

Article

Does Digitalization Promote Firm Growth? Evidence from China

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Abstract

Firm growth is a micro-level foundation of economic and social sustainable development. Simultaneously, the global proliferation of digitalization is increasingly evident, with numerous firms implementing digitalization to fulfil their diverse objectives. This prompts an inquiry into whether digitalization genuinely facilitates firm growth. In this study, we used Chinese A-share-listed companies from 2013 to 2022 as the research sample to empirically investigate the impact of digitalization on firm growth using a fixed-effects model. The findings indicate that digitalization currently exerts a significant negative effect on firm growth. This negative effect is more pronounced in large firms and manufacturing firms. In the process by which digitalization negatively affects firm growth, organizational inertia and strategic persistence are critical moderating factors. Specifically, an increase in organizational inertia exacerbates the negative impact of digitalization on firm growth, whereas an increase in strategic persistence mitigates this adverse effect on firm growth. The findings of this study enhance our understanding of digitalization and elucidate the contextual factors that influence its effect on firm growth. From a theoretical perspective, we explain the “digitalization paradox” observed at the firm growth level and partially correct the discrepancy between theory and practice. The conclusions also provide valuable insights for managers in implementing digitalization.

Keywords: digitalization; firm growth; organizational inertia; strategic persistence

1. Introduction

Firm growth has always been a central concern for business managers [1], particularly in the contemporary era, with high levels of environmental uncertainty. Compared to the relatively stable environment in the past, firms today face greater challenges to their survival and development in an uncertain external landscape. From a micro perspective, in such a highly uncertain external environment, maintaining firm growth is a fundamental requirement for firms to achieve survival and development and an important prerequisite for achieving sustainable development of firms. From a macro perspective, firm growth is a significant driving force for economic and social sustainable development. Therefore, firm growth is an important micro-level foundation for economic and social sustainable development. Firm growth is more important than ever.

Currently, the rapid development of digital technologies, such as the Internet, big data, and cloud computing, has triggered a wave of digitalization worldwide. Many firms have begun implementing digital initiatives to achieve various goals, including obtaining relevant certifications, competing with their rivals, and responding to supplier demands. Digitalization has been shown to enhance internal communication [2] and



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reduce internal coordination costs [3], thereby profoundly impacting a firm's production and operational activities [4]. Digitalization can promote green technology innovation and energy technology innovation in firms and positively influence their performance in environmental, social, and governance terms [5–7]. Therefore, digitalization is often regarded as an important means for firms to achieve sustainability. This leads to the pivotal question: Does digitalization promote firm growth?

Existing research on the relationship between digitalization and firm growth is relatively scarce, although its conclusions are consistent. The prevailing view in the literature is that digitalization positively influences firm growth by alleviating financing constraints, reducing operational risks, and fostering technological innovation [8,9]. However, this theoretical consensus does not align with real-world observations. The promotion of firm growth through digitalization appears to occur in only a minority of firms. In their case study, Gebauer et al. (2020) found that firms' investments in digitalization often fail to achieve the expected revenue growth, a phenomenon they term the "digitalization paradox" [10]. Similarly, in Björkdahl's (2020) case study, it was found that firms did not achieve growth through digitalization [11]. This indicates a discrepancy between theory and practice regarding the relationship between digitalization and firm growth. Therefore, whether digitalization can truly promote firm growth requires further investigation in future studies.

Digitalization is an organizational change initiated and shaped by the widespread diffusion of digital technologies [12]. This process requires firms to transform their organizational structures and redesign their routines, processes, and systems based on digital logic. Concurrently, organizational inertia can reduce the flexibility of a firm's operational management [13], making it difficult to rapidly adjust organizational structures and increasing the difficulty of reforming old routines, processes, and systems. This, in turn, can significantly influence the impact of digitalization on firm growth. Furthermore, the mode and direction of a firm's digitalization must align with its corporate strategy. When a firm's strategy requires frequent adjustments and exhibits low strategic persistence, the challenge of aligning digitalization with corporate strategy inevitably increases. This can also substantially impact the process through which digitalization affects firm growth. However, limited attention has been paid to these mechanisms in existing research.

To address these gaps in the literature, we conducted an in-depth investigation into the relationship between digitalization and firm growth using a sample of Chinese A-share listed companies from 2013 to 2022. We found that, at the current stage, digitalization has a significantly negative impact on firm growth, which is more pronounced in large firms and manufacturing firms. Building on these findings, we analyzed the potential moderating roles of organizational inertia and strategic persistence in the process by which digitalization negatively affects firm growth.

Compared with previous studies, this study makes three potential contributions. First, while the existing literature has predominantly focused on the positive effects of digitalization on firm growth [8,9,14], research on its negative effects has largely been limited to qualitative descriptions [10,11]. In this study, we empirically validated the potential negative impact of digitalization on firm growth, thereby deepening our understanding of digitalization and, to some extent, correcting the deviation between theory and practice. Second, we empirically tested the moderating role of organizational inertia in the relationship between digitalization and firm growth. This reveals a key contextual factor, emphasizes the importance of organizational change in the implementation of digitalization, and enriches the literature on the subject. Third, we empirically examined the moderating effect of strategic persistence on the relationship between digitalization and firm growth. In doing so, we identified another contextual factor, highlighted the importance of aligning

digitalization with corporate strategy, and strengthened the dialogue between research on digitalization and strategic persistence.

2. Literature Review and Research Hypotheses

Although research on digitalization is rapidly advancing, a unified academic consensus on its definition has yet to emerge. Verhoef et al. (2021) defined digitalization as the process by which a firm uses digital technologies to develop a completely new digital business model, thereby creating and capturing more value [15]. Banalieva and Dhanaraj (2019) defined it as the process of converting the core elements of products, services, and processes into data packets that can be created, stored, transmitted, and used for marketing, sales, and distribution [16]. Some scholars have noted that existing definitions of digitalization often suffer from semantic circularity, terminological ambiguity, and a failure to distinguish between the concept and its impact [17]. Therefore, to facilitate subsequent discussion, in this study, we adopt Vial's (2019) definition of digitalization as a process of profound transformation that a firm undergoes by using information, computing, communication, and connectivity technologies to optimize itself [17]. This definition emphasizes that digitalization triggers significant changes within a firm, but these changes do not necessarily yield positive results.

The impact of digitalization on firms has garnered considerable attention from researchers. Some studies suggest that digitalization positively influences firms. The widespread use of digital technologies blurs the boundaries between brick-and-mortar and online enterprises, combines physical products with digital services to create an omnichannel environment for customers, and drives firms toward an ecosystem-oriented and embedded organizational structure [12]. Digitalization fosters the development of permeable, agile, and flexible organizational structures and gives rise to customer-centric business models [12]. Concurrently, the implementation of digital business strategies facilitates the acquisition and utilization of customer preference information, enabling firms to search, discover, and exploit market opportunities more effectively and respond rapidly to changes in market demand [18]. Sambamurthy et al. (2003) indicated that information technology can enhance firm performance through continuous innovation across products, services, channels, and market segments [19]. However, some researchers argue that the effects of digitalization on firms are not always beneficial. While IT can accelerate information exchange between decision-makers and various business units, thus speeding up decision-making, the standard conflicts and lack of system integration that accompany IT adoption can also reduce the speed of information exchange [20]. Digitalization may also decrease firm performance by increasing operating cost ratios, reducing total asset turnover, and increasing administrative expenses [21].

Regarding the impact of digitalization on firm growth, most existing research posits that digitalization promotes firm growth [8,9,14]. Through digitalization, firms can achieve cross-channel integration of online and traditional channels, realize channel synergies, enhance customer trust, and increase customer loyalty, thereby promoting sales growth [14]. Digitalization can also contribute to sustainable development by improving the quality of internal controls and alleviating financial constraints [22]. Liu et al. (2022) argued that digitalization can drive firm growth by easing financing constraints, reducing operational risks, and fostering technological innovation [9]. Wei and Li (2024) focused specifically on the role of digitalization in mitigating financing constraints, finding through empirical studies that it helps reduce information asymmetry between firms and external investors, lowers the costs of both debt and equity financing, and consequently enhances firm growth performance [8]. Scuotto et al. (2021) placed greater emphasis on the role of employees, arguing that their individual digital capabilities are crucial for promoting business

growth in small and medium-sized enterprises (SMEs) [23]. Furthermore, regarding the relationship between digitalization and mergers and acquisitions (M&A), Benitez et al. (2018) argued that the flexibility of IT infrastructure can enhance a firm's business agility and facilitate the development of post-M&A IT integration capability, thereby improving post-M&A performance [24]. However, some case studies suggest that digitalization does not necessarily promote firm growth. In Björkdahl's (2020) case study analysis of several firms' digitalization processes, it was found that they invested in digitalization more to improve efficiency than to pursue growth [11]. In their case study, Gebauer et al. (2020) found that firms investing in digitalization often struggle to achieve expected revenue growth, a phenomenon described as the "digitalization paradox" [10].

