

The adjustment–stability trade-off in resource allocation: Implications for productive investment

Niklas Lindlbauer (King's College London), Yasemin Kor (Cambridge U) & Kulwant Singh (NUS), 14 September 2026, TPI Academic Conference



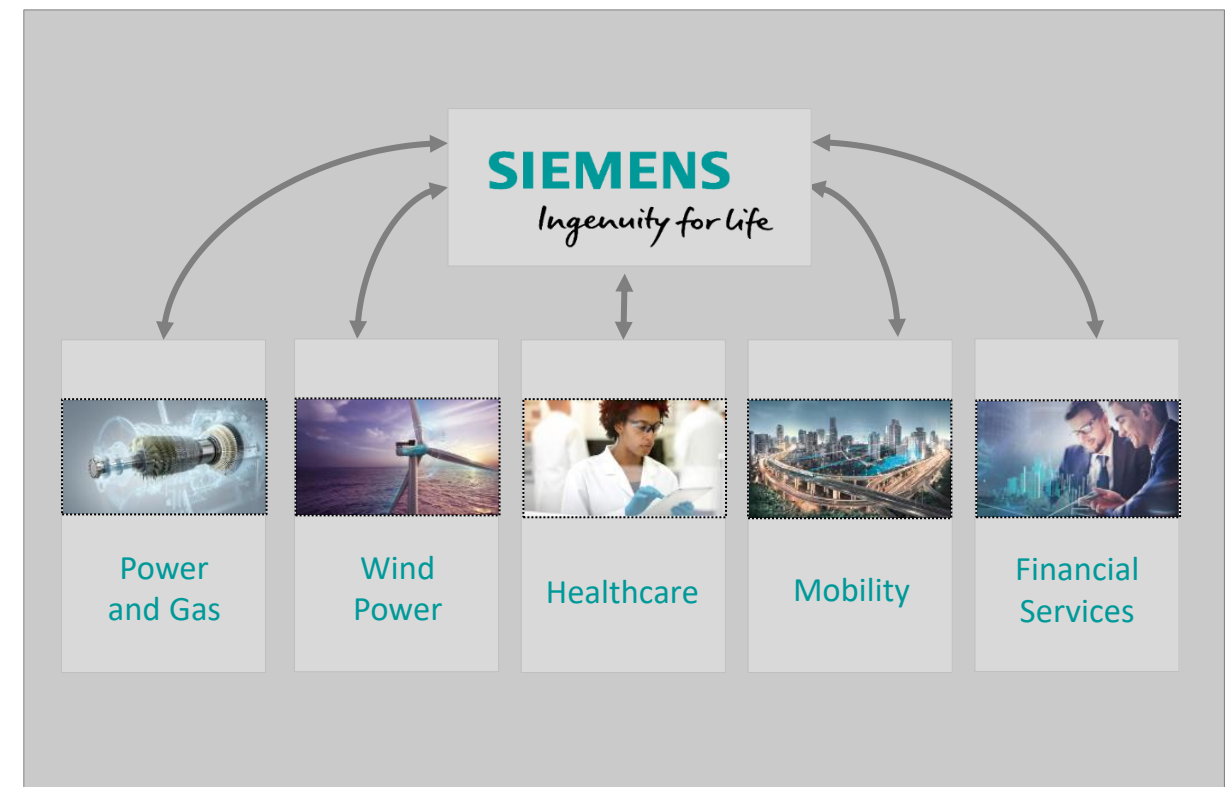
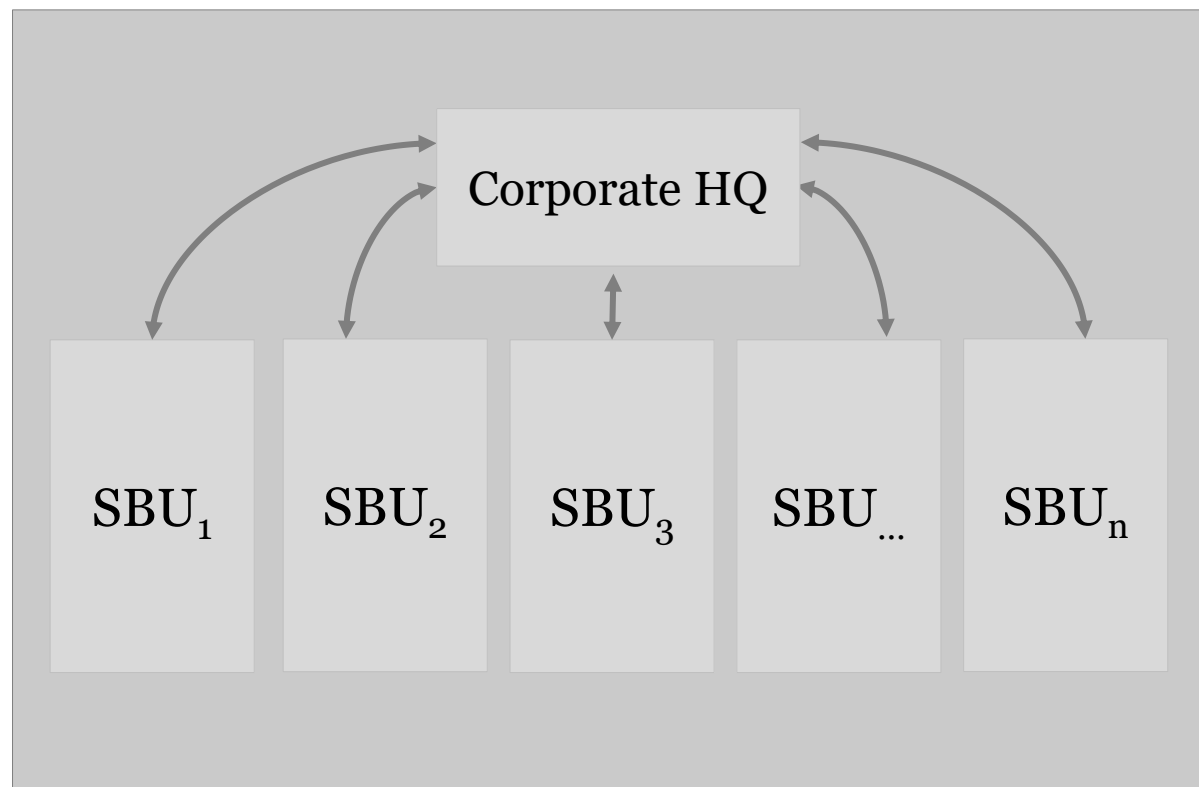
Niklas Lindlbauer

