strategic renewal

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CONCEPTUAL OVERVIEW

Strategic renewal is the process of change and the outcome of adjustment in strategic direction that have the potential to determine the long-term competitiveness of a firm. The objective of strategic renewal is to provide a strategic fit between a firm's internal capabilities and shifts in the external environment involving technology, markets, industries, and the economy that require a change in the status quo of conducting business. There are two types of strategic renewal. Incremental renewal occurs through a series of regular adaptations to changes in the commercial environment. Transformational renewal is brought about through radical shifts in strategic management and the removal or replacement of key functions and units in the firm.

ENVIRONMENTAL FIT

Firms that survive changes in their environment tend to have a strategic fit between external threats and opportunities on one hand, and internal structure, resources, processes, and competencies on the other hand. Market-related fit occurs when a firm adjusts its product offering, pricing policies, distribution channels, and how it advertises and promotes its brands. Operational fit is achieved at the level of new strategies for R&D, production, assembly, and administration. Realignment of management fit to the external environment requires bringing in new skills and knowledge into the organization. Regular adjustment and updating the firm's internal environment has become a reality that even more establishes global corporations face in order to survive and thrive.

INCREMENTAL RENEWAL

Incremental strategic renewal is based on a series of regular minor adjustments in the firm in order to alleviate external pressures. In a sense, this is an "evolutionary" process of survival that maintains the firm's operations and improves its chances of survival. Gradual change and adaptation, when carried out effectively, empower organizations to cope with changes as they occur. They reduce the pressure to go through more radical more difficult transformations later on. The principle is to persist and protect the firm's competitive position on an ongoing basis through a sequence of path-dependent decisions and timely reactions to business opportunities. The accumulation of small adjustments in strategic direction leads to major transformation in the long run.

Johnson and Johnson and, more recently, Intel had undertaken a fusion of innovations to protect and improve their positions. Johnson and Johnson had a strategy to increase innovation through acquisitions and the subsequent realignment of newly acquired business units and products. Incremental strategic renewal in this case was used to influence and reshape the firm's external environment. Intel embarked on a policy to regularly introduce new generations of microchips. Through the strategy of continuous innovation, Intel raised the bar and increased the barriers for new entrants, which enabled the firm to lead its industry for many years.

TRANSFORMATIONAL RENEWAL

Major changes, such as the advent of online technology, radical change in regulation, or an economic crisis, may force a firm to fundamentally change its operational setup and strategic direction. A firm may be forced toward transformational change because its products have reached the maturity stage of the product life cycle. Change would be necessary to prevent a rapid decline in demand and the resulting decrease in market share and profits. The dynamics of a Darwinian shake-out become apparent as some firms make it through the adaptation process and others are left behind by the wayside.

Transformational renewal involves changes in the business model, technological platforms, organizational structure, resource base, and strategic capabilities. It may also require the redevelopment of long established financial capital, organizational capital, human capital, and social capital. Interestingly, the highly

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visible and successful cases of transformational renewal tend to occur when firms are reacting proactively to a market opportunity, rather than reacting to business treats. The following case studies are interesting examples.

Amazon and eBay challenged services offered by book stores and newspapers by creating new online retail platforms in both the C2B and the B2B markets. The service process was modified radically by a complete departure from the norm.

When the majority of transactions for HSBC Holdings, Wells Fargo, JP Morgan Chase, and Citibank shifted to online platforms, the firms had to redesign their distribution networks. The radical renewal in response to the demand for online services was to dismantle the traditional radial delivery systems of branches, intermediaries, and subsidiaries for financial services. Delivery processes can go through radical shifts by changing the operational paths.

Ryanair, EasyJet, and other low-cost airlines recognized that airlines operating in a quasi-monopolistic environment had accumulated substantial overheads. These low-cost airlines created a new competitive position through radical renewal of cost and pricing structures that were diametrically opposite to those of incumbent firms.

Fifty years ago, aero engine manufacturer Rolls Royce launched the revenue model of "Power-by-the-Hour" to supply and support Viper engines installed in business jets. Organizational paradigms can shift with radically new business models that introduce new structures for revenue streams.

Future Direction

There is a need for continuous strategic ambidexterity and agility for firms to survive changes by recognizing the changing reality of their external environments. Some external shifts are cataclysmic, competence destroying changes that extinguish the inner core of the firm and do not allow it to renew its business operations. When the collapse of established banks and insurance companies occurred in the financial crisis of 2008, the situation was irreversible (although one can argue that some form of dysfunctional renewal did occur with the bailing out of institutions with taxpayers money). The internal structure of the financial industry was allowing high risk lending to the subprime property market, based on the assumption that repayments would be financed by the increase in value of property. The internal paradigm was ignoring established knowledge that economic booms are followed by inevitable decline. Incremental internal adjustments and updating of regulatory guidelines on lending over the years would have avoided the financial meltdown and the global crisis that ensued.

Academia and industry are in search of an operational methodology that would make strategic renewal a core competence of the firm. The mandate calls for more research on the internal practices and policies of firms that have withstood the test of time and that have enabled them to succeed and thrive.

See also *corporate transformation*; *innovation strategy*; *strategic drift*; *strategic fit*

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