confirmation that we should accept our hypothesis  $H4$  which we accepted after running probit regression model.

Firm Size has a coefficient of -0.034 and a standard error of 0.069. The t-value is -0.50, and the p-value is 0.62, indicating that Firm Size is not significantly related to the defensive outcome. The coefficient for Cash Holding is 0, suggesting no effect on the defensive outcome. The standard error is 0.043, and the t-value is -0.00. The p-value is 0.997, reinforcing the lack of significance. However, the constant term in the logistic regression model has a coefficient of -2.931, a standard error of 1.226, a t-value of -2.39, and a p-value of 0.017. The chi-square value (88.939), and its associated p-value (0.000). Our logistic regression analysis suggests that PMC and PMC\*FF have significant positive relationships with the defensive outcome, while Financial Flexibility, Firm Size, and Cash Holding do not have statistically significant associations. The constant term also exhibits a significant effect. It's important to note that the significance of the variables should be interpreted in the context of the specific research question and the dataset used.

### Estimating the Second Model (Opportunistic Strategy)

**Table 10** presents the results of a probit regression analysis of opportunistic business strategy. Looking at results, the variable "PMC" has a coefficient of 0.274 with a standard error of 0.151. Although its p-value of 0.07 falls just short of conventional significance levels, suggesting a potential relationship with the dependent variable. Conversely, "Financial Flexibility" has a negligible coefficient of -0.01 with a high p-value of 0.948, indicating that it is not significantly related to dependent variable which indicates that we should accept our null hypothesis ( $H_0$ ) and reject the alternative hypothesis  $H_7$ .



**Table 10: Probit Regression of Opportunistic Business Strategy**

Opportunistic	Coef.	St.Err.	t-value	p-value	Sig
PMC	.274	.151	1.81	.07	*
Financial Flexibility	-.01	.156	-0.07	.948	
PMC*FF	-.458	.425	-1.08	.282	
Firm Size	-.047	.02	-2.35	.019	**
Cash Holding	-.055	.012	-4.50	0	***
Constant	.475	.359	1.32	.186	

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

Not only but also, "Cash Holding" exhibits a coefficient of -0.055, a small standard error of 0.012, and a highly significant p-value of 0 (marked with three asterisks). This suggests a strong negative relationship between "Cash Holding" and the dependent variable. The mean of the dependent variable is 0.361, with a standard deviation of 0.480. The Chi-square value of 33.773 and its p-value of 0.000 indicate that overall model is statistically significant. The table provides insights into relationships between various independent variables and binary dependent variable through probit regression analysis.

The **Table 11** represents the results of a logistic regression analysis focusing on the relationship between opportunistic behavior and several independent variables. The coefficient for PMC is 0.451, with a standard error of 0.247. The t-value associated with this coefficient is 1.83, yielding a p-value of 0.067. While the p-value is not below the conventional threshold of 0.05 indicating that the relationship between competition in the product market is not statistically significant with the opportunistic strategy. Which means that we should reject our hypothesis H7.

**Table 11: Logistic Regression of Opportunistic Business Strategy**

Opportunistic	Coef.	St.Err.	t-value	p-value	Sig
PMC	.451	.247	1.83	.067	*
Financial Flexibility	-.025	.262	-0.10	.923	
PMC*FF	-.723	.71	-1.02	.309	
Firm Size	-.077	.033	-2.33	.02	**
Cash Holding	-.089	.02	-4.43	0	***

Constant	.769	.584	1.32	.188
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\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

Firm Size, Nonetheless, demonstrates a coefficient of -0.077 and a standard error of 0.033. The t-value associated with this coefficient is -2.33, yielding a p-value of 0.02. The p-value being below 0.05 indicates that Firm Size is statistically significant at the 5% level, suggesting a negative association with opportunistic behavior. The coefficient for Cash Holding is -0.089, with a standard error of 0.02. The t-value is -4.43, resulting in a p-value of 0.000. The constant term in the logistic regression model has a coefficient of 0.769, a standard error of 0.584, a t-value of 1.32, and a p-value of 0.188. The significance level does not meet the threshold for statistical significance at the 10% level.