- Assistant Professor in Strategic Management at *King's College London*
- Research Associate at *Judge Business School, Cambridge University*
- Visiting Scholar at Wharton, Georgetown, and CBS
- Research focus & expertise:
 - Resource allocation in multi-business firms
 - Diversification and corporate headquarters
 - Published in *Strategic Management Journal* and other leading management journals
- Industry experience in the field of consulting:
 - McKinsey & Company (Munich and Duesseldorf, Germany)
 - The Boston Consulting Group (Munich, Germany)
 - Focus in particular on the global automotive and automotive supplier industry

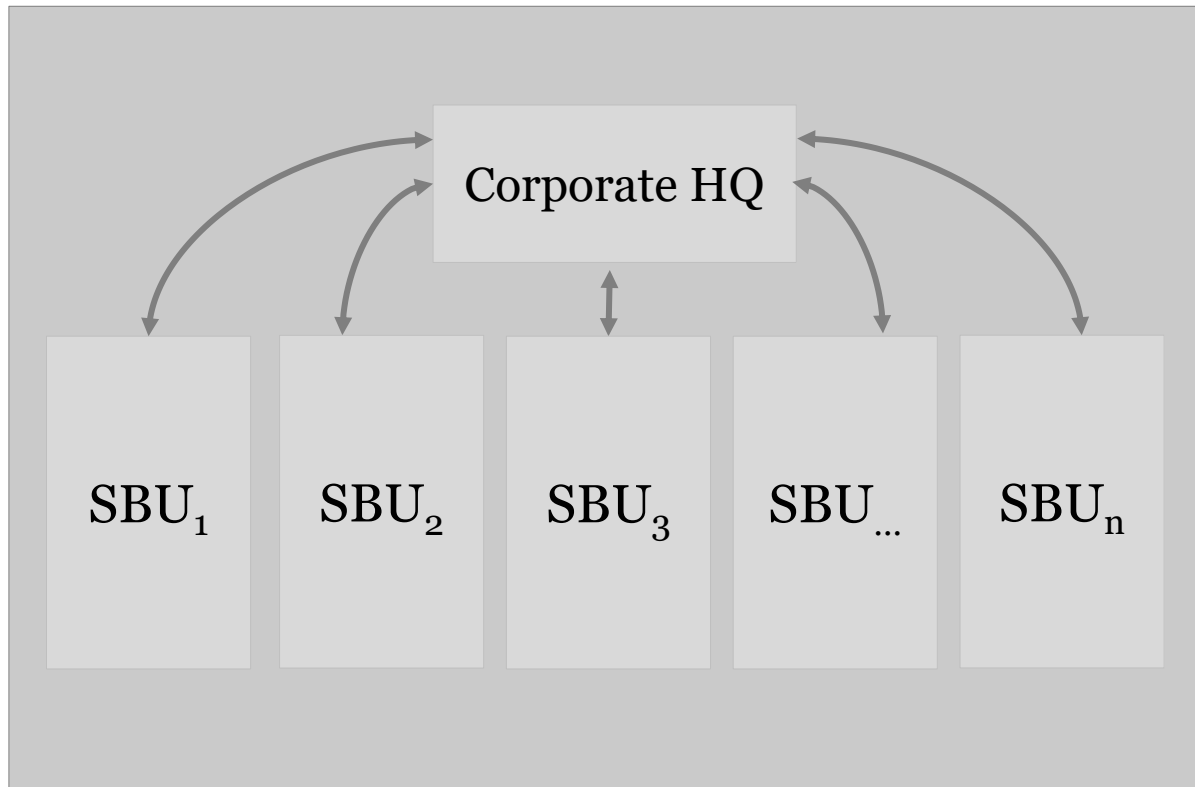


Resource allocation in diversified firms

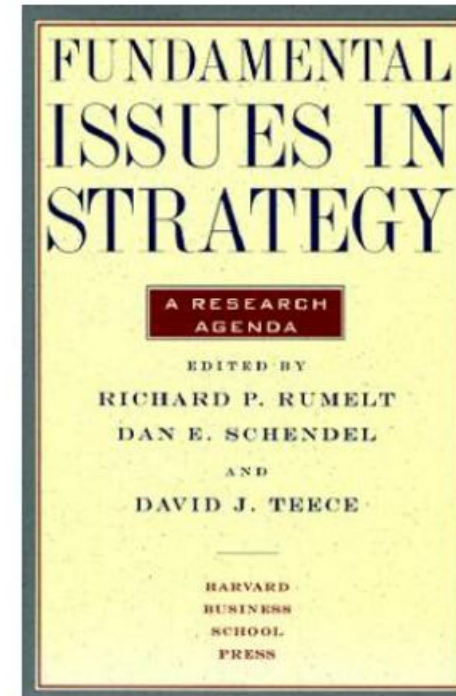
Productivity depends on how financial resources are deployed, combined, and aligned in diversified firms (Liebeskind, 2000; Mann, 2024, 2026; O'Mahony and van Ark, 2026)



