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Performance implications of strategic changes: An integrative framework

Nitin Pangarkar

NUS Business School, National University of Singapore, 15 Kent Ridge Drive, Singapore 119245

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.
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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

E-mail address: bizpn@nus.edu.sg

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

newly-added menu items, such as Frappuccino, clashed with loyal customers' perception of what a company serving good coffee should be doing. Bryant Simon (2009, p. 15), author of a book on Starbucks, calls the company's Frappuccinos "adult milkshakes with as many calories as a Big Mac." Miliard (2009) argued that the Frappuccino diluted one of Starbucks' original selling points: dark, rich, potent, flavorful coffee brewed and served with care. In the same article, Harvard Business School Professor John Quelch described the offerings as "way beyond what a coffee purist would consider appropriate. . .fluffy new products." Adverse effects of Starbucks' menu expansion extended well beyond angering purists, however; as outlined below, service levels also suffered.

Though Starbucks continued to grow for some time, this growth masked how the changes were undermining the strategy of the firm. The proliferation of new products meant that baristas had to deal with a very complex menu—which, together with the larger number of customers, resulted in long waiting times. The baristas found it difficult to know their customers' names or their unique preferences, and consequently the much-valued personal touch was lost. Increased Starbucks patronage led to decreased clubby atmosphere and drove some long-time customers and early adopters to seek out rival, more exclusive coffee shops.

Though Starbucks attempted to add value via services including Wi-Fi access, creating and selling its own music CDs, and trying to improve the quality of its coffee, these enhancements were insufficient to overcome the diluted Starbucks experience. This was acknowledged by Chairman Howard Schultz in an internal memo (Starbucks Gossip, 2007): "[Starbucks] stores no longer have the soul of the past and reflect a chain of stores vs. the warm feeling of a neighborhood store." In the same memo, Schultz summed up the importance of the changes/decisions and how they could creep up unnoticed on a company, having a cumulative impact that was difficult for management to foresee:

> Many of these decisions were probably right at the time, and on their own merit would not have created the dilution of the experience; but in this case, the sum is much greater and, unfortunately, much more damaging than the individual pieces.

In this particular case, Mr. Schultz decided that overexpansion was the greater evil. He acted decisively by replacing CEO Jim Donald with himself, by announcing the closure of 600 underperforming stores in July 2008 and another 300 in January 2009—eliminating 8,000 jobs in the process—and

by launching a series of other initiatives (Miliard, 2009). By reducing cannibalization of sales by sister stores, Mr. Schultz's initiatives increased the competitiveness of each location. As an indirect effect, employee morale could have been boosted since each store enjoyed greater sales volume. This righted the ship at Starbucks, leading to a spectacular reversal in share price from under $10 in November 2008 to more than $22 by early February 2010, though some of the increase could have been due to the recovery of the broader market. In the absence of decisive action, however, Starbucks could have suffered an unrecoverable downward spiral.

The Starbucks case highlights the importance of managing strategic changes. Some companies have done well in terms of making sure that most of the strategic changes do not conflict with key elements of their strategy.

For its part, the McDonald's Corporation managed to avoid conflict with its strategy of providing quick service at affordable prices while adding salads and other healthy offerings to its menu, even while opening McCafés. The latter has dramatically expanded McDonald's appeal beyond its traditional, price-sensitive customer base that prized convenience over other factors such as quality and experience. Despite these successes, McDonald's has also made its fair share of mistakes; for example, the launch of the Made for You strategy was a particularly expensive failure in terms of out-of-pocket costs as well as harm to the company's reputation.

In 1998, McDonald's introduced Made for You, which broke away from the restaurant's 43-year-old practice of making sandwiches by the batch ahead of time and putting them in warming bins. Under the Made for You system, McDonald's crews didn't start filling an order until it was placed. This enabled item customization and did away with McDonald's practice of discouraging special orders (e.g., a burger without sauce) because it disrupted its fine-tuned assembly line. Starting with a pilot in 600 stores, the company had plans to introduce the new system in all of its 12,400 U.S. stores by the year 2000. McDonald's estimated that it would spend $170 million to $190 million to install the system in its company-owned stores, and planned to pay for half of the up to $25,000 it would cost to re-fit each franchised store (Cohen, 1998). The Made for You initiative was launched early in the tenure of CEO Jack Greenberg, a 16-year McDonald's veteran, and was a centerpiece of his new strategy.