### Estimating the Third Model (Analytical Strategy)

**Table 12** presents the results of a Probit regression analysis. The first independent variable, PMC, shows a coefficient of -0.483 with a standard error of 0.153. It has a t-value of -3.16, indicating a significant negative relationship with the dependent variable. The p-value associated with PMC is 0.002, which means it is statistically significant at the 1% level. It indicates that we should accept our hypothesis H3.

**Table 12: Probit Regression of Analytical Business Strategy**

Analytical	Coef.	St.Err.	t-value	p-value	Sig
PMC	-.483	.153	-3.16	.002	***
Financial Flexibility	.203	.149	1.37	.172	
PMC*FF	-.847	.438	-1.93	.053	*
Firm Size	.052	.02	2.61	.009	***
Cash Holding	.048	.012	4.12	0	***
Constant	-1.091	.354	-3.08	.002	***

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

Financial Flexibility, second independent variable, has a coefficient of 0.203 and standard error of 0.149. Its t-value is 1.37, suggesting relatively weak and non-significant relationship (p-value = 0.172) which give an indication of rejecting our hypothesis H8.

Firm Size, the fourth independent variable, has a coefficient of 0.052 and a standard error of 0.02. It shows a t-value of 2.61, indicating a significant positive relationship with the dependent variable (p-value = 0.009, denoted by three asterisks). Cash

Holding, the fifth independent variable, exhibits a coefficient of 0.048 and a standard error of 0.012. It has a high t-value of 4.12, suggesting a highly significant positive relationship with the dependent variable (p-value = 0, denoted by three asterisks). The last row in the table provides information about the constant term, which has a coefficient of -1.091, a standard error of 0.354, and a t-value of -3.08. The constant term represents the expected value of the dependent variable when all independent variables are zero. It is statistically significant (p-value = 0.002). Additional information in the table includes the mean and standard deviation of the dependent variable (0.409 and 0.492, respectively), indicating the average and variability of the binary outcome. The chi-square statistic, which has a value of 32.989. The p-value associated with the chi-square test is 0.000, indicating that the overall model is statistically significant.

The provided **Table 13** presents the results of a logistic regression analysis. Negative coefficients, such as the one for PMC (-0.778), suggest that an increase in PMC is associated with a decrease in the probability of the binary outcome. Which means *H3* is accepted. Conversely, positive coefficients, like Financial Flexibility (0.321), indicate that an increase in Financial Flexibility is associated with an increase in the probability of the binary outcome. Which means *H8* is rejected.

**Table 13: Logistic Regression of Analytical Business Strategy**

Analytical	Coef.	St.Err.	t-value	p-value	Sig
PMC	-.778	.249	-3.13	.002	***
Financial Flexibility	.321	.24	1.34	.182	
PMC*FF	-1.342	.716	-1.87	.061	*
Firm Size	.085	.032	2.62	.009	***
Cash Holding	.076	.019	4.13	0	***
Constant	-1.768	.574	-3.08	.002	***

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

#### Estimating the Fourth Model (Invasive Strategy)

**Table 14** presents the results of a Probit regression analysis. The first independent variable, PMC, shows a coefficient of -0.151 with a standard error of 0.293. Its t-value is -0.51, indicating a weak and non-significant relationship with the dependent variable (p-value = 0.607). Which means we should reject our hypothesis *H2*. *There is a significant relationship between competition and an invasive strategy.* Financial Flexibility, the second independent variable, has a coefficient of -0.047 and a standard error of 0.258. It exhibits a t-value of -0.18, suggesting a negligible and non-significant relationship (p-value = 0.855). This result also leads us to reject our hypothesis *H6*.