Research on resource allocation in diversified firms



- A way to achieve adaptation, innovation and strategic renewal (*Feldman, 2016; Folta, Helfat, and Karim, 2016; Levinthal, 2017*)
- Substantial impact on long-term success and performance and *Mitchell, 1998; Lieberman, L*



Resource allocation in diversified firms

We have **detailed insights** about:

✓ **Internal vs. external capital markets:** Do firms or markets allocate resource more efficiently? (Dickler and Folta, 2020; Liebeskind, 2000; Sakhartov, 2018)

✓ When does **internal** capital market allocation **fail**? (Feldman, 2016; Helfat and Maritan, 2023; Sengul et al., 2019)

✗ We argue: There is an important, **overlooked dimension** to corporate resource allocation:

Does a firm follow a **dynamic or persistent** approach to resource allocation adjustments?

→ Allows to recognize problems in firms' resource allocation ignored in the extant literature

There is a tension between dynamism and persistence in resource allocation

Persistence:

- However, Penrose effect: There are limits to growth and change due to **administrative and organizational stress** (Penrose, 1959)
- Also: **Building new capabilities** takes time (Mahoney and Pandian, 1992) → Value of stability
- Besides, **organizational routines** can be highly valuable: Enabling efficient working of everyday operations (Felin & Foss, 2009)



Dynamism:

- Resource redeployment literature highlights the **value of adapting** to changes in the external environment (Helfat and Eisenhardt, 2004; Karim and Capron, 2016)
- Warning of **inertia** as a **threat to** strategic change and renewal (Tripsas, 2009; Tripsas & Gavetti, 2000)



Theoretical background

Theory & hypotheses

Findings

Discussion & conclusion

Our research questions

What are the performance effects of firms pursuing a dynamic (versus a persistent) approach to adjustments in capital resource allocation among SBUs?

How do these performance effects of a dynamic (versus persistent) approach vary under different environmental conditions?

Effects of the degree of adjustment in resource allocation

(i) Resource adjustment economies:

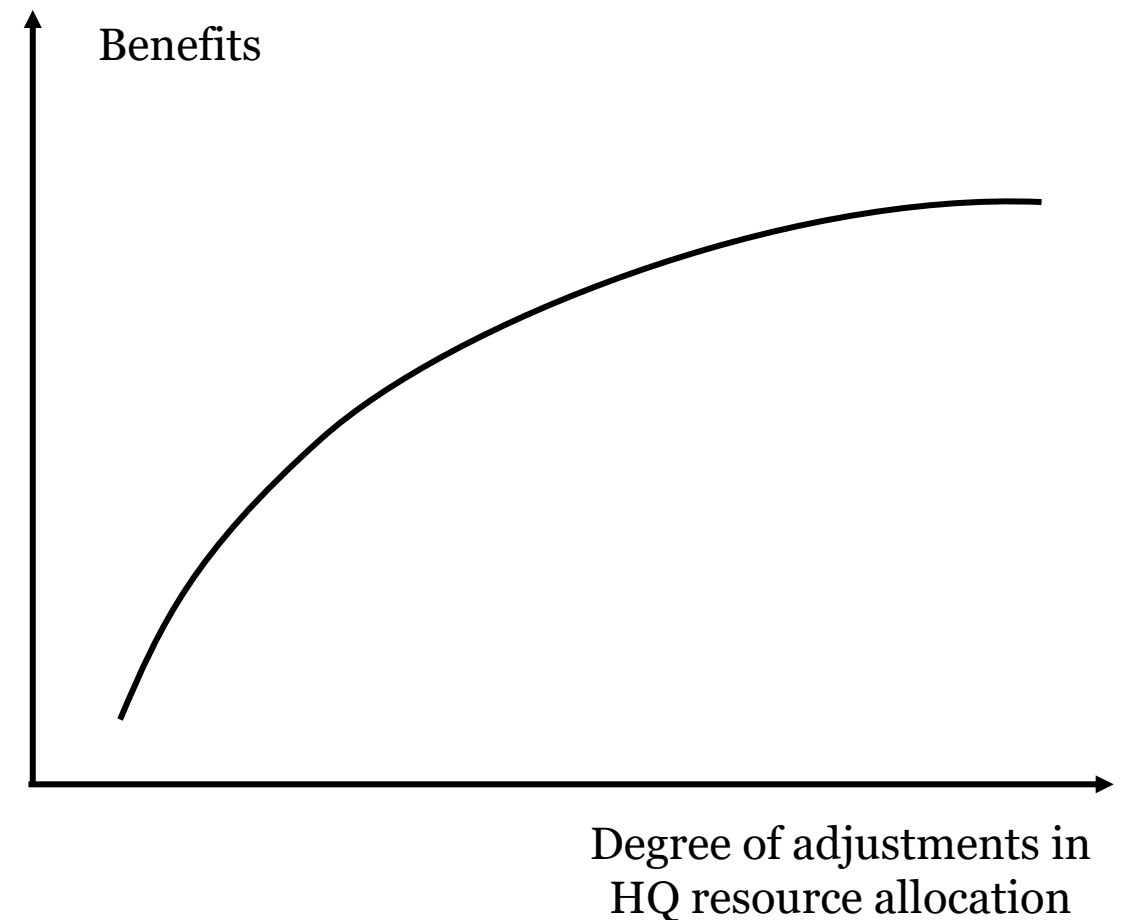
Benefits:

