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Strategic Renewal in Times of Environmental Scarcity

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While research on strategic renewal is burgeoning, little attention has been paid to the role of renewal in contexts marked by environmental scarcity. Drawing on the population ecology and strategic choice literatures, this paper theoretically explores firms' renewal journeys under distinct environmental scarcity situations, and discusses how managerial perceptions and interpretations shape their strategic renewal behaviors. The resulting conceptual framework refines prior co-evolutionary perspectives of strategic renewal by showing that the nature of firms' renewal activities varies with the type of environmental scarcity they face. Further, we argue that varying CEO perceptions and interpretations can cause firms within the same industry context to adopt entirely different renewal journeys. Our theoretical framework responds to prior calls for more rigorous theory-building regarding strategic renewal by integrating the population ecology and strategic choice perspectives.

Introduction

Increasing global competition, shorter product life cycles, and accelerated technological breakthroughs create market environments in which organizations sooner or later experience conditions of scarcity. Some companies struggle to cope with severe recessions, as the global airline and banking industries have recently experienced, while others, for example, the global postal services and tobacco industries, face a more permanent decline in market demand. In the most severe cases, entire industries disappear, such as the analog camera and DVD rental industries, which have been replaced by the digital camera and video-on-demand industries. How do companies respond to the challenges that situations of environmental scarcity cause in order to ensure their survival and continued prosperity?

Management scholars discuss firms' adaptation to changing environments and relate it to their ability to exploit existing competencies and build new capabilities (Helfat and Peteraf, 2003; Raisch and Birkinshaw, 2008). Strategy theorists describe this adaptive process as *strategic renewal*, which they broadly define as a firm's ability to disrupt inertia by modifying or replacing its core competences to ensure long-term performance (Agarwal and Helfat, 2009; Lechner and Floyd, 2012). Prior research has primarily focused on the drivers of firms' strategic renewal efforts, including the underlying capabilities and learning processes (Crossan and Berdrow, 2003; Dougherty, 1992; Salvato, 2009), technological or competitive changes in the firm's environment (Flier et al., 2003; Kim and Pennings, 2009; Volberda and Lewin, 2003), and the leadership characteristics and processes that enable organizations to embrace strategic renewal (Cho and Hambrick, 2006; Eggers and Kaplan, 2009; Kwee et al., 2011).

While these studies have provided rich insights into firms' strategic renewal behaviors in times of munificence, there is little theory explaining firms' renewal in times of environmental scarcity. Empirical evidence suggests that environmental scarcity — defined as the decline in an ecological niche's size or shape (Zammuto, 1988) — leads to resource scarcity (Aragón-Correa and Sharma, 2003), has increased managerial complexity (Sheppard and Chowdhury, 2005), and organizational stress (Huff et al., 1992), which in turn have been found to affect a firm's ability to renew strategically (Floyd and Lane, 2000; Schmitt and Raisch, 2013). Hence, further research is needed to explore firms' renewal journeys during times of environmental scarcity.

To investigate these renewal journeys, we enrich the renewal literature with insights from two theory debates. First, studies informed by population ecology theory (Hannan and Freeman, 1984) have found that environmental scarcity situations vary greatly (Cameron and Zammuto, 1983; Zammuto, 1988), which could mean that they lead to different renewal challenges and responses. Second, scholars taking a strategic choice perspective (Child, 1997) have found that senior executives' perceptions and interpretations of environmental conditions impact firms' renewal responses (Barr et al., 1992; Eggers and Kaplan, 2009). Such cognitive processes may cause firms to deploy different renewal responses to respond to the same environmental conditions (Agarwal and Helfat, 2009). Building bridges across these theoretical lenses and applying them to strategic

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renewal should thus provide the foundations for rich insights into how firms within and across environmental settings respond to scarcity situations.

Based on these theoretical foundations, we describe four distinct renewal journeys in times of environmental scarcity. We clarify the interrelations between environmental scarcity, CEO perceptions and interpretations, and strategic renewal in respect of each renewal journey. Our descriptive model allows us to make several theoretical contributions to the strategic renewal literature. First, we refine prior co-evolutionary perspectives of strategic renewal (Huygens et al., 2001; Lomi et al., 2005) by showing that the nature of firms' renewal activities varies with the type of environmental scarcity they face. Second, co-evolutionary studies have found that, while most firms within an industry tend to adopt similar renewal responses, some firms choose alternative renewal paths (Flier et al., 2003; Volberda et al., 2001b). Building on these insights, we show how varying CEO perceptions and interpretations can cause firms facing the same environmental scarcity situation to adopt different renewal journeys. Finally, we respond to calls for more rigorous theory building regarding strategic renewal (e.g., Agarwal and Helfat, 2009) by integrating the population ecology and strategic choice perspectives.

