Strategic consistency

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Evolutionary change is fundamentally important in strategy

- ”In an unchanging environment...an established firm that had succeeded in creating optimum administrative procedures and framing an optimum set of policies could operate succesfully without any overt acts of central management at all.” (Penrose 1959; quoted in Foss 1997)

Four Glostra principles

1. Industry is a necessary factor in firm performance.
2. Competition and path dependence are mechanisms that explain industry evolution
3. Industry life cycle is a function of the market process and firm level competitive actions
4. Competitive actions are driven by firm internal cognitive and architectural structures

The related concepts

	Does the concept operate at the level of competitive actions?	Does the concept have a temporal element?	Does the concept include managerial intention / agency?
Comprehensiveness	No	No	Yes
Path dependence	No	Yes	No
Momentum	No	Yes	No
Convergence	No	No	No
Structural inertia	No	Yes	No
Coherence; consistency	No	No	Yes
Fit / Alignment / co-alignment	No	No (in evolutionary sense yes)	Yes
Stickiness	No	No	Yes
Incrementalism	No	Yes	No
Competitive inertia	Yes	Yes	No
Conformity / Non-conformity	Yes	Yes	No
Competitive simplicity	Yes	Yes	No
Strategic consistency	**Yes**	**Yes**	**Yes**

Key messages

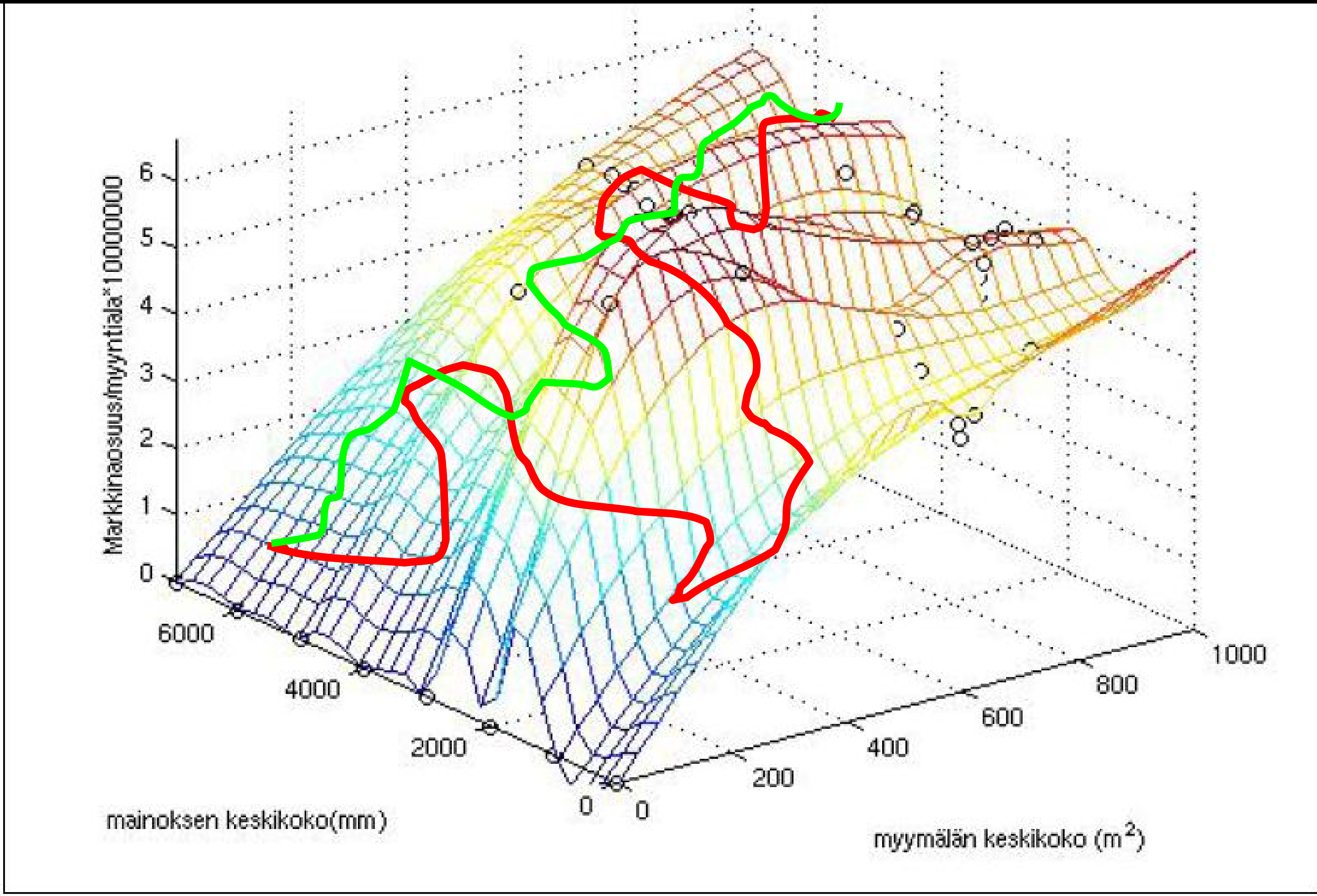
- The unit of analysis is the series of competitive actions; by definition detectable and in series constitute the strategy of the firm.
- Our historical and systemic theorizing offers an alternative way to explain competitive behavior in conjunction with changes in the firm's internal and external environment.
- Strategic consistency is not only something that deterministically happens (cf. inertia; path dependence; incrementalism). On the contrary, our proposition is that appropriate consistency is a necessary condition for firm survival over extended periods of time and to large extent manageable.
- In sum, our theoretical model is comprehensive, honors historical realities and opens opportunities for acting managers to measure and balance competitive actions per dynamics in the market process and the firm's own history.