- Responding to changing competitive conditions and emerging opportunities, in order to achieve adaptation and strategic renewal
- Karim and Capron, 2016; Helfat and Maritan, 2023

Different strategic re-allocation options:

- Entering of newly emerging markets
- Exiting of declining, unprofitable markets

Decreasing returns: 'Low hanging fruits'



Effects of the degree of adjustment in resource allocation

(ii) Resource adjustment diseconomies:

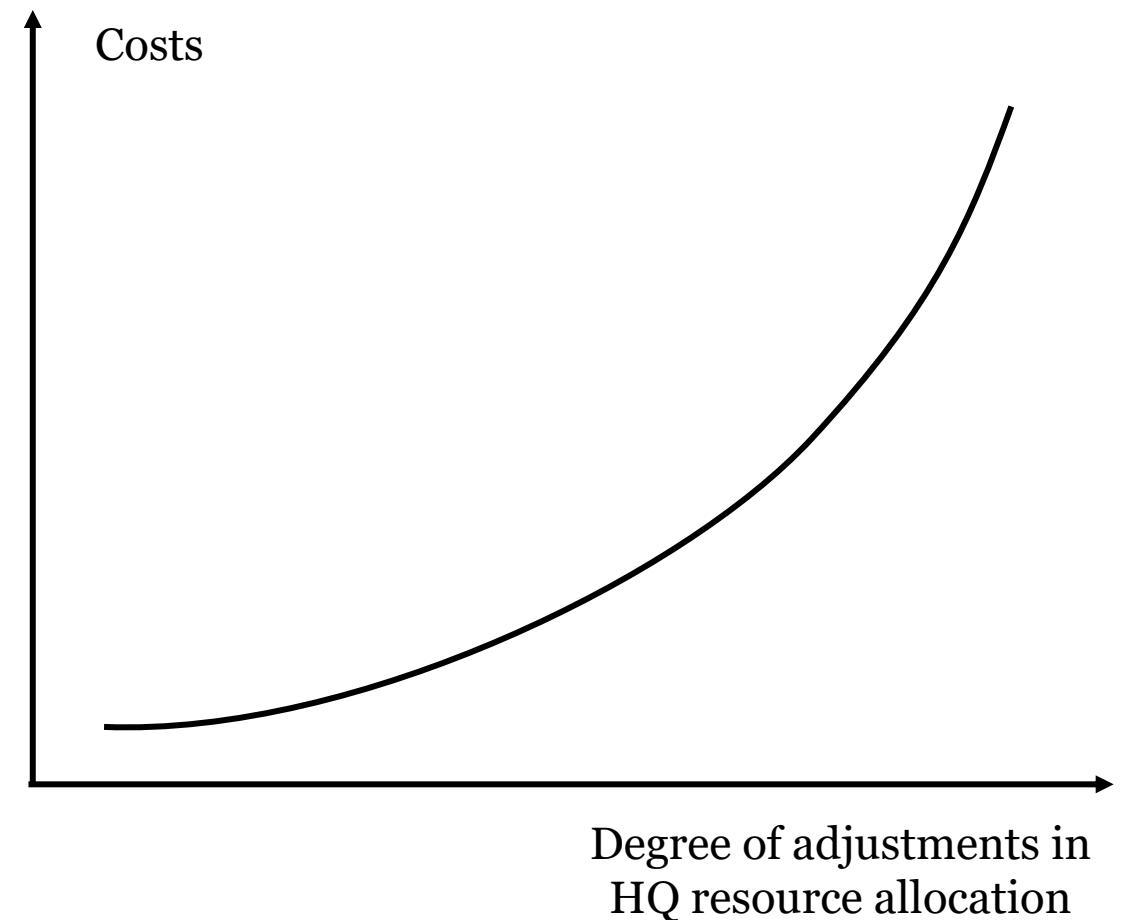
Penrose effect (1959, 1995)

- Managerial time and attention
- Disrupting operational activities

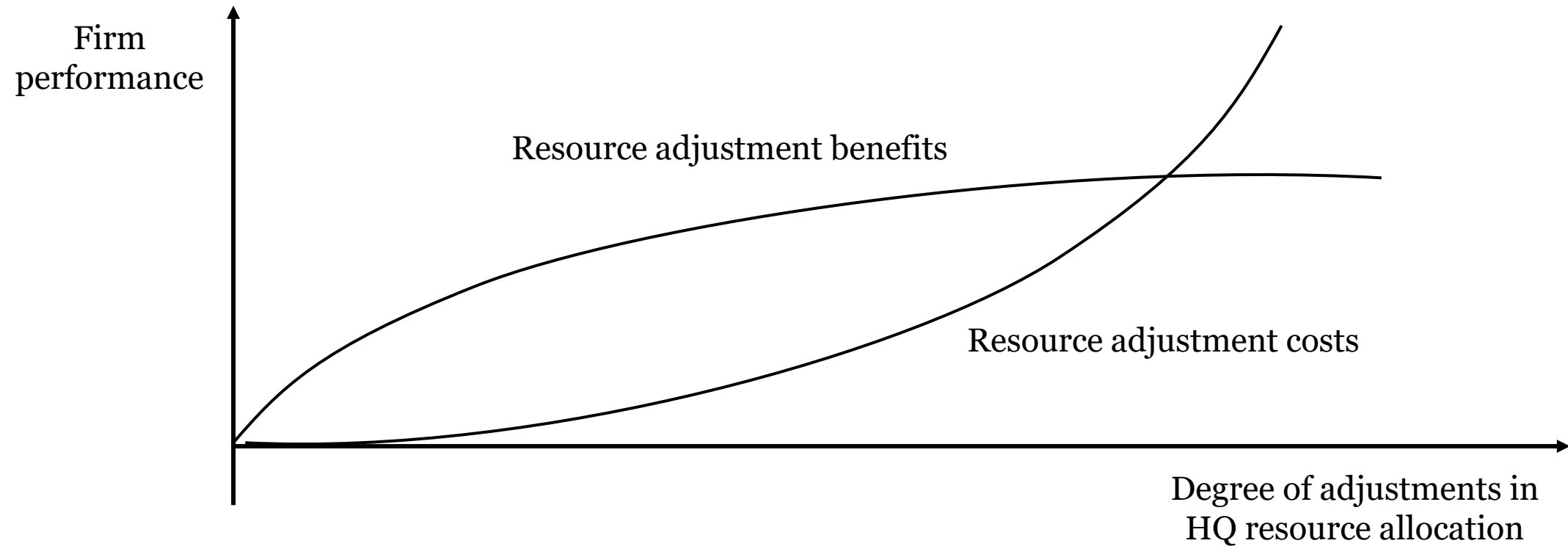
Coordination costs (Rawley, 2010; Zhou, 2011)