Current research on digitalization predominantly focuses on its positive impact on firms, with only a minority of studies acknowledging its negative effects. Similarly, empirical research on the relationship between digitalization and firm growth has largely concluded that digitalization promotes growth. Is it inevitable that digitalization will foster firm growth? However, some case studies provide contrary results [10,11]. This suggests a potential discrepancy between existing theoretical research and real-world conditions. This discrepancy implies that the relationship between digitalization and firm growth warrants further investigation.

2.1. Digitalization and Firm Growth

In this study, we contend that digitalization can adversely affect firm growth. First, the reasons for managers to implement digitalization are complex, potentially including the need to obtain certain certifications, respond to competitors, or meet supplier requirements. This implies that a firm's digitalization objectives may not be perfectly aligned with its strategic goals, which can lead to a mismatch between the direction and mode of digitalization and the firm's overall strategy. Such a mismatch is detrimental to internal coordination and control, potentially causing managerial chaos, increasing administrative costs, and ultimately negatively influencing firm growth. Relevant research has emphasized that digitalization can only deliver its full value when it is aligned with corporate strategy [25].

Second, digitalization requires the introduction of various digital technologies. These technologies often conflict with traditional organizational structures, hindering their effective utilization and ultimately compromising the positive effects of digitalization. Firms must adjust their organizational structures and establish new processes, routines, and systems based on digital logic to match transformed structures with new technologies. Research highlights that information technology must have a complementary relationship with organizational change to be effective [26]. However, organizational restructuring often lags behind technological adoption. This implies that firms cannot eliminate the conflict between digital technologies and traditional structures in the short term. Consequently, the positive effects of digitalization are not fully realized, while managerial chaos ensues, leading to rising administrative costs and a negative impact on firm growth.

Finally, digitalization necessitates the replacement of traditional processes, routines, and systems with new ones based on digital logic. This is a gradual process of organizational change [12]. Consequently, for a considerable period, two distinct sets of processes, routines, and systems—one based on traditional logic and the other on digital logic—operate in parallel or are partially integrated within the firm. These two sets are often incompatible and may even conflict with each other. The parallel operation of systems based on different logics inevitably leads to managerial chaos, preventing the positive effects of digitalization from being fully realized and significantly increasing administrative costs. This requires managers to expend substantial time and energy to address the problems arising from chaos. This not only reduces operational efficiency but also

diverts managerial attention away from growth-oriented objectives, inevitably having a detrimental impact on firm growth [1].

In summary, the misalignment between digitalization and firm strategy, conflicts between digital technologies and traditional organizational structures, and the transformation of operational logic brought about by digitalization can result in managerial chaos. This forces managers to expend significant time and energy addressing the resulting issues, thereby reducing the time and energy available to achieve firm growth objectives. The time and energy of managers are crucial management resources for firms. According to Penrose's (1959) theory of firm growth, a lack of management resources is a key factor that limits firm growth [1]. Digitalization reduces the management resources available for achieving firm growth objectives and inevitably adversely affects firm growth. Simultaneously, as the findings of most existing empirical studies have shown, digitalization has potential factors that can promote firm growth [8,9,14]. However, in reality, the degree of digitalization in most firms is far from maturity at present. For these firms, the potential positive effects of digitalization on firm growth have not fully been realized. At this stage, the negative effects of digitalization are dominant. This leads to the overall observation that digitalization negatively impacts firm growth. Therefore, we propose the following hypothesis:

H1. *There is a negative relationship between digitalization and firm growth.*

2.2. The Moderating Roles of Organizational Inertia and Strategic Persistence

Organizational inertia refers to the phenomenon in which the pace of a firm's structural adjustment is significantly slower than the rate of change in the external environment, resulting in a relatively slow response to environmental shifts [27]. Firms with high organizational inertia tend to rely more on past experiences and are generally less proactive in undertaking search activities [28]. Organizational inertia can inhibit managerial discretion, reduce administrative flexibility, and increase the difficulty for managers to implement changes in key areas [13]. During digitalization, the greater a firm's organizational inertia, the more difficult it is to adjust its organizational structure. This makes it harder to resolve the managerial chaos caused by the conflict between digital technologies and the traditional structure, thereby amplifying the negative impact of digitalization on firm growth. At the same time, in firms with greater organizational inertia, traditional processes, routines, and systems have greater influence, making it more difficult to implement digital processes, routines, and systems in these firms. This exacerbates the conflict between the two sets of systems, further intensifying managerial chaos and strengthening the negative impact of digitalization on firm growth. Conversely, firms with low organizational inertia can adjust their structures relatively quickly, mitigate the impact of conflicts between digital technology and traditional structures, and accelerate the replacement of processes, routines, and systems, thereby reducing the negative impact of digitalization on firm growth. Therefore, we propose the following hypothesis:

H2. *Organizational inertia amplifies the negative impact of digitalization on firm growth.*

Strategic persistence refers to the degree to which a firm's strategy remains stable over time [13]. A firm exhibits high strategic persistence when its strategy is forward-looking and does not require any major adjustments. In this situation, the firm can adjust the direction and mode of digitalization implementation to better align with its strategies. This reduces the managerial chaos caused by the mismatch between digitalization and strategy and facilitates internal coordination and control during digitalization. Consequently, the implementation of digitalization can better serve a firm's strategic objectives, thereby

weakening the negative impact of digitalization on firm growth. Concurrently, firms can more quickly form and solidify processes, routines, and systems based on digital logic, thereby reducing the managerial chaos caused by the transition between old and new logics. This lessens the adverse impact of digitalization on operational efficiency and the consumption of managerial time and energy, further reducing the negative impact on firm growth. Conversely, when a firm's strategy requires frequent adjustments, it exhibits low strategic persistence. In this case, it becomes more difficult to align the implementation of digitalization with the changing strategy, which is also unconducive to the formation and solidification of digital processes, routines, and systems. The managerial chaos resulting from the mismatch between digitalization and strategy, as well as the transition between old and new logics, becomes more pronounced, thus strengthening the negative impact of digitalization on firm growth. Therefore, we propose the following hypothesis:

H3. *Strategic persistence mitigates the negative impact of digitalization on firm growth.*

Figure 1 shows the theoretical model used in this study.

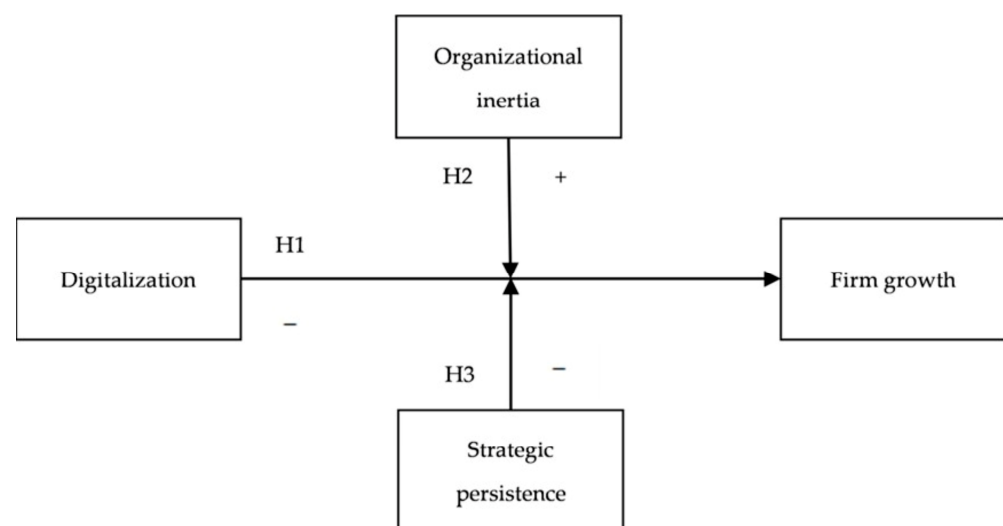


Figure 1. Theoretical model. Note: The symbol “+” represents positive effects. The symbol “−” represents negative effects.

