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PERFORMANCE'S INFLUENCE ON STRATEGIC CHANGE: A LONGITUDINAL ASSESSMENT

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Abstract — This study examines the effect that business performance has on the likelihood that top executives will pursue a strategic change in subsequent years. Poor performing businesses in the study were more likely than high performers to change strategies. Businesses which changed strategies experienced revenue declines in the following two years and were still outperformed by those which maintained their strategies. Results question the viability of strategic change and suggest that strategies appear to be more transitory and fluid in nature than depicted in previous studies. © 1998 Elsevier Science Ltd. All rights reserved

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INTRODUCTION

The generic strategy–performance relationship and the strategic change process have been popular research topics for management scholars during the past two decades. Nonetheless, integration of the two literature streams has been limited. At least three factors appear to have contributed to this shortcoming.

First, scholars have not always shared common views concerning the viability of "combination" generic strategies. Some believe that, as Porter (1980) originally suggested, businesses cannot succeed in multiple strategic realms simultaneously. In contrast, others argue that synergies exist among strategic dimensions and that businesses accomplish superior performance by learning to fully utilize them. This debate has spawned considerable empirical research into *which* strategies lead to success instead of *how* such strategies are formulated and implemented.

Second, just as resolution of the combination strategy debate began to develop, a new stream of literature, resource based theory, emerged. Proponents of the resource based view argue that each business unit possesses an incomparable combination of resources and a unique strategy, challenging the notion that strategic groups of business units in a given industry necessarily adopt common "generic" strategies (Barney, 1991; Fiol, 1991). Since no two businesses presently employ or can adopt a common strategy, strategic change in the strictest sense is studied independent of strategy content.

Third, empirical investigations of the practicability of strategic change must provide measures of strategy and performance over time. Because managers and industries also change from one period of time to the next, valid longitudinal measures of strategy are difficult to develop. Further, with recent challenges to the notion of strategic groups (Barney and Hoskisson, 1990), scholars cannot pursue such a study without entering the combination strategy debate and addressing the resource based reservations. As a result, most published work on strategic change has been conceptual and has focused on the change process.

The present study seeks to fill the gap created by the varied research perspectives. It does not attempt to refute the resource based claim that competitive advantage derives from many unique factors. Instead, this study focuses on those factors that appear to be common to many business units within a single industry. Specifically, how do stability and change along these strategic dimensions affect performance in the future?

Past studies have also predominantly considered performance as an effect caused by strategy; performance has been viewed as the *end of the equation*. Researchers have primarily been interested in the influence of a clear strategy in one period on financial performance in a subsequent period. In contrast, the present study investigates how the strategy–performance linkage affects the likelihood that organizational leaders will change the business strategy.

This study is particularly concerned with the notion that low performance is a primary impetus to strategic change, and that poor performers should necessarily change their strategies to improve performance. Findings that support this notion would suggest that poor strategy formulation plays a critical role in determining business performance. Findings to the contrary may suggest that poor strategy implementation may play a more substantial role.

The remainder of the paper is divided into five sections. First, recent literature addressing the strategy–performance relationship — with an emphasis on the combination strategy debate — and strategic change is highlighted. Propositions that place the present study into these literature streams and seek to investigate relationships across time periods are outlined. Third, the research methods utilized in the current study are presented and justified. The remaining sections present findings, conclusions, and directions for future research.

THE STRATEGY–PERFORMANCE RELATIONSHIP

Most published studies addressing the effectiveness of competitive strategies have classified businesses into groups identified by their similarities along strategic dimensions. Research concerning the classification scheme or typology utilized in the present study is outlined below. Additional literature highlighting the combination strategy debate — whether or not a business can effectively combine two or more strategies in a typology without losing its focus — is presented, followed by a discussion on one such combination strategy, the balancer.

Researchers have sought to classify business strategies into typologies to more effectively study relationships between strategy and other variables, including environment, structure, and performance. Strategic typologies represent broad categorizations of businesses' strategic behaviors into a few types. Research has demonstrated the usefulness of typologies in contingency strategy research (Herbert and Deresky, 1987; Hill, 1988; Lawless and Finch, 1989). Although not incorporated herein, one such typology — Porter's (1980) low cost/differentiation framework — has received considerable attention in the literature and sparked the infamous combination strategy debate.

A second typology — Miles and Snow's (1978) commonly used framework — is rooted in Child's (1972) conceptualization of strategic choice and considers the rate at which organizations change their products or markets. This typology is adapted for use in the present study. Miles and Snow assume that organizations act to create their own environments through a series of choices regarding markets, products, technologies, desired scale of operations, and so on. The enacted