- Running and administering multiples change initiatives simultaneously

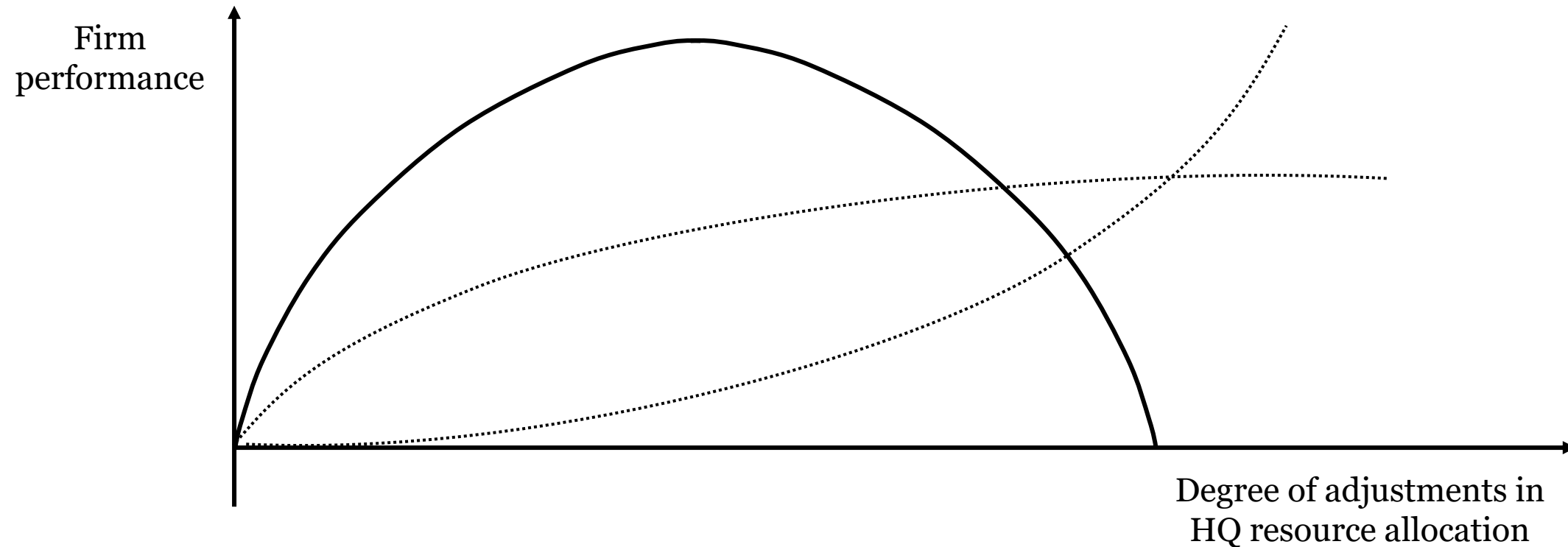
Increasing complexity



Degree of adjustment in resource allocation & firm performance



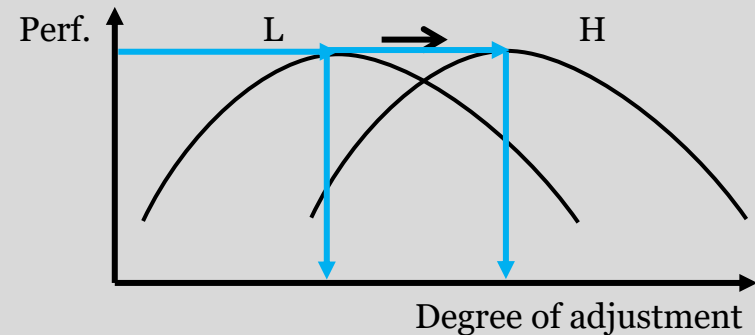
Degree of adjustment in resource allocation & firm performance



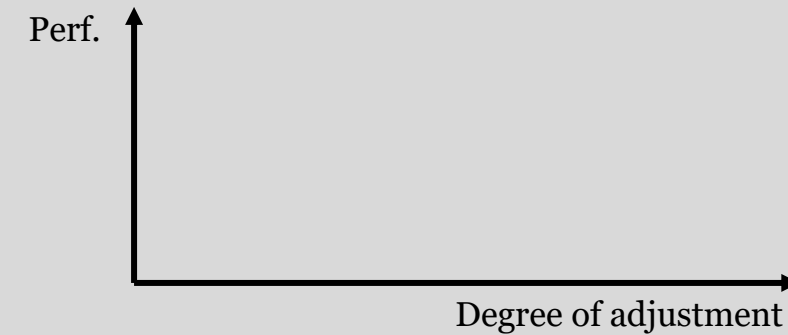
Hypothesis 1: There is an inverse U-shaped relationship between a multi-business firm's degree of adjustments in its resource allocation to SBUs and firm performance