The strategic renewal challenge

Defining strategic renewal

Whereas practitioners frequently use the term "strategic renewal," the associated managerial literature suffers from the lack of a consistent and precise definition (Agarwal and Helfat, 2009; Kwee et al., 2011). There is an increasing risk that strategic renewal is used as an umbrella term under which various research inquiries are carried out. Consequently, it simultaneously means everything, and nothing. Thus, we start by delineating the concept to make it actionable for our further theory-building efforts. Following prior research, we conceptualize strategic renewal along its context, content and process dimensions (Volberda et al., 2001b).

First, strategic renewal's context dimension refers to managerial initiatives to instigate demands in the firm's environment or to respond to them — such as technology transitions (Knott and Posen, 2009), and competitive shifts (Kim and Pennings, 2009) — in order to present the company with new opportunities and risks (Burgelman, 1983; Floyd and Lane, 2000). Strategic renewal thus comprises strategic alignment initiatives, which can be proactive or reactive. They are proactive in anticipation of future environmental changes, or to explore future business opportunities, and reactive in response to past or ongoing environmental changes (Eggers and Kaplan, 2009). These strategic renewal initiatives are subject to internal selection mechanisms (Lechner and Floyd, 2012) and are critical for organizations to adapt and ensure their long-term survival (Lewin and Volberda, 1999).

Second, strategic renewal's content dimension refers to a strategic transformation process, which changes the firm's current business model. A business model describes how the firm creates, delivers, and captures value for its various stakeholders (Zott et al., 2011). Such major strategic transformations are not limited to specific market, product, or technological changes, but involve changes along multiple dimensions (Agarwal and Helfat, 2009). For example, part of this challenge may be responding to changing customer demands (Tripsas, 2009), which require alterations in the firm's competitive approach, product range, and distribution channels.

Third, strategic renewal's process dimension captures both incremental and discontinuous renewal (Agarwal and Helfat, 2009; Eggers and Kaplan, 2009). Incremental renewal gradually *modifies* the firm's existing resource configurations (Stopford and Baden-Fuller, 1990, 1994; Volberda et al., 2001b). The strategic adaptations occur within the firm's current strategic framework or business model (Huff et al., 1992). Conversely, discontinuous renewal refers to more fundamental, path-breaking transformations that *replace* the firm's current resource configurations (Volberda et al., 2001b). These renewal activities occur outside the firm's current strategic framework and result in the adoption of a new business model (Huff et al., 1992).

In line with these arguments, we define strategic renewal as a managerial process of modifying or replacing a firm's current business model to address emerging environmental opportunities and risks for long-term survival and prosperity. This definition is aligned with a co-evolutionary view of strategic renewal as recursive interactions between environmental drivers and a firm's strategic adaptation (Flier et al., 2003; Lewin and Volberda, 1999).

A strategic choice perspective of strategic renewal

We apply a strategic choice perspective to strategic renewal (e.g., Barr et al., 1992; Eggers and Kaplan, 2009; Lechner and Floyd, 2012), which captures aspects of managerial intentionality to obtain a better and more complete understanding of firms' strategic actions (Hutzschenreuter et al., 2007; Johnson and Hoopes, 2003). Since CEOs and other senior executives are exposed to more information than they can effectively process, they often fail to develop a complete understanding of the environmental conditions (Ben-Menahem et al., 2013; Fiol and O'Conner, 2003). Constrained by this "bounded rationality" (Cyert and March, 1963), senior executives develop subjective representations of the environment, which then drive their strategic decisions and, ultimately, their firms' actions (Child, 1997; Nadkarni and Barr, 2008). More precisely, prior research has argued that selective managerial perceptions and interpretations of environmental changes influence firms' strategic choices (Bundy et al., 2013; Nadkarni and Herrmann, 2010).

Scholars provide ample evidence that senior executives' personal characteristics affect *managerial perception* of environmental change (Barr et al., 1992; Eggers and Kaplan, 2009; Mone et al., 1998). Cognitive processes lead to the formation of