3. Methods

3.1. Data Sample

In recent years, the Chinese government has paid increasing attention to firms' sustainable development. Meanwhile, the degree of digitalization among Chinese firms continues to deepen, but there are significant differences in the level of digitalization across firms. This provides an appropriate research background for this study. Therefore, we selected all Chinese A-share listed companies from 2013 to 2022 as the initial research sample. The sample was processed according to the following procedure: First, financial firms were excluded from the sample. Second, firms designated as ST (Special Treatment), *ST (a more severe warning), PT (Particular Transfer), or those delisted during the sample period were excluded from the sample. Third, observations for firms in their initial public offering (IPO) years were excluded from the sample. Fourth, firms with a debt-to-asset ratio greater than 100% during the sample period were excluded from the sample. Fifth, observations with missing data on relevant variables were excluded. Sixth, all continuous variables were winsorized at the 1st and 99th percentiles. After applying these processes to the initial sample, the final research sample consisted of 18,228 observations. All the data

used in this study were obtained from the China Stock Market and Accounting Research (CSMAR) database.

3.2. Measures

Dependent variable: Referring to the studies by Gilbert et al. (2006) and Delmar et al. (2003), in this study, we used the growth rate of operating revenue as a proxy indicator for firm growth (*Growth*) [29,30]. This is the most direct manifestation of firm growth and one of the most commonly used measurement indicators.

Independent variable: In the existing research on digitalization, text analysis methods have been predominantly utilized to assess the extent of digitalization within firms [8,31,32]. However, using text analysis methods to measure a firm's degree of digitalization may overlook the discrepancy between a firm's stated commitments and its actual investments. Considering this issue, we used the Digital Transformation Index from the CSMAR database as a proxy indicator to measure digitalization (*Digital*). This index, which is based on the text analysis of listed companies' annual reports, also incorporates information on the establishment of digital management positions, digital capital and human resource investment plans, cumulative participation in national-level science and technology innovation bases, support from the external digital environment, and digital outcomes. Consequently, it offers a more comprehensive representation of the degree of digitalization of a firm.

Moderating variables. Kelly and Amburgey argued that firm age and size are closely related to organizational inertia [33]. Empirical research has also indicated that an increase in a firm's age and number of employees correlates with heightened organizational inertia [28]. Therefore, consistently with existing research, we measured organizational inertia (*Oinertia*) by summing the standardized values of two indicators: firm age and number of employees [28]. Firm age was quantified by calculating the natural logarithm of the sum of the number of years since its establishment and one, and the number of employees was measured as the total number of employees in the firm.

Finkelstein and Hambrick (1990) and Zhang (2006) regarded strategy as a decision-making mode for the allocation of firm resources and believed that changes in the allocation of strategic resources reflect changes in the firm strategy [13,34]. Therefore, they measured changes in a firm's strategy through annual variations in six types of strategic resource allocation [13,34]. The greater the degree of change in a firm's strategy, the lower its strategic persistence. Therefore, referring to the studies by Finkelstein and Hambrick (1990) [13] and Zhang (2006) [34], strategic persistence (*Straper*) was measured using the following procedure: First, data for six dimensional indicators were obtained: the ratio of selling expenses to operating revenue, the ratio of research and development (R&D) expenditures to operating revenue, the ratio of period expenses to operating revenue, the ratio of net fixed assets to gross fixed assets, the ratio of inventory to operating revenue, and the ratio of debt to owners' equity. Second, the absolute value of the annual change was calculated for each of the six indicators to derive their annual rates of change. Finally, these six annual rates of change were standardized, their mean was calculated, and this mean was multiplied by -1 to obtain the measure of strategic persistence.

Control variables. To better test the hypotheses proposed earlier, we controlled for the following factors that may influence firm growth: Firm size (*Size*) was defined as the natural logarithm of total assets [35]. Leverage (*Leverage*) was the ratio of total liabilities to total assets [36]. Listing age (*Age*) was quantified by calculating the natural logarithm of the sum of the number of years since listing and one. Ownership concentration (*Tophold*) was the shareholding ratio of the largest shareholder to the total share capital, multiplied by 100% [37]. Board size (*Bsize*) was the total number of members on the board of directors. The proportion of independent directors (*Indirecter*) was the ratio of the number of independent

directors to the total number of board members, multiplied by 100%. Additionally, in this study, we controlled for the year and industry fixed effects.

3.3. Model Specification

To test the hypotheses proposed in the preceding sections, we specified the following regression models:

$$Growth_{i,t} = \alpha_0 + \alpha_1 Digital_{i,t-1} + \sum_j \alpha_j Control_{j,i,t} + \sum_k \alpha_k Year_{k,i,t} + \sum_l \alpha_l Industry_{l,i,t} + \varepsilon_{i,t} \quad (1)$$

$$Growth_{i,t} = \beta_0 + \beta_1 Digital_{i,t-1} + \beta_2 Digital_{i,t-1} \times Moderator_{i,t} + \beta_3 Moderator_{i,t} + \sum_j \beta_j Control_{j,i,t} + \sum_k \beta_k Year_{k,i,t} + \sum_l \beta_l Industry_{l,i,t} + \epsilon_{i,t} \quad (2)$$

In Equation (1), *Growth* represents firm growth. *Digital* represents the firm's level of digitalization. Considering that the impact of digitalization on firm growth requires a certain amount of time to manifest, and to mitigate potential endogeneity issues from reverse causality, the digitalization variable is lagged by one period. *Control* represents all the control variables mentioned above. *Year* and *Industry* represent a series of year and industry dummy variables that control for time and industry fixed effects, respectively. In these equations, the subscripts *i*, *t*, *j*, *k*, and *l* denote the firm, year, number of control variables, number of year dummy variables, and number of industry dummy variables. ε and ϵ represent the random disturbance terms in Equations (1) and (2), respectively. Equation (2) builds upon Equation (1) by adding *Moderator* to represent the moderating variable, as well as the interaction term *Digital* $\times$ *Moderator*, to test the moderating effects of organizational inertia and strategic persistence. During the construction of the interaction terms, digitalization and moderating variables were centralized. All statistical analyses were conducted using StataMP 14 (64-bit).

4. Results

4.1. Data Analysis

Table 1 presents the descriptive statistics of the main variables. The mean value of digitalization was 38.429, with a standard deviation of 10.954, indicating significant variation in the level of digitalization among the sample firms. Table 2 presents the correlation coefficient matrix of the variables. The correlation coefficient between digitalization and firm growth was -0.008 . Although negative, this value was not statistically significant. The correlation matrix shows that the correlation coefficients between the main variables are all less than 0.6. This suggests that multicollinearity did not substantially affect the subsequent regression results. We also examined the Variance Inflation Factor (VIF) values for the relevant variables. The maximum VIF value was 2.14, and the average was 1.43. Therefore, it can be concluded that no severe multicollinearity issues exist among the main variables.

Table 1. Descriptive statistics of the main variables.

Variable	Observations	Mean	Std. Dev.	Min	Max
<i>Growth</i>	18,228	0.150	0.322	−0.465	1.795
<i>Digital</i>	18,228	38.429	10.954	23.569	66.044
<i>Oinertia</i>	18,228	0.000	1.419	−5.086	8.289
<i>Straper</i>	18,228	0.000	0.553	−6.784	0.567
<i>Size</i>	18,228	22.435	1.258	20.190	26.380
<i>Leverage</i>	18,228	0.415	0.185	0.061	0.836
<i>Age</i>	18,228	2.308	0.580	1.386	3.497
<i>Tophold</i>	18,228	32.486	14.345	8.078	72.804
<i>Bsize</i>	18,228	8.441	1.609	5.000	14.000
<i>Indirecter</i>	18,228	37.780	5.410	33.330	57.140

Table 2. Correlation coefficient matrix.