What consistency is and why it is important?

The concept

- Stable environment:
  - Considering a firm operating in a relatively stable ('no-change') environment, an optimal level of strategic consistency is expected to be the comparability in the repertoire and amount of competitive actions that an organization undertakes when conducting its competitive stance.
  - Thus, in a business environment that does not change, or changes only very incrementally (e.g. in a regulated market) firms may be successful by continuously following a constant trajectory of action.

- Dynamic environment:
  - The relationship between strategic consistency and performance in a dynamic environment is fundamentally curvilinear. Over time, the optimal level of strategic consistency means a balance between being fully consistent with the past on the one hand, and being fully adaptive with environmental change on the other (cf. Hambrick and D'Aveni, 1988; Zajac *et al.*, 2000).



Kuva 4: Suhteellisiin arvoihin perustuva fitness landscape

Why consistency is good:

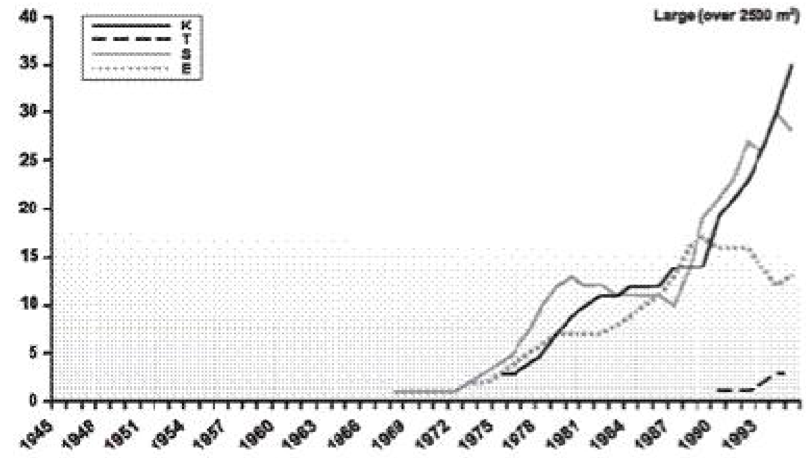
- Change is costly.
- Frequent changes in competitive behavior may decrease the legitimacy of the firm and lead to unwanted actions by important stakeholders (Meyer and Rowan, 1977; Pfeffer and Salancik, 1978).
- Actions which are not in line with past behavior may lead to an imbalance between organizational capabilities and current competitive actions (cf. Miller and Chen, 1996).
- Without an extensive repertoire of available actions and capabilities stemming from the historical activities of the firm, firms may have difficulty in interpreting the current competitive situation and determining what would be the subsequent set of competitive actions (Spender, 1996; Farjoun, 2002; Levinthal and Rerup, 2006).