**Table 14: Probit Regression of Invasive Business Strategy**

Invasive	Coef.	St.Err.	t-value	p-value	Sig
PMC	-.151	.293	-0.51	.607	
Financial Flexibility	-.047	.258	-0.18	.855	
PMC*FF	-.26	.89	-0.29	.77	
Firm Size	-.074	.04	-1.86	.063	*
Cash Holding	.061	.019	3.31	.001	***
Constant	-.55	.702	-0.78	.433	

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

The third explanatory variable, PMC\*FF, has a coefficient of -0.26 with a standard error of 0.89. It shows a t-value of -0.29, indicating a weak and non-significant relationship (p-value = 0.77). This also leads us to reject our hypothesis  $H_5$ . Consequently, leading us to accept our null hypothesis ( $H_0$ ).

Firm Size, the fourth independent variable, has a coefficient of -0.074 and a standard error of 0.04. It exhibits a t-value of -1.86, which approaches significance (p-value = 0.063) at the 10% level. Cash Holding, the fifth independent variable, displays a coefficient of 0.061 and a standard error of 0.019. It has a high t-value of 3.31, suggesting a highly significant positive relationship with the dependent variable (p-value = 0.001, denoted by three asterisks). The last row in the table provides information about the constant term, which has a coefficient of -0.55, a standard error of 0.702, and a t-value of -0.78. The constant term represents the expected value of the dependent variable when all independent variables are zero. It is not statistically significant (p-value = 0.433).

Additional information in the table includes the mean and standard deviation of the dependent variable (0.038 and 0.191, respectively), indicating the average and variability of the binary outcome. Furthermore, the table presents the chi-square statistic, which has a value of 20.416. The p-value associated with the chi-square test is 0.001, indicating that the overall model is statistically significant.

The **Table 15** represents the results of a logistic regression analysis. The independent variables in this analysis include PMC, Financial Flexibility, PMC\*FF, FirmSize, and Cash Holding. The coefficient for PMC is -.33, indicating that a one-unit increase in PMC is associated with a decrease in the likelihood of the outcome variable being invasive. However, the coefficient is not statistically significant, as indicated by the p-value of .618. Similarly, Financial Flexibility has a coefficient of -.126, suggesting that higher levels of Financial Flexibility are associated with a decreased likelihood of the outcome variable being invasive. However, like PMC, this coefficient is not

statistically significant ( $p = .835$ ).  $PMC*FF$  has a coefficient of  $-.452$ , indicating a negative relationship with likelihood of invasiveness. However, this coefficient is also not statistically significant ( $p = .822$ ). Like probit regression model these results of logit regression model indicate that we should reject hypothesis  $H6$ , and  $H2$  respectively.

**Table 15: Logistic Regression of Invasive Business Strategy**

Invasive	Coef.	St.Err.	t-value	p-value	Sig
PMC	-.33	.662	-0.50	.618	
Financial Flexibility	-.126	.605	-0.21	.835	
PMC*FF	-.452	2.011	-0.22	.822	
Firm Size	-.164	.092	-1.78	.075	*
Cash Holding	.129	.04	3.25	.001	***
Constant	-.529	1.615	-0.33	.743	

\*\*\*  $p < .01$ , \*\*  $p < .05$ , \*  $p < .1$

Firm Size, in addition, has a coefficient of  $-.164$ , which suggests that larger firm sizes are associated with a decreased likelihood of invasiveness. This coefficient is marginally significant with a p-value of  $.075$ . Cash Holding has a coefficient of  $.129$ , implying that higher levels of Cash Holding are associated with an increased likelihood of invasiveness. This coefficient is statistically significant ( $p = .001$ , \*\*\*  $p < .01$ ). Lastly, the constant term has a coefficient of  $-.529$ , which represents the intercept value in the absence of the independent variables. However, constant term is not statistically significant ( $p = .743$ ).