Variable	<i>Growth</i>	<i>Digital</i>	<i>Size</i>	<i>Leverage</i>	<i>Age</i>	<i>Tophold</i>	<i>Bsize</i>	<i>Indirecter</i>	<i>Straper</i>
<i>Growth</i>	1.000								
<i>Digital</i>	−0.008	1.000							
<i>Size</i>	0.044 ***	0.019 ***	1.000						
<i>Leverage</i>	0.029 ***	−0.020 ***	0.507 ***	1.000					
<i>Age</i>	−0.114 ***	0.023 ***	0.442 ***	0.263 ***	1.000				
<i>Tophold</i>	−0.008	−0.170 ***	0.211 ***	0.079 ***	−0.004	1.000			
<i>Bsize</i>	−0.006	−0.074 ***	0.285 ***	0.135 ***	0.193 ***	0.037 ***	1.000		
<i>Indirecter</i>	−0.010	0.064 ***	0.003	0.003	−0.037 ***	0.043 ***	−0.533 ***	1.000	
<i>Straper</i>	−0.157 ***	−0.091 ***	0.161 ***	−0.007	0.093 ***	0.112 ***	0.108 ***	−0.042 ***	1.000
<i>Oinertia</i>	−0.057 ***	0.044 ***	0.581 ***	0.301 ***	0.488 ***	0.089 ***	0.163 ***	0.043 ***	0.120 ***

Note: ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

4.2. The Impact of Digitalization on Firm Growth

The relationship between digitalization and firm growth was empirically tested using Equation (1) and the regression results are presented in Table 3. As shown in Table 3, Model 1 includes only control variables. The results for Model 1 show that the control variables significantly impact firm growth. In Model 2, the lagged digitalization variable (*L.Digital*) was added to Model 1. The regression results of Model 2 show that the coefficient of digitalization is −0.0014, which is significantly negative at the 1% level. This indicates that digitalization has a significant negative impact on firm growth. Hypothesis H1 was supported by these results. The *R*-squared values for Models 1 and 2 are 0.082 and 0.083, respectively, which are relatively low. This is consistent with the results of previous studies [9]. This also appears to be consistent with the view of McKelvie and Wiklund (2010), who suggest that we have only explained a limited portion of the variation in firm growth [38].

Table 3. The impact of digitalization on firm growth.

Variable	Model 1 <i>Growth</i>	Model 2 <i>Growth</i>
<i>L.Digital</i>		−0.0014 *** (0.0003)
<i>Size</i>	0.0351 *** (0.0028)	0.0371 *** (0.0028)
<i>Leverage</i>	0.0476 *** (0.0170)	0.0459 *** (0.0170)

Table 3. Cont.

Variable	Model 1 <i>Growth</i>	Model 2 <i>Growth</i>
<i>Age</i>	−0.0959 *** (0.0049)	−0.0937 *** (0.0050)
<i>Tophold</i>	−0.0004 ** (0.0002)	−0.0005 ** (0.0002)
<i>Bsize</i>	−0.0044 ** (0.0018)	−0.0044 ** (0.0018)
<i>Indirecter</i>	−0.0015 *** (0.0005)	−0.0014 *** (0.0005)
<i>Constant</i>	−0.3681 *** (0.0644)	−0.3781 *** (0.0646)
Year Dummies	Included	Included
Industry Dummies	Included	Included
Observations	18,228	18,228
R-squared	0.082	0.083
adj_R-squared	0.077	0.078

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses. Model 1 includes only the control variables. Model 2 includes the control variables and digitalization.

4.3. Endogeneity Tests

To further address the potential endogeneity issues, in this study, we used the number of mobile users in the city where the firm is located (*Mobile*) and the number of Internet broadband access ports in the province where the firm is located (*Broadband*) as instrumental variables for digitalization and conducted a regression analysis using two-stage least squares (2SLS). The increase in the number of mobile users in a city and in the number of Internet broadband access ports in a province requires local government departments to intensify their investments in digital infrastructure. The development of digital infrastructure provides a solid external environment to support digitalization, thereby promoting digitalization in firms. Therefore, the number of mobile users in a city and the number of Internet broadband access ports in a province are both related to firm digitalization. However, the number of mobile users in a city and the number of Internet broadband access ports in a province generally do not directly impact firm growth. Consequently, they can serve as instrumental variables for digitalization. The 2SLS regression results are presented in Table 4, where Model 3 presents the first-stage regression results for the 2SLS. In this model, the regression coefficients of the instrumental variables are all significantly positive, indicating a strong correlation between the instrumental variables and digitalization. Model 4 in Table 4 presents the second-stage regression results for the 2SLS. In this model, the regression coefficient of digitalization is -0.0077 , which is significant at the 5% confidence level, demonstrating that even when considering endogeneity issues, digitalization still has a significant negative impact on firm growth, thereby providing further support for Hypothesis H1. The underidentification test for the instrumental variables yielded a Kleibergen–Paap rk LM statistic of 179.211 ($p = 0.000$), rejecting the null hypothesis of underidentification. The weak instrument test for the instrumental variables yielded a Kleibergen–Paap rk Wald F statistic of 91.576, far exceeding the Stock–Yogo 10% threshold (19.93), indicating that the risk of the instrumental variables being weak instrument variables is relatively low. The overidentification test of all instrumental variables yielded a Hansen J statistic of 0.151 ($p = 0.697$), indicating that all instrumental variables are exogenous.

Table 4. Endogeneity tests.

Variable	First-Stage	2SLS	PSM
	Model 3 <i>L.Digital</i>	Second-Stage Model 4 <i>Growth</i>	Model 5 <i>Growth</i>
<i>Mobile</i>	0.0652 *** (0.0048)		
<i>Broadband</i>	0.0115 *** (0.0028)		
<i>L.Digital</i>		−0.0077 ** (0.0032)	−0.0016 *** (0.0005)
<i>Size</i>	1.3340 *** (0.0613)	0.0458 *** (0.0054)	0.0399 *** (0.0048)
<i>Leverage</i>	−0.9993 *** (0.3705)	0.0381 ** (0.0175)	0.0692 ** (0.0282)
<i>Age</i>	1.6902 *** (0.1090)	−0.0838 *** (0.0069)	−0.1104 *** (0.0086)
<i>Tophold</i>	−0.0422 *** (0.0041)	−0.0007 *** (0.0002)	−0.0007 ** (0.0003)
<i>Bsize</i>	0.0133 (0.0429)	−0.0046 ** (0.0018)	−0.0045 (0.0031)
<i>Indirecter</i>	0.0423 *** (0.0124)	−0.0012 ** (0.0005)	−0.0007 (0.0009)
<i>Constant</i>	−6.2724 *** (1.4027)	−0.4162 *** (0.0696)	−0.3821 *** (0.1235)
Year Dummies	Included	Included	Included
Industry Dummies	Included	Included	Included
Observations	18,112	18,112	6691
R-squared	0.553	0.062	0.091
adj_R-squared	0.551	0.057	0.082

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses. Model 3 presents the first-stage results of the 2SLS regression results. Model 4 presents the second-stage results of the 2SLS regression results. Model 5 presents the regression results based on the PSM sample.

Considering that sample selection bias may cause endogeneity issues, in this study, we adopted the propensity score matching (PSM) method to mitigate potential sample selection bias. First, the sample was divided into two subsamples with high and low digitalization levels based on the upper quartile of digitalization. Second, one-to-one matching was performed between the two subsamples to construct the PSM sample. Finally, we conducted a regression analysis based on the PSM sample, and the results are shown in Model 5 in Table 4. These results indicate that digitalization has a significant negative impact on firm growth, providing further validation of Hypothesis H1.

4.4. Heterogeneity

The negative impact of digitalization on firm growth may vary across firms of different sizes. In this study, we divided the sample into two subsamples of large firms and small firms based on the annual industry mean of the firm sizes of the companies. On this basis, we conducted grouped regressions for these two subsamples, and the results are presented in Models 6 and 7 in Table 5, which correspond to the regression results for the large and small firm subsamples, respectively. The regression coefficient of digitalization

is significantly negative in Model 6 but not significant in Model 7. This indicates that the negative impact of digitalization on firm growth is more significant for large firms. As firm size increases, it becomes more difficult for firms to adjust their organizational structures and shift their operational logic. Therefore, the negative impact of digitalization on firm growth is more significant for large firms.

Table 5. Heterogeneity.