Even at the time of launch, there were several skeptics of the new strategy. Some analysts correctly

predicted that the new system might hurt rather than help because it could wipe out the one clear advantage McDonald's enjoyed over its rivals: quick service. As predicted by naysayers, the change didn't sit well with customers as it led to long lines. By undermining quick service—the basic premise of visiting McDonald's—the strategic change failed to gather the necessary support of customers, a key stakeholder group (Cohen, 1998). Subsequently, the board replaced Jack Greenberg with Jim Cantalupo, a retired executive from McDonald's international operations. Interestingly, Mr. Cantalupo led McDonald's launch of salads—another strategic change, but this one more positive—and its subsequent turnaround.

3. A contingency perspective for strategic changes

In general, the fruitfulness of changes can be conceptualized as a function of two dimensions: (1) the degree to which the change enhances competitiveness and (2) the extent of commitment the change is likely to receive from key stakeholders such as customers, employees, and suppliers. Ideally, firms would like to undertake changes such as McCafés by McDonald's: they are competitiveness enhancing in that they enable achievement of growth by serving a new segment of customers, and are likely to receive high commitment from other stakeholders such as employees and suppliers (see Quadrant I of Figure 1). On the other hand, when changes have low potential to enhance competitiveness and are not likely to receive stakeholder commitment, they prove detrimental to the company's competitiveness and performance, as in the case of Tupperware opening a new sales channel by selling through Target (Quadrant IV of Figure 1). These poor strategic choices may be implemented under specific

circumstances, internal to the firm as well as in the external environment; this will be discussed toward the end of the article. There are two other quadrants (Quadrants II and III of Figure 1) where the impact of strategic changes is less clear. In each of those quadrants, either the competitiveness-enhancing aspect of the strategic change or the stakeholder commitment is missing. When the change is likely to be competitiveness enhancing, a skilled management team may be able to rally stakeholders behind the change despite initial skepticism. This was the case with former IBM CEO Lou Gerstner, who shifted IBM's focus away from commoditized hardware, and Procter and Gamble (P&G) CEO A.G. Lafley, who devised a simple strategy of pushing bestselling core products in order to improve employee morale and short-term profitability. Both CEOs took charge of companies steeped in tradition and faced skepticism from at least some stakeholders, but were able to sway the skeptics over time.

In a detailed case study, I will examine the strategic changes implemented by Tupperware. It is an extremely apt illustration of how some changes can enhance competitive advantage while others may be undermined by the commitment of key stakeholders, specifically employees.

4. The case of Tupperware

Before identifying Tupperware's attempted strategic changes and their performance implications, it may be useful to understand the company's origins as well as its strategy, which—over a span of 6 decades—has resulted in tremendous success for the company. Tupperware's product range mainly consists of food storage, serving, and preparation products. The company also sells a line of kitchen gadgets, children's educational toys, microwave

Figure 1.   Different types of strategic changes and their performance implications

	Likely stakeholder commitment to change	
	High Low	
Quadrant I Fruitful changes - McCafés by McDonalds - Tupperware's adaptation of business models in foreign countries	**Quadrant II** Fruitfulness of changes depends on managing stakeholders - Lou Gerstner at IBM
Quadrant III Changes with low visible impact. May still be worthwhile for higher stakeholder commitment and cumulative impact. - AG Lafley's "sell more of bestselling brands" at P&G	**Quadrant IV** Detrimental changes that can seriously undermine a company's performance - Tupperware selling through Target - McDonald's 'Made for You' strategy

(Potential to enhance competitiveness — High / Low, vertical axis)

products, and gifts. Over the last decade or so, Tupperware has added a number of beauty products to its portfolio—often through acquisitions—but these additions, being somewhat peripheral to the key issue, will be discussed only briefly under the changes in business model. Tupperware containers are well designed and attractive looking and also provide airtight storage, thus reducing the risks of content deterioration. At a purely functional level of storing food, Tupperware's containers have many competitors; however, some of the cheaper rival products may not be as attractive and/or come with a lifetime warranty.