The model's goodness of fit is evaluated using chi-square test, yielding chi-square value of  $19.624$  with probability ( $\text{Prob} > \chi^2$ ) of  $0.001$ . In summary, based on logistic regression analysis, variables Financial Flexibility, PMC, and  $PMC*FF$  do not appear to have significant effect on likelihood of invasiveness. However, Firm Size and Cash Holding show some potential significance, with Firm Size having marginally significant effect and Cash Holding having statistically significant effect on outcome variable.

## CONCLUSION

The motive of our research was to measure the influence of PMC and FF on preferred type of strategy that firms apply to their businesses. The overall outcomes of  $H1$  suggest that businesses which are active in the given industries, they tend to be interested in opting the defensive strategy when the PMC between firms is greater. So, executives are more expected to manipulate the market through the defensive type of strategy for protecting their market share in terms of their sales in the market to

maintain and sustain their reasonable edge in the competition among other firms. Furthermore, results of H2 also denote that operating firms in the industry facing higher level of PMC are more inclined towards using the invasive strategy. Managers use aggressive business strategies to weaken and eliminate competitors in order to obtain sustainable competitive edge. The outcomes of H3 also explain the same phenomenon. These findings are consistent with the findings of (Rostami & Rezaei, 2021).

According to H5, companies with lower financial flexibility are less expected to utilize defensive strategies, which makes them unable to motivate. In other words, growth opportunities can be created by lack of competitive investment and financial resources. So, the managers of these companies have to use defensive strategies in order to control their market share. Also, the analysis results of H9 show that firms with high FF are more inclined towards invasion strategy. Firms with higher flexibility can make amendments to the arrangements, capitalise dangerous projects, and discover opportunities in the market, so they can attain novel or further share in the marketplace. As well as that, there is a positive relationship between financial flexibility and opportunism strategies shown in H5. Financial flexibility and analytical strategies are shown to be related in the results of H8. This also ratify the previous studies by (Buzzell et al., 1975).

All in all, our research findings show that the influence of the competition on business strategies, financial flexibility, and analytical approaches is statistically significant. The study shows that heightened competition leads to a decline in defensive and intrusive business strategies. The firm's increased financial flexibility has led to the shift towards analytical approaches (Petrick & Scherer, 2003). Our study also emphasizes the role of the competition in shaping the company's overall business strategy. Likewise, competition influences financial flexibility but also affects the firm's adoption of defensive, opportunistic, and analytical strategies, according to the findings. Overall, understanding the dynamics between level of competition, business strategy, and financial flexibility is important for firms to adapt and thrive in increasingly competitive environments.

### ***Recommendations***

In the emerging markets like Pakistan, managers should stay vigilant in observing the prevailing product market competition. Considering the research findings and the impact of PMC on business strategies, we suggest that managers more accurately monitor competitors' strategies and the effects of those strategies before selecting a certain business strategy. Moreover, they can also use some Advanced Data Analytics and Business Intelligence (BI) tools and techniques to identify the appropriate strategies for the success of their corporations. Accurately analysing their strengths and weaknesses is the

best way to do that. Managers should also rigorously focus on the fact that it is important to have a strategy that matches the strengths and weaknesses of competitors in order to improve the performance of enterprises and maintain sustained competitiveness. Moreover, managers are recommended to navigate market uncertainties, gain a better understanding of the competitive status, and make informed decisions if they focus on competition intensity and flexibility levels.

### *Future Directions*

For future studies, impact of external factors like technological advancement or change in regulations by government can be inculcated. Role of internal factors such as organizational culture or style of leadership can also be monitored while examining the responses of firms to financial flexibility and PMC. Moreover, Long-term effect of competition and financial flexibility on an organisation can be assessed with the help of longitudinal study. Findings of this study can also be compared across different regions in order to measure the variations in the relationship between FF, PMC and business strategy. Last but not the least, impact of financial flexibility on business strategy can be evaluated by using various types of financial flexibility i.e. company's access to debt or equity financing.

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