Variable	Model 2 Entire Sample <i>Growth</i>	Model 6 Large Firms <i>Growth</i>	Model 7 Small Firms <i>Growth</i>	Model 8 Manufacturing Industry <i>Growth</i>	Model 9 Other Industries <i>Growth</i>
<i>L.Digital</i>	−0.0014 *** (0.0003)	−0.0025 *** (0.0005)	−0.0007 (0.0005)	−0.0017 *** (0.0004)	−0.0009 (0.0008)
<i>Size</i>	0.0371 *** (0.0028)	0.0236 *** (0.0050)	0.0626 *** (0.0062)	0.0412 *** (0.0034)	0.0279 *** (0.0053)
<i>Leverage</i>	0.0459 *** (0.0170)	0.0477 * (0.0267)	0.0383 * (0.0225)	0.0484 ** (0.0194)	0.0374 (0.0351)
<i>Age</i>	−0.0937 *** (0.0050)	−0.0962 *** (0.0076)	−0.0956 *** (0.0068)	−0.0992 *** (0.0056)	−0.0792 *** (0.0106)
<i>Tophold</i>	−0.0005 ** (0.0002)	−0.0006 ** (0.0003)	−0.0001 (0.0003)	−0.0005 ** (0.0002)	−0.0004 (0.0004)
<i>Bsize</i>	−0.0044 ** (0.0018)	−0.0069 *** (0.0023)	0.0011 (0.0029)	−0.0032 (0.0021)	−0.0068 ** (0.0034)
<i>Indirecter</i>	−0.0014 *** (0.0005)	−0.0021 *** (0.0007)	0.0004 (0.0008)	−0.0009 (0.0006)	−0.0030 *** (0.0011)
<i>Constant</i>	−0.3781 *** (0.0646)	0.0049 (0.1078)	−1.0392 *** (0.1432)	−0.4511 *** (0.0652)	−0.1597 (0.1130)
Year Dummies	Included	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included	Included
Observations	18,228	8375	9853	13,301	4927
<i>R</i> -squared	0.083	0.093	0.087	0.087	0.087
adj_ <i>R</i> -squared	0.078	0.083	0.079	0.084	0.076

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses.

The negative impact of digitalization on firm growth may also vary across firms in different industries. In this study, we divided the sample into two subsamples, manufacturing and other industries; on this basis, we conducted grouped regressions for these two subsamples. The regression results are shown in Models 8 and 9 in Table 5, which present the regression results for the manufacturing and other industry subsamples, respectively. The regression coefficient of digitalization is significantly negative in Model 8 but not significant in Model 9. This indicates that the negative impact of digitalization on firm growth is more pronounced in manufacturing firms. This may be because different production stages within manufacturing firms are highly interdependent on each other. Any change in one stage affects the others. Consequently, it is more difficult for manufacturing firms to adjust their organizational structure and shift their operational logic. Therefore, the negative impact of digitalization on firm growth is more significant for manufacturing firms.

4.5. The Moderating Effects of Organizational Inertia and Strategic Persistence

According to the preceding analysis, the impact of digitalization on firm growth is moderated by organizational inertia and strategic persistence. In this study, we separately tested the moderating effects of organizational inertia and strategic persistence using Equation (2). The regression results are shown in Table 6. In Model 10 of Table 6, the coefficient of the interaction term $L.Digital \times Oinertia$ is -0.0006 , which is significant at the 1% level. This indicates that organizational inertia moderates the relationship between digitalization and firm growth. As organizational inertia increases in firms, the negative impact of digitalization on firm growth intensifies. In Model 11 of Table 6, the regression coefficient of the interaction term $L.Digital \times Straper$ is 0.0034 , which is significant at the 1% level. This indicates that strategic persistence also moderates the process by which digitalization affects firm growth. As firms' strategic persistence increases, the negative impact of digitalization on firm growth diminishes. Hypotheses H2 and H3 were thus supported. Figures 2 and 3 illustrate the moderating effects of organizational inertia and strategic persistence on the relationship between digitalization and firm growth.

Table 6. Tests of the moderating effects.

Variable	Model 2 Growth	Model 10 Growth	Model 11 Growth
<i>L.Digital</i>	-0.0014^{***} (0.0003)	-0.0014^{***} (0.0003)	-0.0015^{***} (0.0003)
<i>L.Digital</i> $\times$ <i>Oinertia</i>		-0.0006^{***} (0.0001)	
<i>Oinertia</i>		-0.0113^{***} (0.0023)	
<i>L.Digital</i> $\times$ <i>Straper</i>			0.0034^{***} (0.0007)
<i>Straper</i>			-0.1042^{***} (0.0103)
<i>Size</i>	0.0371^{***} (0.0028)	0.0439^{***} (0.0031)	0.0445^{***} (0.0029)
<i>Leverage</i>	0.0459^{***} (0.0170)	0.0465^{***} (0.0170)	-0.0046 (0.0171)
<i>Age</i>	-0.0937^{***} (0.0050)	-0.0865^{***} (0.0051)	-0.0888^{***} (0.0048)
<i>Tophold</i>	-0.0005^{**} (0.0002)	-0.0005^{**} (0.0002)	-0.0002 (0.0002)
<i>Bsize</i>	-0.0044^{**} (0.0018)	-0.0041^{**} (0.0018)	-0.0024 (0.0017)
<i>Indirecter</i>	-0.0014^{***} (0.0005)	-0.0013^{**} (0.0005)	-0.0014^{***} (0.0005)
<i>Constant</i>	-0.3781^{***} (0.0646)	-0.5586^{***} (0.0732)	-0.5713^{***} (0.0656)
Year Dummies	Included	Included	Included
Industry Dummies	Included	Included	Included
Observations	18,228	18,228	18,228

Table 6. Cont.

Variable	Model 2 <i>Growth</i>	Model 10 <i>Growth</i>	Model 11 <i>Growth</i>
R-squared	0.083	0.086	0.113
adj_R-squared	0.078	0.081	0.109

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses. Model 10 includes digitalization, organizational inertia, the interaction term of digitalization and organizational inertia, and control variables. Model 11 includes digitalization, strategic persistence, the interaction term of digitalization and strategic persistence, and control variables.

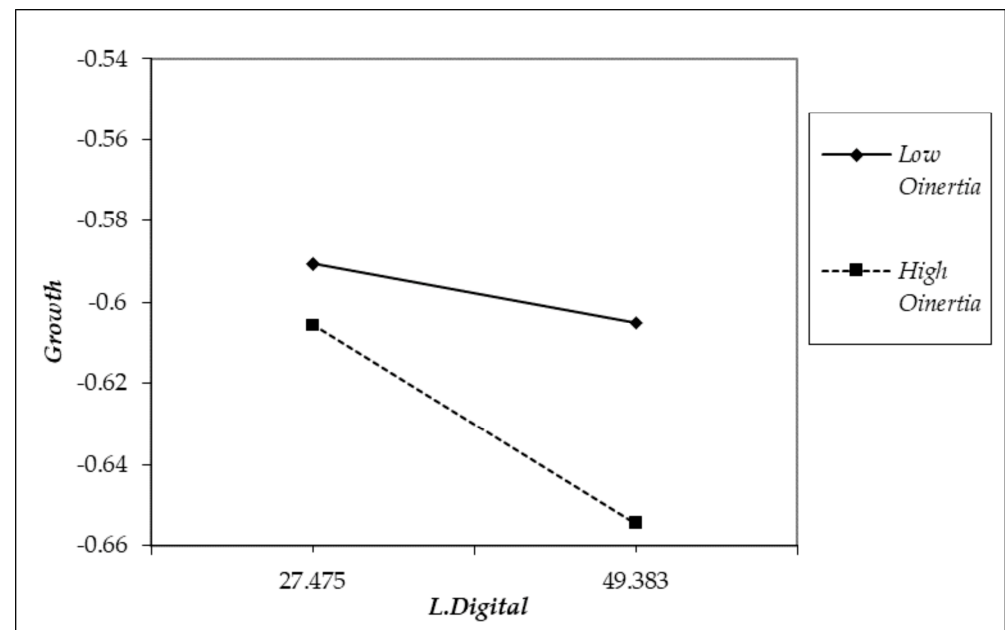


Figure 2. The moderating effect of organizational inertia on the relationship between digitalization and firm growth.

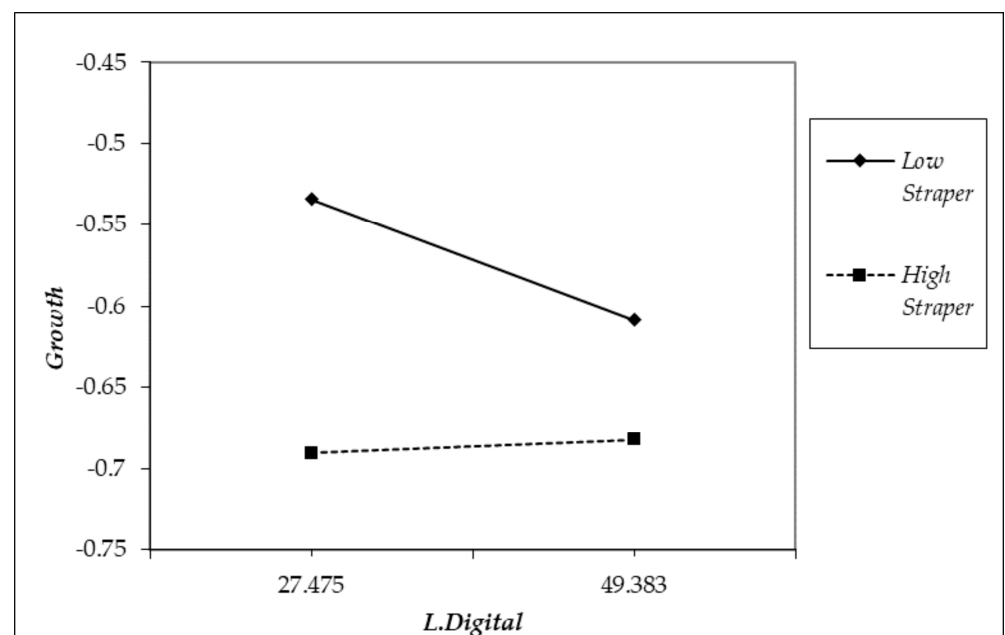


Figure 3. The moderating effect of strategic persistence on the relationship between digitalization and firm growth.