Over time, Tupperware products have come to epitomize a home-based, wholesome way of life not only in the United States but also in many other parts of the world. The company has had additional, profound impacts on several fronts: it popularized a new marketing method; it changed the shopping habits of people; and, more importantly, it made a huge social impact. According to one perspective, since a clever hostess could earn some money through Tupperware parties, Tupperware played a small part in the liberation and empowerment of women by introducing them to the world of commerce (Goudreau, 2011). An article by Zoe Brennan (2007) in *The Daily Mail* noted that a Tupperware party took place somewhere in the world every 1.9 seconds, and often brought with it real earnings. In 2011, the French government bestowed the highest honor awarded to a non-French citizen to Rich Goings, chairman and CEO of Tupperware Brands, for his service to the support of women and disadvantaged children ("Tupperware Brands Corporation," 2011). The company's accomplishments are equally impressive in terms of numbers such as growth, resilience to economic cycles, proportion of revenues from international markets (84% of the revenues in 2008), size of its global sales force (2.3 million in 2009, though many worked on a part-time basis), and recognition as one of the most well-respected household brands. The home-party based, tiered direct sales model popularized by Tupperware has been adopted by many other companies including Mary Kay Cosmetics, Amway, Avon, and The Pampered Chef. The model has succeeded in generating billions of dollars of sales for these companies. Tupperware and its founders has been the subject of several books and TV programs. In its television program *The American Experience*, PBS assessed the impact of Brownie Wise, who was instrumental in devising and implementing Tupperware's strategy: to be huge. Indeed, the National Museum of American History features Wise in its Four Women Who Excelled in Business exhibition (Smithsonian, n.d.).

Tupperware sells its products using an independent sales force of approximately 2.3 million[1] in about 100 countries under various trade names. A Tupperware party is run by a Tupperware consultant for a host who invites friends and neighbors into his/her home to see the product line. Tupperware hosts are rewarded with free products based on the level of sales made at their party. Parties also take place in workplaces, schools, and other community groups. In most countries, Tupperware's sales force is organized in a tiered structure with consultants at the bottom, managers and star managers over them, and various levels of directors at the top.

Tupperware recognized that emotions of the sales force play a very important role in the direct sales business, and therefore built its business model around its salespersons. For instance, during July, when much of the sales force is on vacation, the strategy is to keep them active by offering higher discounts and lower prices; in September, which is Tupperware's biggest sales month, the strategy is to drive sales by offering larger discounts but at somewhat higher prices. The business model is extremely decentralized; for example, promotional planning may be done only 24 hours in advance based on the best available indicators, which include how many parties are planned for the next week or sometimes beyond, and the number of active team members. The model's characteristics—decentralized and salesperson-driven—are in sharp contrast to retailers such as Walmart where the strategy initiatives have long lead times and key decisions are made centrally (e.g., at the regional level).

4.1. Numerous strategic changes at Tupperware

Similar to Starbucks and McDonald's, Tupperware has tried to tweak its business model, sometimes in pursuit of growth and at other times in an attempt to streamline operations. Not all of the company's attempted strategic changes have proven successful, however; one change was particularly debilitating to the Tupperware business model and briefly raised questions about survival of the company. Next, I describe the changes and the rationale behind them, their impact, and my analysis linking the changes with their respective impacts.

In the first major partnership with a large company since its listing in 1999, Tupperware and P&G agreed to jointly market and promote complementary products. For example, P&G introduced its new Swiffer sweeper product exclusively to consumers

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[1] Figure as of 2009

attending Tupperware parties. Tupperware party hosts received complimentary Swiffer sweepers, and Tupperware offered containers for Swiffer refills. Also, both companies jointly marketed P&G's Fit Fruit and Vegetable Rinse with Tupperware colanders in the Philippines, and P&G's Dawn dishwashing detergent with Tupperware products in Mexico ("P&G, Tupperware Marketing Together," 1999).

A few years later, Tupperware sought to expand its business beyond the traditional party by selling its products in mall kiosks, on the Internet, and on the Home Shopping Network. It also entered into its first agreement with the Target retail chain. An article in *The New York Times* reported that beginning October 2001, Tupperware products were to be sold in 62 Super Target stores from Las Vegas to Florida (Day, 2001). Exactly 1 year later, Tupperware announced expansion of the program to all 1,148 Target stores ("Tupperware and Target," 2002).

In June 2003, Tupperware Chairman and CEO Rick Goings announced that although its alliance with Target benefited Tupperware, the partnership was a drag on independent sales agents who sold Tupperware through product demonstrations and parties. Though Goings put on a brave face and expressed optimism, some observers were skeptical regarding the outcome of Tupperware selling in Target stores, saying the experiment had flopped. According to one estimate, despite the availability of Tupperware containers in more than 1,000 Target stores, direct selling accounted for over 90% of Tupperware's sales ("Tupperware's Party Approach," 2003). This represented limited additional sales from accessing the new channel.