The moderating role of the external environment

Industry dynamism



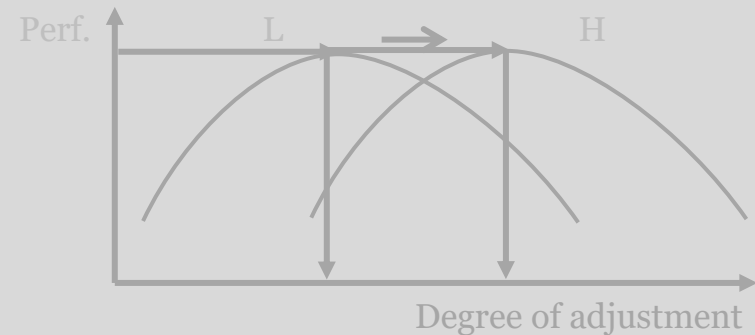
Industry competitiveness



*H2: In **highly dynamic** industries, the inverse U-shaped relationship between the degree of adjustment in resource allocation and firm performance **shifts to the right**.*

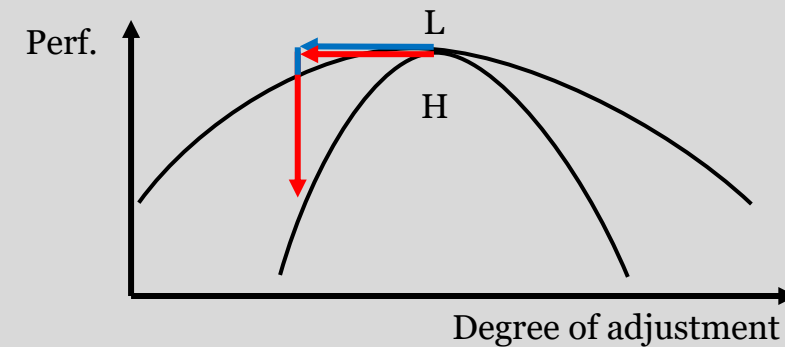
The moderating role of the external environment

Industry dynamism



*H2: In **highly dynamic** industries, the inverse U-shaped relationship between the degree of adjustment in resource allocation and firm performance **shifts to the right**.*

Industry competitiveness



*H3: In **highly competitive** industries, the inverse U-shaped relationship between the degree adjustment in resource allocation and firm performance **becomes steeper**.*