4.6. Robustness Tests

To test the robustness of the empirical results, in this study, we conducted robustness tests using five methods.

First, we replaced the operating revenue growth rate with the total asset growth rate (*Growth-T*) as the measure of the dependent variable and re-conducted the previous regression analyses. The results are shown in Table 7 and indicate that Hypotheses H1, H2, and H3 remain supported. Therefore, changing the measurement of the dependent variable does not alter the empirical results, confirming the robustness of the previous conclusions.

Table 7. Robustness tests: replacing the measurement method for the dependent variable.

Variable	Model 12 <i>Growth-T</i>	Model 13 <i>Growth-T</i>	Model 14 <i>Growth-T</i>	Model 15 <i>Growth-T</i>
<i>L.Digital</i>		−0.0016 *** (0.0003)	−0.0016 *** (0.0003)	−0.0015 *** (0.0003)
<i>L.Digital</i> × <i>Oinertia</i>			−0.0003 *** (0.0001)	
<i>Oinertia</i>			−0.0100 *** (0.0019)	
<i>L.Digital</i> × <i>Straper</i>				0.0040 *** (0.0005)
<i>Straper</i>				−0.0677 *** (0.0068)
<i>Size</i>	0.0482 *** (0.0021)	0.0504 *** (0.0022)	0.0560 *** (0.0024)	0.0546 *** (0.0022)
<i>Leverage</i>	0.0138 (0.0139)	0.0120 (0.0139)	0.0122 (0.0139)	−0.0223 (0.0136)
<i>Age</i>	−0.1015 *** (0.0041)	−0.0990 *** (0.0041)	−0.0925 *** (0.0042)	−0.0959 *** (0.0040)
<i>Tophold</i>	−0.0004 *** (0.0001)	−0.0005 *** (0.0001)	−0.0005 *** (0.0001)	−0.0004 ** (0.0001)
<i>Bsize</i>	−0.0078 *** (0.0014)	−0.0078 *** (0.0014)	−0.0075 *** (0.0014)	−0.0066 *** (0.0014)
<i>Indirecter</i>	−0.0019 *** (0.0004)	−0.0019 *** (0.0004)	−0.0018 *** (0.0004)	−0.0018 *** (0.0004)
<i>Constant</i>	−0.5810 *** (0.0455)	−0.5919 *** (0.0456)	−0.7442 *** (0.0527)	−0.7085 *** (0.0478)
Year Dummies	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included
Observations	18,228	18,228	18,228	18,228
<i>R</i> -squared	0.096	0.098	0.100	0.122
adj_ <i>R</i> -squared	0.091	0.093	0.095	0.118

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses.

Second, information industry companies were excluded from the sample. The measurement of digitalization in this study involved text analysis of the companies' annual reports. Companies in the information industries may have a relatively higher proportion of digitalization-related text in their annual reports because of the nature of their business, which could lead to an inflated digitalization level for these firms. To eliminate the influence of information industry companies on the regression results, we excluded them

from the sample used in the analysis. Specifically, companies classified under “Computer, Communications and Other Electronic Equipment Manufacturing” (C39) and “Information Transmission, Software and Information Technology Services” (I63, I64, I65) according to the 2012 China Securities Regulatory Commission industry classification were removed from the sample. After excluding these companies, the previous regression analyses were conducted again. The results are shown in Table 8 and show that Hypotheses H1, H2, and H3 are still supported, indicating the robustness of the previous conclusions.

Table 8. Robustness tests: excluding the information industries.

Variable	Model 16 <i>Growth</i>	Model 17 <i>Growth</i>	Model 18 <i>Growth</i>	Model 19 <i>Growth</i>
<i>L.Digital</i>		−0.0011 *** (0.0004)	−0.0012 *** (0.0004)	−0.0013 *** (0.0004)
<i>L.Digital</i> × <i>Oinertia</i>			−0.0004 ** (0.0002)	
<i>Oinertia</i>			−0.0115 *** (0.0026)	
<i>L.Digital</i> × <i>Straper</i>				0.0026 ** (0.0011)
<i>Straper</i>				−0.1113 *** (0.0114)
<i>Size</i>	0.0330 *** (0.0030)	0.0345 *** (0.0031)	0.0407 *** (0.0034)	0.0438 *** (0.0032)
<i>Leverage</i>	0.0443 ** (0.0191)	0.0432 ** (0.0191)	0.0407 ** (0.0191)	−0.0160 (0.0191)
<i>Age</i>	−0.0898 *** (0.0055)	−0.0887 *** (0.0055)	−0.0814 *** (0.0056)	−0.0841 *** (0.0053)
<i>Tophold</i>	−0.0004 ** (0.0002)	−0.0005 ** (0.0002)	−0.0005 ** (0.0002)	−0.0002 (0.0002)
<i>Bsize</i>	−0.0049 *** (0.0019)	−0.0049 *** (0.0018)	−0.0045 ** (0.0019)	−0.0030 (0.0018)
<i>Indirecter</i>	−0.0015 *** (0.0005)	−0.0015 *** (0.0005)	−0.0013 ** (0.0005)	−0.0014 *** (0.0005)
<i>Constant</i>	−0.3279 *** (0.0688)	−0.3321 *** (0.0688)	−0.5013 *** (0.0781)	−0.5646 *** (0.0701)
Year Dummies	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included
Observations	14,628	14,628	14,628	14,628
<i>R</i> -squared	0.086	0.087	0.089	0.121
adj_ <i>R</i> -squared	0.081	0.081	0.083	0.115

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses.

Third, the sample observation period was adjusted. Major social events can significantly impact firm growth and may affect the robustness of empirical results. From 2020 to 2022, the COVID-19 pandemic severely affected corporate production and operations in China. To exclude this influence, we adjusted the sample observation period by removing observations from 2020 to 2022 and re-conducted the previous regression analyses. The regression results after adjusting the sample period are presented in Table 9 and are largely consistent with previous findings. This indicates that adjusting the sample observation

period does not affect the empirical results of this study. Hypotheses H1, H2, and H3 were thus supported, confirming the robustness of the previous conclusions.

Table 9. Robustness tests: adjusting the time interval of the sample observations.

Variable	Model 20 <i>Growth</i>	Model 21 <i>Growth</i>	Model 22 <i>Growth</i>	Model 23 <i>Growth</i>
<i>L.Digital</i>		−0.0013 *** (0.0005)	−0.0013 *** (0.0005)	−0.0013 *** (0.0004)
<i>L.Digital</i> × <i>Oinertia</i>			−0.0007 *** (0.0002)	
<i>Oinertia</i>			−0.0105 *** (0.0030)	
<i>L.Digital</i> × <i>Straper</i>				0.0031 *** (0.0011)
<i>Straper</i>				−0.1465 *** (0.0140)
<i>Size</i>	0.0287 *** (0.0036)	0.0305 *** (0.0038)	0.0370 *** (0.0041)	0.0394 *** (0.0037)
<i>Leverage</i>	0.0803 *** (0.0232)	0.0776 *** (0.0231)	0.0788 *** (0.0231)	0.0136 (0.0233)
<i>Age</i>	−0.1037 *** (0.0071)	−0.1037 *** (0.0070)	−0.0963 *** (0.0073)	−0.0946 *** (0.0067)
<i>Tophold</i>	−0.0005 * (0.0003)	−0.0005 ** (0.0003)	−0.0006 ** (0.0003)	−0.0003 (0.0002)
<i>Bsize</i>	−0.0056 ** (0.0023)	−0.0056 ** (0.0023)	−0.0052 ** (0.0023)	−0.0024 (0.0022)
<i>Indirecter</i>	−0.0024 *** (0.0007)	−0.0023 *** (0.0007)	−0.0022 *** (0.0007)	−0.0023 *** (0.0007)
<i>Constant</i>	−0.2094 ** (0.0875)	−0.2144 ** (0.0876)	−0.3869 *** (0.0988)	−0.4801 *** (0.0887)
Year Dummies	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included
Observations	10,429	10,429	10,429	10,429
<i>R</i> -squared	0.072	0.072	0.075	0.128
adj_ <i>R</i> -squared	0.064	0.065	0.067	0.121

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses.