In 2003, Tupperware closed company operations in the UK, citing customer dissatisfaction with the direct sales model as an issue. As an alternative, Tupperware decided to concentrate on selling directly to UK shops or through alliance agreements with other businesses. With no formal announcement made, the firm contacted staff members to inform them that by the end of March 2003, Tupperware would be discontinuing party plan sales in the UK. Jane Garrard, vice-president of Tupperware investor relations, said that while demand for the product remained strong, parties no longer seemed to appeal to UK customers (Barrow, 2003). Did Tupperware's struggles mean that its business model had outlived its usefulness?

In December 2003, Tupperware's credit rating was cut to junk by Standard & Poor's (S&P) because the firm faced risks in rebuilding its Tupperware party business in the United States, postrecession (The New York Times, 2003). The rating on Tupperware's long-term corporate credit and senior unsecured debt was lowered to BB+ from BBB-, and S&P said it might still cut the company's rating further.

Tupperware then admitted that selling through Target had undermined direct sales and subsequently abandoned the initiative (Boyd, 2003). Predictably, by 2005, company performance had recovered somewhat. During that year, Tupperware tweaked its U.S. distribution model by moving away from a distributorship model toward a stronger multilevel compensation structure whereby sales consultants were paid commission based not only on their own sales, but also on the sales of those they recruited to the company. The older system had three levels of hierarchy: sales consultant, manager, and distributor. However, the distributor was getting bogged down by excess paperwork, hindering its efforts toward the key tasks of selling and recruiting. The new system was characterized by a dozen levels as opposed to three, with each level carrying a share of administrative responsibility. To facilitate the transition, Tupperware implemented a state-of-the-art Web-based order management system, via which each salesperson entered his/her orders and thus reduced the amount of paperwork they were required to do. This was especially helpful to those individuals who led large teams.

Tupperware also undertook product line extensions through acquisitions, which represented a different kind of strategic change from diversifying sales channels. In 2000, Tupperware acquired all the outstanding common stock of Beauticontrol Cosmetics Inc., a manufacturer of beauty and cosmetics supplies. In 2005 it acquired Nutrimetrics, the direct-selling business unit of Sara Lee Corporation, a producer of packaged meat and baked goods, for $556 million ("Tupperware Snaps Up," 2006).

In foreign markets, Tupperware has been open to changing its model to suit local regulatory and economic conditions. In countries with a strong focus on marketing through parties—such as Germany, Australia, and New Zealand—Tupperware's market share and profitability continue to grow; these three markets are among the company's strongest. In Malaysia and China, Tupperware has tweaked its sales model to meet the requirements of the business environment. For example, in Malaysia, the company has set up business centers and kiosks to service its sales force and customers (Nambiar, 2009). In China, direct selling to customers via in-home Tupperware parties was illegal until 2005; as an alternative, the firm allowed entrepreneurial storefronts to open across the country in order to sell its products. Interestingly, though Tupperware originally blamed its direct-sales model for poor company performance in the UK and subsequently

ceased operations there, Tupperware re-launched its UK operations in 2005 and once more employed the direct sales model (Nambiar, 2009).

4.2. Putting the strategic changes at Tupperware and their performance impacts in perspective

So what factors might explain the varying performance outcomes of Tupperware's strategic changes? Peripheral changes such as the partnership with P&G did not have much of an impact on Tupperware either way, because they neither enhanced nor threatened the core strengths of the company. They did not conflict with any elements of company strategy, either, and hence could be placed in Quadrant III. On the other hand, opening the new sales channel—selling through Target—threatened Tupperware's core strength: its relationship with its sales force. I would suggest that the direct sales model and its core product, plastic containers—which accounted for 60% of company sales in 2009 despite several forays into other products—are inextricably intertwined ("A Message," n.d.). A cursory look in any supermarket or discount store would reveal that, even after accounting for the two key features of Tupperware containers (i.e., attractive design and lifetime warranty), several product alternatives exist at lower cost. Opening new channels undermined the sales force, a key stakeholder, whose high motivation and morale were critical to Tupperware's success. The new channels also did not involve the strong persuasion that was vital to selling plastic containers at premium prices. Considering the low commitment from employees for this initiative, this change could be placed in Quadrant IV; Tupperware would have done well to avoid implementing it. Also worth consideration is the critical role of peer pressure and impulse buying at Tupperware parties. It is quite unlikely that sales through Target would have made a difference to either Tupperware's top or bottom line.