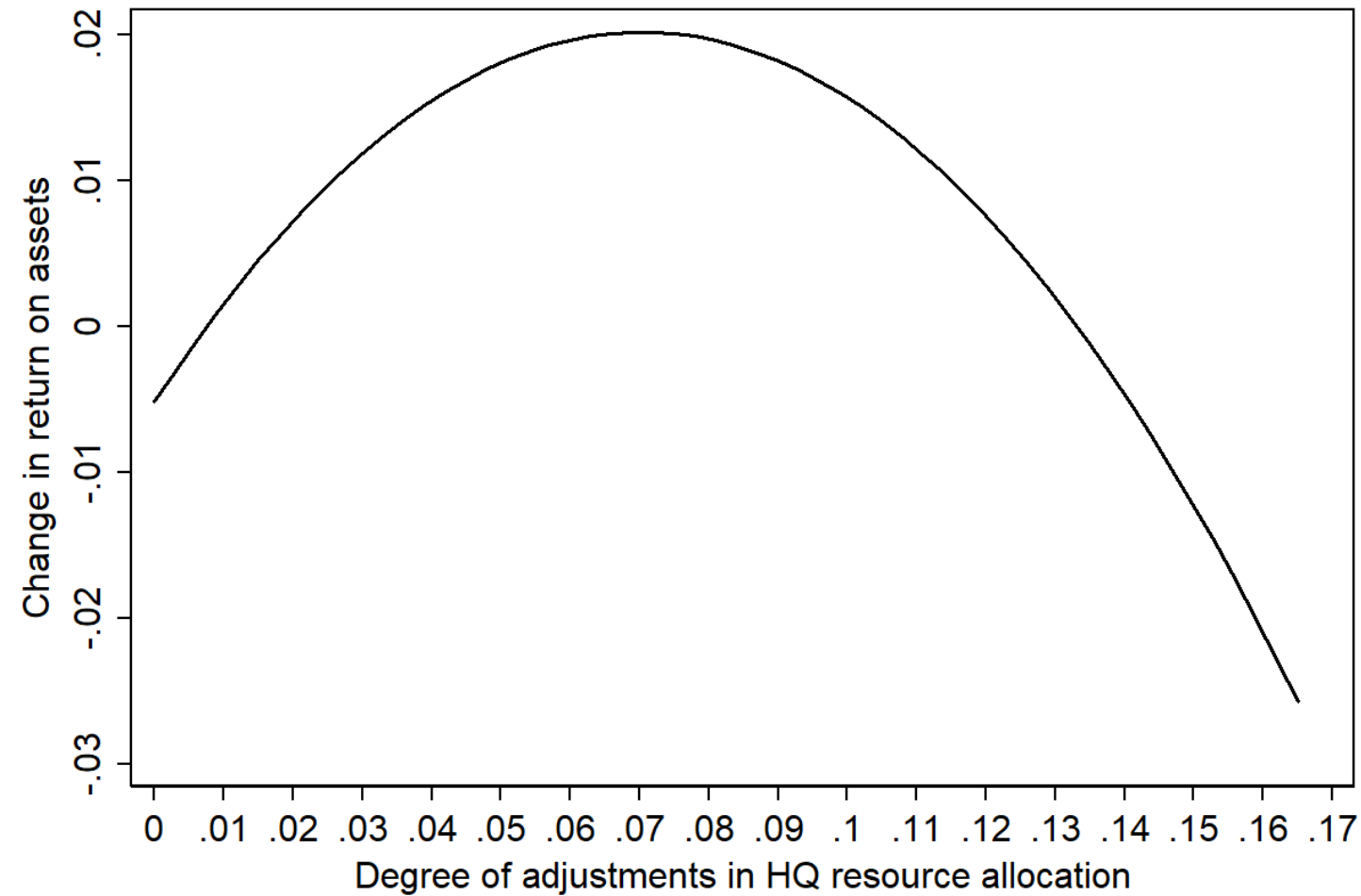
Empirical approach

- **Dataset:**
 - Publicly-listed U.S. multi-business firms, 2001-2018 (2,814 firm-year observations, 354 companies)
 - Sources: Compustat (Historical Segments, Fundamentals Annual, Global); MSCI GMI Ratings (Companies & Directorships); Execucomp (Annual Compensation)
- **DV:** Change in firm profitability (ROA) between t+1 and t+3 (change over two-year period; one year lag)
- **IV of interest:** Degree of adjustment in resource allocation = $\sum_{i=1}^N |(Alloc_{i,t0} - Alloc_{i,t-1})| * W_i$
- **Moderating variables:**
 - Industry dynamism: SE of regression slope of a regression of total industry sales against time, divided by mean of industry sales (Boyd, 1990; Dess and Beard, 1984)
 - Industry competitiveness = $\sum_{i=1}^N (\sum_j^M s_j^2 * W_i)$, following Boyd (1990, 1995) & Herfindahl (1950)
- **Control variables:** Firm size, leverage, capital intensity, slack, diversification level (total), R&D intensity, return on assets in t-1, industry munificence, board size, percentage inside directors, % ownership TMT and directors, duality, CEO change
- **Estimation:** FE panel regression; clustered SEs

FE regression analysis of change in firm profitability (ROA)

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Degree of adjustments in resource allocation			0.721	0.005	0.980	0.001	1.561	0.001	1.745	0.000
Degree of adjustments in resource allocation ²			-5.126	0.005	-7.590	0.000	-10.728	0.001	-12.551	0.000
Dynamism			-0.004	0.071	0.034	0.031	-0.004	0.056	0.031	0.040
Competitiveness			0.044	0.069	0.048	0.052	0.008	0.782	0.013	0.626
Degree of resource allocation adjustments x dynamism					-2.017	0.013			-1.910	0.016
Degree of resource allocation adjustments ² x dynamism					19.175	0.012			18.114	0.015
Degree of resource allocation adjustments x competitiveness							2.937	0.006	2.704	0.011
Degree of resource allocation adjustments ² x competitiveness							-21.015	0.013	-18.925	0.024
Firm size	0.001	0.889	0.003	0.606	0.002	0.650	0.002	0.666	0.002	0.703
Leverage	0.056	0.078	0.059	0.065	0.060	0.062	0.057	0.075	0.058	0.071
Capital intensity	-0.102	0.362	-0.155	0.158	-0.165	0.127	-0.167	0.141	-0.175	0.118
Slack	0.002	0.708	0.001	0.809	0.001	0.823	0.001	0.901	0.001	0.904
Diversification level	0.040	0.004	0.039	0.005	0.037	0.006	0.039	0.005	0.037	0.006
R&D intensity	0.695	0.009	0.682	0.010	0.688	0.008	0.667	0.010	0.674	0.009
Return on assets in t-1	-0.020	0.706	-0.020	0.708	-0.021	0.702	-0.019	0.732	-0.019	0.723
Munificence	-0.001	0.846	-0.004	0.275	-0.010	0.008	-0.004	0.237	-0.010	0.008
Board size	-0.001	0.677	-0.001	0.625	-0.001	0.602	-0.001	0.594	-0.002	0.576
Percentage inside directors	0.062	0.026	0.057	0.036	0.057	0.036	0.053	0.046	0.054	0.045
Ownership TMT and directors	0.069	0.006	0.063	0.013	0.060	0.017	0.060	0.015	0.058	0.021
Duality	-0.007	0.181	-0.007	0.173	-0.007	0.188	-0.007	0.193	-0.007	0.208
CEO change	-0.009	0.224	-0.009	0.218	-0.009	0.227	-0.009	0.198	-0.009	0.206
Constant	-0.076	0.213	-0.079	0.188	-0.077	0.203	-0.081	0.174	-0.080	0.187
Observations	2,814		2,814		2,814		2,814		2,814	
Number of companies	354		354		354		354		354	
F-value	2.904		2.615		3.029		2.575		2.942	
Prob > F	0.000		0.000		0.000		0.000		0.000	
Lind-Mehlum test for presence of inverse U (p-value)				0.004		0.000		0.002		0.000