Fourth, to further test the robustness of the previous conclusions, we adjusted the regression models by controlling for year and individual fixed effects and re-conducted the regression analyses. The regression results are presented in Table 10 and are generally consistent with previous empirical findings. This indicates that adjusting the regression models does not alter the previous conclusions, which are still robust.

Table 10. Robustness tests: adjusting the regression models.

Variable	Model 24 <i>Growth</i>	Model 25 <i>Growth</i>	Model 26 <i>Growth</i>	Model 27 <i>Growth</i>
<i>L.Digital</i>		−0.0046 *** (0.0008)	−0.0042 *** (0.0008)	−0.0042 *** (0.0008)
<i>L.Digital</i> × <i>Oinertia</i>			−0.0019 *** (0.0003)	
<i>Oinertia</i>			−0.0254 ** (0.0127)	
<i>L.Digital</i> × <i>Straper</i>				0.0028 *** (0.0008)
<i>Straper</i>				−0.1303 *** (0.0113)
<i>Size</i>	0.1634 *** (0.0119)	0.1696 *** (0.0120)	0.1804 *** (0.0133)	0.1717 *** (0.0119)
<i>Leverage</i>	0.1209 ** (0.0487)	0.1198 ** (0.0486)	0.1266 *** (0.0482)	0.0270 (0.0482)
<i>Age</i>	−0.2541 *** (0.0295)	−0.2501 *** (0.0294)	−0.2586 *** (0.0302)	−0.2469 *** (0.0283)
<i>Tophold</i>	0.0018 ** (0.0008)	0.0017 ** (0.0008)	0.0016 ** (0.0007)	0.0018 ** (0.0007)
<i>Bsize</i>	0.0027 (0.0043)	0.0028 (0.0043)	0.0023 (0.0043)	0.0021 (0.0041)
<i>Indirecter</i>	−0.0005 (0.0010)	−0.0006 (0.0010)	−0.0007 (0.0010)	−0.0007 (0.0010)
<i>Constant</i>	−3.0422 *** (0.2617)	−3.0291 *** (0.2607)	−3.2781 *** (0.3042)	−3.0426 *** (0.2597)
Year Dummies	Included	Included	Included	Included
Individual Fixed Effects	Controlled	Controlled	Controlled	Controlled
Observations	18,228	18,228	18,228	18,228
<i>R</i> -squared	0.087	0.090	0.094	0.124
adj_ <i>R</i> -squared	0.086	0.089	0.093	0.123

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses.

Finally, considering the potential within-firm serial correlation, we re-conducted the regression analyses using robust standard errors clustered at the firm-level. The regression results are presented in Table 11. The previous conclusions remain unchanged.

Table 11. Robustness tests: changing the standard errors being used.

Variable	Model 28 <i>Growth</i>	Model 29 <i>Growth</i>	Model 30 <i>Growth</i>	Model 31 <i>Growth</i>
<i>L.Digital</i>		−0.0014 *** (0.0003)	−0.0014 *** (0.0003)	−0.0015 *** (0.0003)
<i>L.Digital</i> × <i>Oinertia</i>			−0.0006 *** (0.0002)	
<i>Oinertia</i>			−0.0113 *** (0.0026)	
<i>L.Digital</i> × <i>Straper</i>				0.0034 *** (0.0007)
<i>Straper</i>				−0.1042 *** (0.0094)
<i>Size</i>	0.0351 *** (0.0032)	0.0371 *** (0.0033)	0.0439 *** (0.0035)	0.0445 *** (0.0033)
<i>Leverage</i>	0.0476 ** (0.0191)	0.0459 ** (0.0190)	0.0465 ** (0.0191)	−0.0046 (0.0194)
<i>Age</i>	−0.0959 *** (0.0053)	−0.0937 *** (0.0053)	−0.0865 *** (0.0055)	−0.0888 *** (0.0052)
<i>Tophold</i>	−0.0004 ** (0.0002)	−0.0005 ** (0.0002)	−0.0005 ** (0.0002)	−0.0002 (0.0002)
<i>Bsize</i>	−0.0044 ** (0.0019)	−0.0044 ** (0.0019)	−0.0041 ** (0.0019)	−0.0024 (0.0019)
<i>Indirecter</i>	−0.0015 *** (0.0006)	−0.0014 ** (0.0006)	−0.0013 ** (0.0006)	−0.0014 ** (0.0006)
<i>Constant</i>	−0.3681 *** (0.0681)	−0.3781 *** (0.0681)	−0.5586 *** (0.0756)	−0.5713 *** (0.0751)
Year Dummies	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included
Observations	18,228	18,228	18,228	18,228
<i>R</i> -squared	0.082	0.083	0.086	0.113
adj_ <i>R</i> -squared	0.077	0.078	0.081	0.109

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Firm-clustered robust standard errors are presented in parentheses.

5. Conclusions and Discussion

5.1. Conclusions

Based on a sample of all Chinese A-share listed companies from 2013 to 2022, in this study, we empirically examined the impact of digitalization on firm growth and the moderating roles of organizational inertia and strategic persistence in this process. The main conclusions are as follows: (1) Currently, digitalization has a significant negative impact on firm growth. This negative impact is more pronounced in large firms and manufacturing firms. (2) Organizational inertia moderates the effect of digitalization on firm growth. As organizational inertia within firms increases, the negative impact of digitalization on firm growth becomes increasingly pronounced. (3) Strategic persistence also moderates the process by which digitalization affects firm growth. However, unlike organizational inertia, the negative impact of digitalization on firm growth is reduced as firms demonstrate heightened strategic persistence. These conclusions imply that digitalization must be accompanied by organizational change and must always be aligned with the firm's strategy

to fully leverage its potential positive impact on firm growth, thereby helping firms achieve sustainable development.

5.2. Theoretical Implications

The theoretical implications of this study are as follows.

First, through empirical research, we found that digitalization has a significant negative impact on firm growth at present. This finding is in stark contrast to the conclusions of most existing studies. The current literature on digitalization has largely focused on its positive effects, such as enhancing corporate agility [19], reducing the risk of stock price crashes [39], improving firm performance [40], and promoting green innovation [41]. Regarding the impact of digitalization on firm growth, in related empirical studies, it has been predominantly argued that digitalization promotes firm growth [8,9]. Liu et al. (2022) found that digitalization can substantially enhance firm growth by mitigating financing constraints, diminishing business risks, and fostering technological innovation [9]. Wei and Li (2024) also argued that digitalization plays a crucial role in enhancing the growth performance of firms [8].

The reason why the conclusion of this study is inconsistent with the findings of previous studies might be due to the differences in the measurement methods of digitalization. In existing studies on the relationship between digitalization and firm growth, researchers have mostly used text analysis methods to measure the digitalization of firms [8,9]. Although this can depict the digitalization of firms to some extent, using text analysis methods to measure the digitalization of firms may have some problems. The text analysis methods usually cannot fully include the action information of firms in the implementation of digitalization, including the establishment of digitalization-related positions and the recruitment of employees for such positions. Only these digitalization-related actions can reflect the management changes brought about by digitalization, including the problems of management chaos and increased management costs that digitalization may cause. In this study, we used the Digital Transformation Index from the CSMAR database to measure the digitalization of firms. This index, based on text analysis, covers relevant information regarding firms' digitalization investment, achievements, applications, and environmental support, thereby providing a more comprehensive depiction of firms' digitalization. This includes digitalization-related action information, such as the establishment of digitalization management positions, the recruitment of employees for such positions, and capital investment for digitalization. This helps to analyze the impact of digitalization on firm growth more comprehensively. For comparison, we followed previous studies [8,9] and re-conducted regression analyses using digitalization measured solely by text analysis methods as the independent variable. The specific regression results are presented in Table A1, Appendix A, and indicate that digitalization, measured solely by text analysis methods, has a significant positive effect on firm growth. This is consistent with the conclusions of previous studies but differs from those of this study. This suggests that differences in the measurement of digitalization are indeed a possible reason for this discrepancy.