Tupperware's acquisitions served two purposes: reducing its dependence on the plastic container business and providing salespersons with more products to sell. Since the products inherited from the acquired companies could be sold through the same channel, the company was, in fact, leveraging on its strengths while undertaking the acquisitions. Since many of the products were add-ons that could benefit from direct sales but were unlikely to make a large difference to the company's competitiveness, these would fit in Quadrant III.

Tupperware's strategic changes in foreign markets were necessary due to environmental and/or regulatory factors (e.g., multi-level marketing being banned in China). Quite possibly, the growth potential in foreign markets enabled Tupperware to address the issue of possible market saturation in the U.S. A newspaper in Tupperware's hometown of Orlando suggested that the company's direct-selling business model was more feasible in international markets because of lower competition from retail outlets and greater availability of salespersons because of fewer employment opportunities for women (Pedicini, 2009). Each of these changes (e.g., changing the strategy in Malaysia) would probably fit in Quadrant III while collectively they would fit in Quadrant I.

In summary, the strategic changes undertaken were detrimental to Tupperware's performance when the company's key strength—its sales force—was undermined. When the company leveraged its direct sales model, however, Tupperware enhanced its firm performance and long-term prospects.

5. Process behind the detrimental strategic changes

At this point, it may also be useful to address why changes that might threaten a company's strategy get implemented in the first place. There could be a variety of situations under which these changes may be implemented. First, sometimes a change in management prompts such action (Wiersema & Bantel, 1992). Since outsider CEOs are often brought in to provide a fresh perspective or shake things up, they may have less appreciation of the company's culture and key elements of its strategy and business model (e.g., core and historical strengths); they may also wish to experiment, hoping for better results (Karaeveli & Zajac, 2012).

Consider Lincoln Electric, which went on an internationalization spree between 1986 and 1992 without realizing that the company's business model might not work in other countries due to legal or other institutional factors. Compounding matters, several acquisitions were also undertaken within a short period of time, raising debt and risk levels. Some of the entered countries were introduced through acquisitions, raising debt and risk levels. Finally, the acquired companies had their own histories and cultures, hindering the implementation of Lincoln's intended strategy. Predictably, many ventures performed badly and the company exited those markets. Since the expansion was fueled by debt, for a brief while it threatened the very survival of the company (Hastings, 1999).

In Starbucks' case, Jim Donald was a highly successful manager with a reputation of turning around struggling companies such as Safeway and Pathmark. He had also been in charge of Walmart's grocery business when it was just an experiment,

and was able to design a winning strategy. Donald, though, had never been in charge of a premium-priced service business whose dynamics were different from the lean and mean strategies deployed by supermarket chains. While his idea of expansion of the number of Starbucks locations was not bad in and of itself, too much of the practice provoked business cannibalization. According to Schultz: "Starbucks added U.S. stores too quickly, focused too much on speeding up lines and reducing costs rather than keeping customers happy, and let competitors woo drinkers with cheaper coffee" (Credeur, 2008).

Second, misguided changes may also be implemented when the company's performance falls at either end of the performance spectrum. If a company is struggling, management may be tempted to try changes, however radical they might sound. Sometimes the company's current strategy may be blamed for the company's woes, as was the case with Tupperware in the UK; hence, change is believed to be necessary. On the other hand, if a company is performing well, management may become complacent and its overconfidence/hubris might lead to making changes that are poorly thought out and ultimately detrimental to firm performance (Finkelstein & Borg, 2004).

Third, as shown by the Starbucks example, numerous changes—each of which appears to be small and insignificant—can cumulatively have big implications for a company's competitive advantage and performance. A CEO who understands the key elements of the business strategy, as well as how each of the proposed changes impacts that strategy, is less likely to implement these changes. Ominously, since the numerous changes do not seem particularly significant individually, they can creep up on management. In Starbucks' case, Howard Schultz had to return to the company to reverse the tide.

