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Performance implications of strategic changes: An integrative framework

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Abstract Companies often initiate strategic changes to adapt to an evolving environment and/or to improve their competitiveness and performance. In this article, I examine why some strategic changes are fruitful for the companies that initiate them whereas others are not. I propose a framework for understanding the fruitfulness of strategic changes based on their expected impact on competitiveness and likely stakeholder commitment to the changes. I propose that strategic changes are likely to be most fruitful when their potential to enhance competitiveness is high and the stakeholder commitment is likely to be high. At the other end of the spectrum, companies should avoid implementing strategic changes that have low potential to enhance competitiveness and where the stakeholder commitment is low. Being poor strategic choices, these changes may not enhance competitiveness or performance, but, in fact, detract from them. I provide case-based evidence for the framework drawing on strategic changes implemented by Starbucks, McDonald's, and Tupperware and also identify conditions, specifically relating to the decision-making process and corporate governance, under which detrimental strategic changes may be implemented. I also offer a set of recommendations to companies to help them avoid making poor strategic choices.

1. Strategic changes are commonplace

To quote 17th century French writer François de la Rochefoucauld: "The only thing constant in life is change." Company strategies are no exception. In an interview, former IBM CEO Sam Palmisano said that IBM's willingness to constantly embark on change was the secret to its accomplishment of staying in the Fortune 500 Top 25 List since the 1960s ("CHM Revolutionaries," n.d.). In fact, many companies—not just IBM—implement changes in their strategies quite frequently. Some of these alterations may be influenced by environmental changes such as economic conditions (e.g., automobile firms might introduce more fuel-efficient or hybrid cars in response to higher oil prices) or regulatory changes (e.g., new airlines may be started or existing airlines might begin serving new routes when the market is deregulated); others, perhaps by rivals' actions such as price cuts or new product introductions (e.g., mobile phone

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companies such as Samsung launched new models based on touchscreen technology in response to Apple's entry in the form of the iPhone); and yet others by a company's desire to improve its competitiveness or to access new pockets of growth by serving new customers and the like (Barker & Duhaime, 1997; Boeker, 1997; Zajac, Kraatz, & Bresser, 2000). Amazon.com visionary Jeff Bezos has also acknowledged that companies must evolve, but with the caveat that they must maintain key elements of their strategies (e.g., low prices and fast delivery for Amazon).

In the context of the natural environment, a common saying is "Adapt or die," with extinct species such as dinosaurs providing excellent examples of the consequences of natural selection. Though adaptation has generally positive connotations in the natural environment context, I argue that in the business world companies can, in fact, adapt and lose. That is because strategic change, or attempted adaptation—I use the terms adaptation and change interchangeably—may not always be fruitful or performance enhancing; in fact, under specific circumstances, it can be downright detrimental. In the business arena, a fundamental principle is that companies must design strategy that not only addresses their own environment—an overriding issue in the natural environment—but which also leverages on their strengths. In other words, a company's strategies must achieve consistency with internal factors (Andrews, 1971; Miles & Snow, 1978; Porter, 1980). Sometimes even well-performing companies implement strategic changes that are poor strategic choices and not only inconsistent with their own strengths, but also which undermine critical elements of their strategy—and consequently erode both their competitive advantage and performance.

A large proportion of strategic changes (e.g., extending product lines, opening up a new channel, forming partnerships with rivals or other companies) implemented by any company may be incremental and hence not command significant attention from, or debate/discussion within, the top management team. In spite of this lower attention, the eventual and cumulative impact of changes can vary across a broad continuum, as discussed later in this article. In a favorable scenario, each of the changes enhances performance of the firm by building on its existing strategy. For instance, Toyota has been progressively able to enter more profitable segments—such as luxury cars, SUVs, and hybrid cars—by leveraging its resources and capabilities, including its manufacturing and design capabilities and customer reputation. Other than a few blips surrounding the recent financial crisis and Toyota's product recall related to unintended acceleration, the automaker's excellent performance in terms of both market share and profitability has reflected this successful buildup. On the other hand, in a less favorable scenario, the company makes a large proportion of changes that detract from its core strategy. In the least favorable scenario, ill-conceived changes undermine the company's strategy. As more and more of these changes are implemented, their cumulative impact could be significant and, in the absence of quick realization on the company's part that its strategy is threatened, lead to a downward spiral.

This article discusses cases involving implementation of poor strategic choices, identifies the decision-making and corporate governance issues that might have led to these poor choices, and offers a set of recommendations to companies to avoid making these poor strategic choices.

2. Mixed performance outcomes of strategic changes at Starbucks and McDonald's

This section analyzes the mixed performance outcomes of strategic changes employed by Starbucks and McDonald's. First, consider Starbucks: The company shot to prominence with its innovative business model based on well-furnished stores; high-quality coffee beans; owned, rather than franchised, stores; employee 'partners' who receive company 'bean' stock; a reputation established via word-of-mouth; and extensive presence in particular cities, defying the traditional notion of not cannibalizing one's own store (Stone, 2004). CIBC World Markets analyst John Glass said: "The two things that made [Starbucks] great are real estate and making sure that no one has a bad experience in their stores" (Stone, 2004). Customers came to Starbucks in droves for the high quality of coffee and personalized service provided by baristas, often hired for their social skills. In 2010, as recognition of the company's considerable success, Sherry Shen (2011) of *The Huffington Post* identified Starbucks chairman Howard Schultz as one of the 10 self-made CEOs who started with nothing.

As Starbucks grew, so did its ambitions. Growth became an even bigger priority after the firm's Initial Public Offering (IPO) in 1992. Two relatively straightforward ways of attaining growth were implemented: aggressive store openings and widening the menu by launching new products. Both strategies aimed to expand the company's customer base beyond loyalists and early adopters. Some of the