Main effect: Plot of empirical results



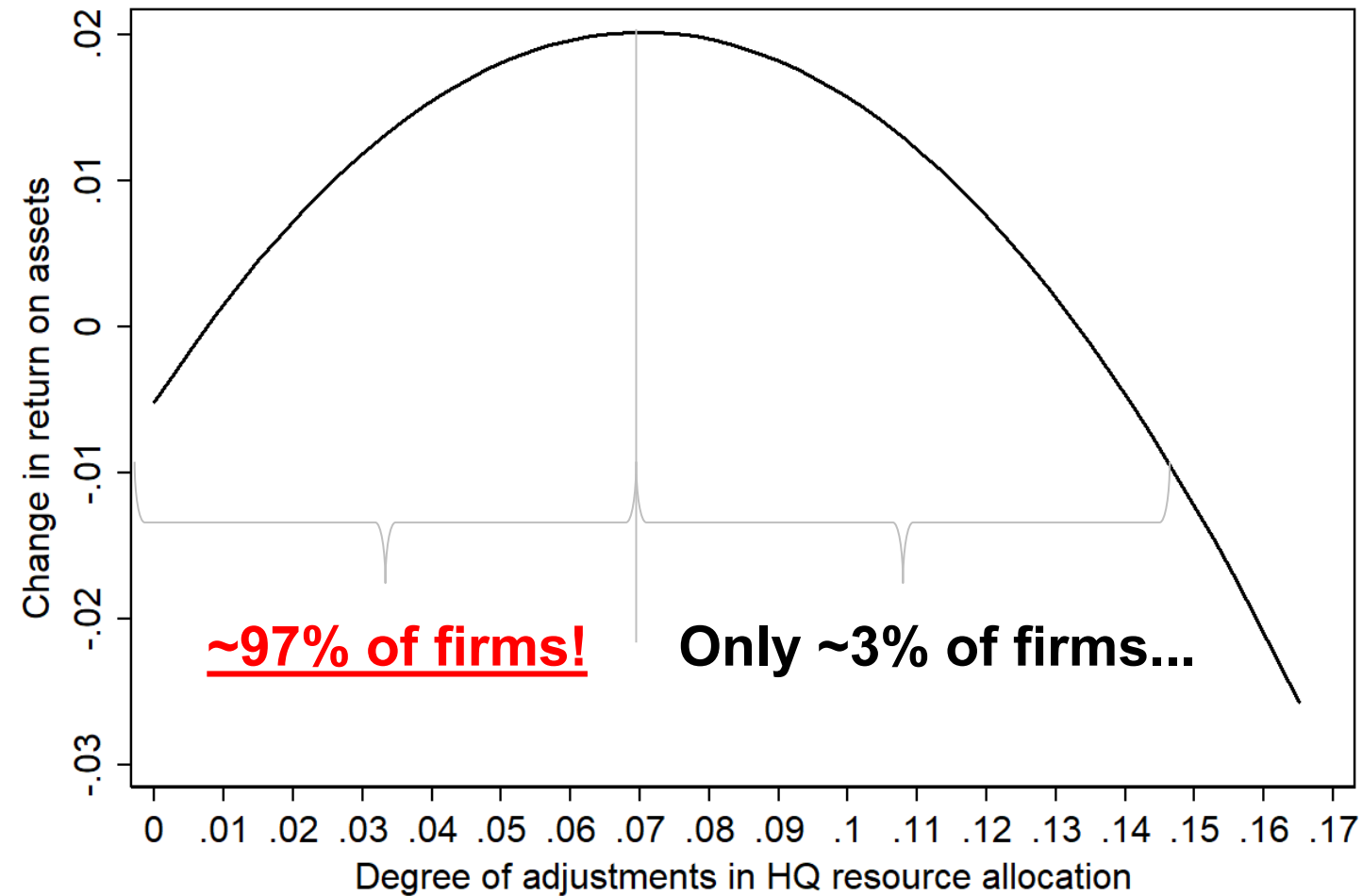
FE regression analysis of change in firm profitability (ROA)

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Economic significance

- 1 SD below turning point:
Associated with a 5.8% loss of a firm's profitability
- For the average firm in our sample this corresponds to:
A loss of USD 51 million in total profits

Main effect: Plot of empirical results



Two contributions to the resource allocation literature

- Brings clarity to the **puzzle** whether dynamism or persistence is superior during allocation adjustments
 - Highlights there is an **important but overlooked dimension** to corporate resource allocation
 - Aim: **Reorient** conversation in resource allocation literature beyond historical focus of capturing effects of inefficiencies in resource allocation statically (e.g., are internal or external capital markets more efficient)
 - Our **proposed dynamic perspective matters** because it allows to recognize problems firms face in their capital allocation that have been inadequately captured in the extant literature (e.g., resource allocation inertia)
-
- Clarifies **when** a dynamic approach to capital allocation adjustments is superior to a persistent one → Shows how performance payoff of each approach shifts w/ external environment in which it operates
 - (i) Industry dynamism → Requiring higher level of adjustment to sustain position
 - (ii) Competitiveness → Punishment for failing to find appropriate balance between dynamism and persistence

Directions for future research

- *Why do firms differ in their degree of resource allocation adjustments?*
- *Why do some firms show strong resource allocation inertia?*
- *Why do other firms over-adjust their resource allocation?*

Some answers about drivers of resource allocation inertia:

Lindlbauer N, Kor Y, & Singh K. 2025. Unpacking the inertia in resource allocation adjustments of multi-business firms. SMJ

RESEARCH ARTICLE

SMS | Strategic Management Journal WILEY

Unpacking the inertia in resource allocation adjustments of multi-business firms

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Economic and Social Research Council (ESRC)

Abstract

Research Summary: Resource allocation inertia—firms' insufficient responsiveness in adjusting resource allocation across business units—hinders adaptation and competitive advantage. Yet, it is unclear why some firms are more prone to this inertia. We develop and test theory suggesting that resource allocation inertia increases with unrelated diversification, which arises when firms operate in multiple, unrelated industries, because of greater information complexity and HQ detachment. This disadvantage, however, diminishes in dynamic environments. Likewise, both recent experience in entering new markets and organizational slack can help firms counteract resource allocation inertia.

Theoretical background

Theory & hypotheses

Findings

Summary & contributions

Thank you ☺

Any questions?