Finally, uncertainty might play a key role in the performance outcomes of strategic changes. Uncertainty surrounding the implementation of new strategies is inevitable, and even the most accomplished leader can sometimes implement strategies that turn out to be poor. Environmental developments can certainly accentuate the negative performance implications of a strategy. For instance, Starbucks' strategy of aggressive expansion was undermined by the financial crisis of 2007—08, during which a cup of Starbucks coffee was considered by many as an unnecessary luxury.

6. Recommendations and concluding remarks

While I have focused on strategic changes that ultimately proved to be detrimental, sometimes

companies may persist with strategies that have been successful in the past. Continuation of a past strategy, however, poses its own set of risks. Consider the cases of Blockbuster and Nokia. Placing great faith in its existing business model and its importance to the Hollywood studios, and fearing cannibalization of its existing bread and butter product of VHS videotapes, Blockbuster Video postponed the changeover to DVDs and sowed the seeds of its eventual demise. For its part, Nokia persisted with an inappropriate business strategy based on the twin beliefs that customers would place great value on a broad line of phone models, and that emerging market consumers would continue to prefer cheaper-feature phones to expensive smart phones; these incorrect assumptions caused Nokia to slip from the position of dominant industry leader to eventually exiting the industry altogether. The cases of Nokia and Blockbuster suggest that even extremely successful business strategies need to evolve due to the dynamic broader environment (e.g., technology); competitive issues (e.g., new strategies implemented by competitors); and managements' own ambitions, especially as regards growth (Pangarkar, 2012).

From a managerial perspective, it is important to identify—using the 2x2 matrix (see Figure 1)—the positioning of a planned strategic change. Managers and companies might also improve performance by focusing resources on those changes that are located in the most favorable quadrant (Quadrant I): they are competitiveness-enhancing, as well as likely to receive strong commitment from key stakeholders. It may be equally important to avoid implementing strategic changes that fit in the least favorable quadrant (Quadrant IV): they do not enhance competitiveness and stakeholder commitment will be lacking.

Companies can also adopt specific governance mechanisms to avoid the implementation of detrimental changes (i.e., those in Quadrant IV). A combination of a strong corporate culture, a unique strategy, and a new leader might spur the implementation of changes that ultimately prove to be detrimental. While this does not mean that companies should always prefer insider candidates to lead the firm, the board can specifically and clearly communicate the core elements of a company's culture and strategy to its new leaders.

A second way to avoid making changes that will not be supported by stakeholders includes involving the stakeholders themselves in the strategy-making process. P&G's A.G. Lafley was well known for his consultative approach via extensive communication with employees. He also interacted extensively with customers, reducing the possibility that strategic changes he proposed would not sit well with customers (Higgins, 2005). A leader who is open to criticism

and who seeks diverse viewpoints from his/her team is less likely to implement detrimental strategic changes. A leader who is insular and overbearing, on the other hand, might be more susceptible to making detrimental strategic changes (e.g., A.G. Lafley's short-termed predecessor, Durk Jager). Consider the Disney debacle. Many analysts in Hollywood argue that some of the events that impacted Disney post-1994, including the infamous spat between then-CEO Michael Eisner and studio head Jeffrey Katzenberg, would not have happened if Frank Wells—a steadying influence on Eisner—had not died in a helicopter crash (Masters, 2014).

A final possibility for guarding against poor performance through implementation of ill-conceived strategic changes is development of significant execution capability within the organization. Strong execution skills of the top management team might make even difficult changes palatable to key stakeholders. Gioia and Chittipedi (1991), for instance, have highlighted the importance of sensemaking and sensegiving by the top management team in initiating change. While starting his first stint at P&G, A.G. Lafley recognized that the company needed a simple strategy to succeed in the short run. His strategy was based on rationalizing the product portfolio and leveraging the strengths of the company in the marketing arena—its core strength—by pushing its bestselling products. Within a relatively short span of 27 months, Lafley was able to bring about a turnaround which he could later build on with more ambitious strategies. Connect and Develop, his later strategy, drew inventive ideas and technologies from outside the company and leveraged the core strength of P&G in the form of marketing and commercialization.

To conclude, few would deny that strategic changes are necessary in an evolving world. In this article, I have identified different types of changes and their performance implications. I have also identified the decision-making process and corporate governance aspects that might lead to poor strategic choices. Finally, I have proposed a set of recommendations that management can reference in order to avoid the implementation of these poor strategic choices. Given the ubiquity of strategic changes at companies of all types, I believe that my analysis and recommendations will be useful to a wide range of companies.

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