The findings of this study support the results of several case studies [10,11]. In Björkdahl's (2020) case study, it was argued that firms implement digitalization primarily to improve efficiency rather than to promote growth and that many firms are not yet prepared to benefit from it [11]. Similarly, in their case study, Gebauer et al. (2020) found that while firms create growth opportunities for increasing revenue through digitalization, they often fail to achieve the expected growth [10]. Based on Penrose's (1959) theory of firm growth [1], in this study, we empirically tested the negative impact of digitalization on firm growth by analyzing the mismatch between digitalization and corporate strategy, conflicts between

digitalization and traditional organizational structures, and the transition between old and new logics within the firm.

However, we do not deny that digitalization has the potential to positively affect firm growth, as documented in previous empirical studies [8,9]. Instead, we emphasize that digitalization not only has a potential positive impact on firm growth but also a negative impact. The incomplete digitalization of firms hinders the full realization of its potential positive effects on firm growth, allowing the negative effects on firm growth to prevail, thus giving rise to the “digitalization paradox” in firm growth. Looking ahead, as firms continue to enhance their digitalization processes and advance organizational changes, the potential positive effects of digitalization on firm growth are expected to be more fully realized, while the negative effects are anticipated to diminish. Consequently, the “digitalization paradox” in firm growth may eventually be resolved.

The conclusions of this study emphasize that research on digitalization should not only focus on its positive effects but also include its negative impacts to achieve a more comprehensive understanding of this phenomenon. The empirical method used in this study enables research on the negative effects of digitalization on firm growth to go beyond merely qualitative descriptions of phenomena, corrects the deviation between theory and practice to some extent, and enriches the literature on the “digitalization paradox.”

Second, in this study, we empirically tested the moderating role of organizational inertia in the relationship between digitalization and firm growth. Specifically, the stronger a firm’s organizational inertia, the stronger the negative impact of digitalization on firm growth. This conclusion reveals an important contextual factor influencing the relationship between digitalization and firm growth and indirectly validates the theoretical argument made earlier in this paper: the conflict between digitalization and traditional organizational structures is one of the reasons for the negative impact of digitalization on firm growth. Simultaneously, this conclusion underscores the importance of organizational change in the process of digitalization, which is consistent with the findings of existing research that information technology needs a complementary relationship with organizational change to achieve positive effects on firms [26]. By incorporating organizational inertia into the analytical framework of the relationship between digitalization and firm growth, in this study, we provide a deeper analysis of the mechanisms underlying the negative impact of digitalization on firm growth, identify a boundary condition for digitalization to exert positive effects on firms, expand the scope of digitalization research, and enrich the relevant literature.

Third, through empirical research, we found that the stronger a firm’s strategic persistence, the weaker the negative impact of digitalization on firm growth. This conclusion reveals another contextual factor influencing the relationship between digitalization and firm growth and indirectly validates that the mismatch between digitalization and corporate strategy is another reason for the negative impact of digitalization on firm growth. Existing studies on strategic persistence have largely suggested that it has a detrimental effect on firms [42,43], and therefore, firms must overcome it [43]. We do not advocate increasing strategic persistence but emphasize that, in the process of overcoming strategic persistence, firms should incorporate digitalization into their strategic change considerations, always maintaining alignment between digitalization and corporate strategy to reduce the negative impact of digitalization on firm growth. This is similar to the conclusions of Bharadwaj et al., who found that digitalization needs to be integrated with corporate strategy to gain a greater competitive advantage [18]. By combining digitalization with strategic persistence, this study strengthens the dialogue between the research fields of digitalization and strategic persistence, accelerates the integration of digitalization with existing research, and enriches the content of digitalization research.

5.3. Practical Implications

The conclusions of this study have several practical implications. First, managers should develop a more comprehensive understanding of digitalization and fully recognize its potential negative impact on firm growth. When implementing digitalization, managers should consider their specific circumstances and select a digitalization mode that aligns with their corporate strategy to reduce the negative effects of the mismatch between digitalization and corporate strategy. Second, during the implementation of digitalization, firms must proactively adjust their organizational structures, accelerate business process re-engineering, and promote the formation and solidification of processes, routines, and systems based on digital logic. This mitigates the negative impacts caused by the lag in organizational adjustment and the transition between old and new logics, allowing the positive effects of digitalization on operational efficiency to be fully realized and genuinely promoting the growth and sustainable development of firms. Third, managers must incorporate digitalization into their strategic considerations. When corporate strategy needs to be adjusted, managers must simultaneously adjust the implementation of digitalization to maintain its alignment with strategic goals, thereby reducing its negative impact on firm growth and leveraging its potential to promote firm growth and sustainable development. Finally, regardless of the new technologies introduced by firms, including the rapidly developing artificial intelligence technologies in recent years, managers must actively adjust the organizational structure and consistently ensure alignment between new technologies and corporate strategy to fully realize the positive effects of these technologies.

5.4. Limitations and Future Research

First, in this study, we used a single indicator to measure the degree of digitalization. Although this indicator contains a wealth of information related to digitalization, the concept of digitalization is rich and complex, and a single indicator cannot fully capture a firm's digitalization status. Future research could consider using multidimensional indicators and multifaceted information to depict digitalization more comprehensively.

Second, we only considered the overall impact of digitalization on firm growth and did not consider the different effects that digitalization may have at different stages of a firm's development. Future research could explore the different impacts of digitalization on firms at various stages of their life cycles.

Finally, we focused only on the direct impact of digitalization on firm growth and did not consider the potential mediating effects of the relationship between digitalization and firm growth. We posit that the main reasons for the negative impact of digitalization on firm growth are the misalignment between digitalization and firm strategy, conflicts between digitalization and traditional organizational structures, and the transition between old and new logics within firms. Although the moderating roles of organizational inertia and strategic persistence in the relationship between digitalization and firm growth indirectly support this view, we did not directly test these potential mediating mechanisms. Future research could further explore the potential mediating roles of the misalignment between digitalization and firm strategy, conflicts between digitalization and traditional organizational structures, and the transition between old and new logics within firms in the relationship between digitalization and firm growth to more comprehensively analyze the relationship between digitalization and firm growth.

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Abbreviations

The following abbreviations are used in this manuscript:

CSMAR	China Stock Market and Accounting Research
IPO	Initial Public Offering
M&A	Mergers and Acquisitions
PSM	Propensity Score Matching
R&D	Research and Development
SMEs	Small and Medium-sized Enterprises
2SLS	Two-Stage Least Squares
VIF	Variance Inflation Factor

Appendix A

Referring to previous studies [8,9], we employed text analysis methods to calculate the total frequency of digitalization-related terms in the “Management Discussion and Analysis” section of companies’ annual reports. On this basis, the natural logarithm of the sum of this value and 1 was calculated to measure the level of digitalization of firms (*Digital-Text*). In this study, we used digitalization, which was measured solely by text analysis methods, as the independent variable and re-conducted the regression analyses. The regression results are shown in Table A1 and indicate that digitalization, measured solely by text analysis methods, is significantly positively correlated with firm growth, which is consistent with the findings of previous studies.

Table A1. The regression analysis results of digitalization measured by text analysis methods.

Variable	Model A1 <i>Growth</i>	Model A2 <i>Growth</i>
<i>Digital-Text</i>		0.0066 *** (0.0023)
<i>Size</i>	0.0350 *** (0.0026)	0.0339 *** (0.0027)
<i>Leverage</i>	0.0760 *** (0.0160)	0.0767 *** (0.0159)
<i>Age</i>	−0.0963 *** (0.0042)	−0.0956 *** (0.0042)
<i>Tophold</i>	−0.0006 *** (0.0002)	−0.0006 *** (0.0002)
<i>Bsize</i>	−0.0048 *** (0.0017)	−0.0048 *** (0.0017)
<i>Indirecter</i>	−0.0013 *** (0.0005)	−0.0014 *** (0.0005)
<i>Constant</i>	−0.2926 *** (0.0625)	−0.2780 *** (0.0630)

Table A1. Cont.

Variable	Model A1 <i>Growth</i>	Model A2 <i>Growth</i>
Year Dummies	Included	Included
Industry Dummies	Included	Included
Observations	20,491	20,491
R-squared	0.087	0.087
adj_R-squared	0.083	0.083

Note: *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$. Robust standard errors adjusted for heteroscedasticity are presented in parentheses.

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