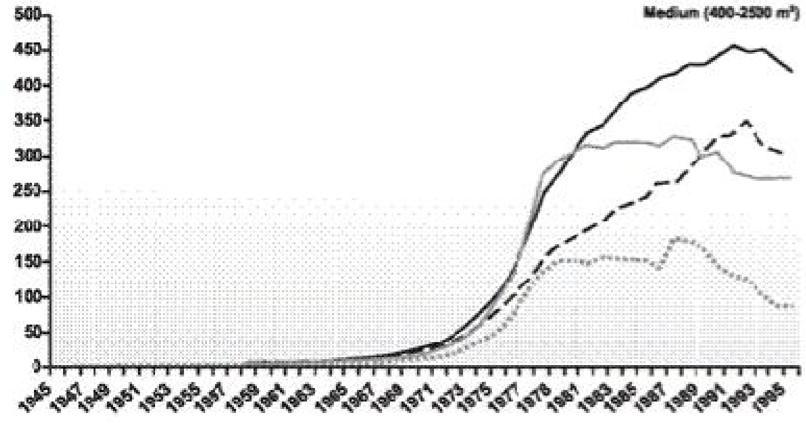
An historical example

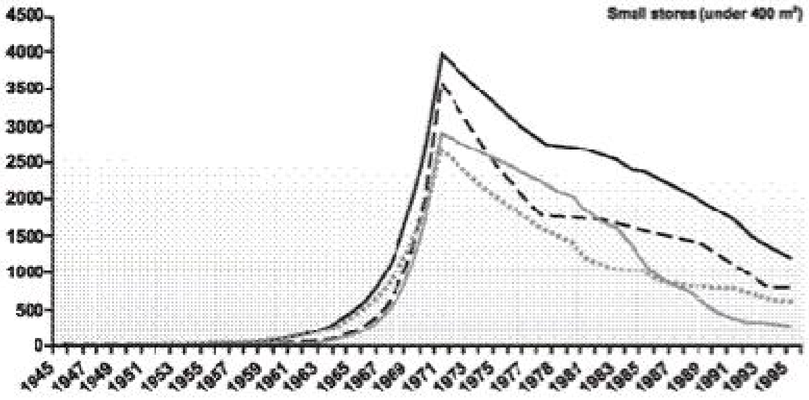
Research setting

- four dominant retail organizations during the time period between 1945 and 1995
- radical transformation from a highly regulated, oligopolistic setting to a deregulated and more competitive market
- until the Finnish membership in the European Union in 1995, the studied retail market was in practice closed to foreign competitive entry.
- the aggregate market share of the studied four retail organizations accounted for more than 90 per cent of the grocery goods market during the entire period of study
- competition between the four retail organizations resulted in the demise of two of the studied four organizations towards the end of the period of study.

"…it cannot be demanded that one wholesale firm could be as rational as centrally managed Kesko…if we accept this it would mean the termination of all wholesale owners of TUKO." (Board member, 2nd of September, 1976)







"Although we know that many of our grocery shops will not survive for long, we must support them. We must help them believe in the future even if that future might be a very short one…our own existence and results are dependent on them (i.e. small grocery shops)." (the minutes of T marketing day 26.9.1976)

"…we sure have poorly selling outlets. Dissolving them would be of utmost importance, but it is very difficult from the perspective of the management. We must find a means to keep these small local shops alive." (Meeting of Suur-Savo shopkeepers 29th of December, 1963)

Measure for strategic consistency

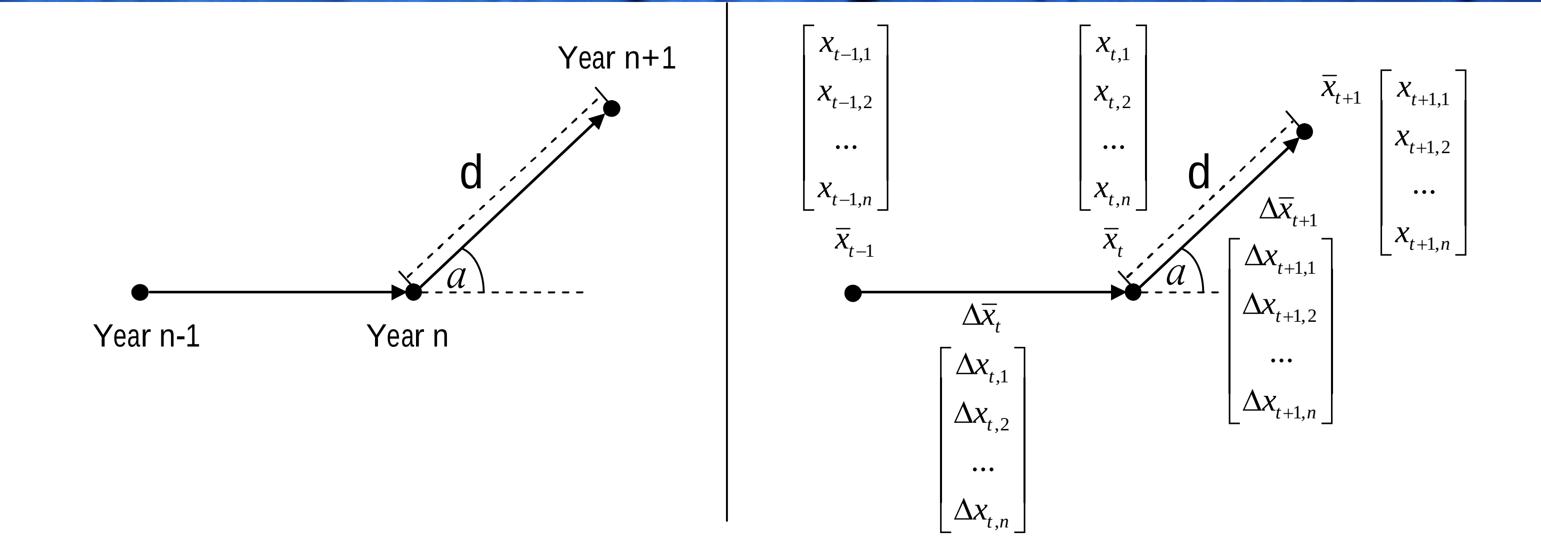


Figure 3a. Components of the measure of strategic consistency in a two-dimensional situation.

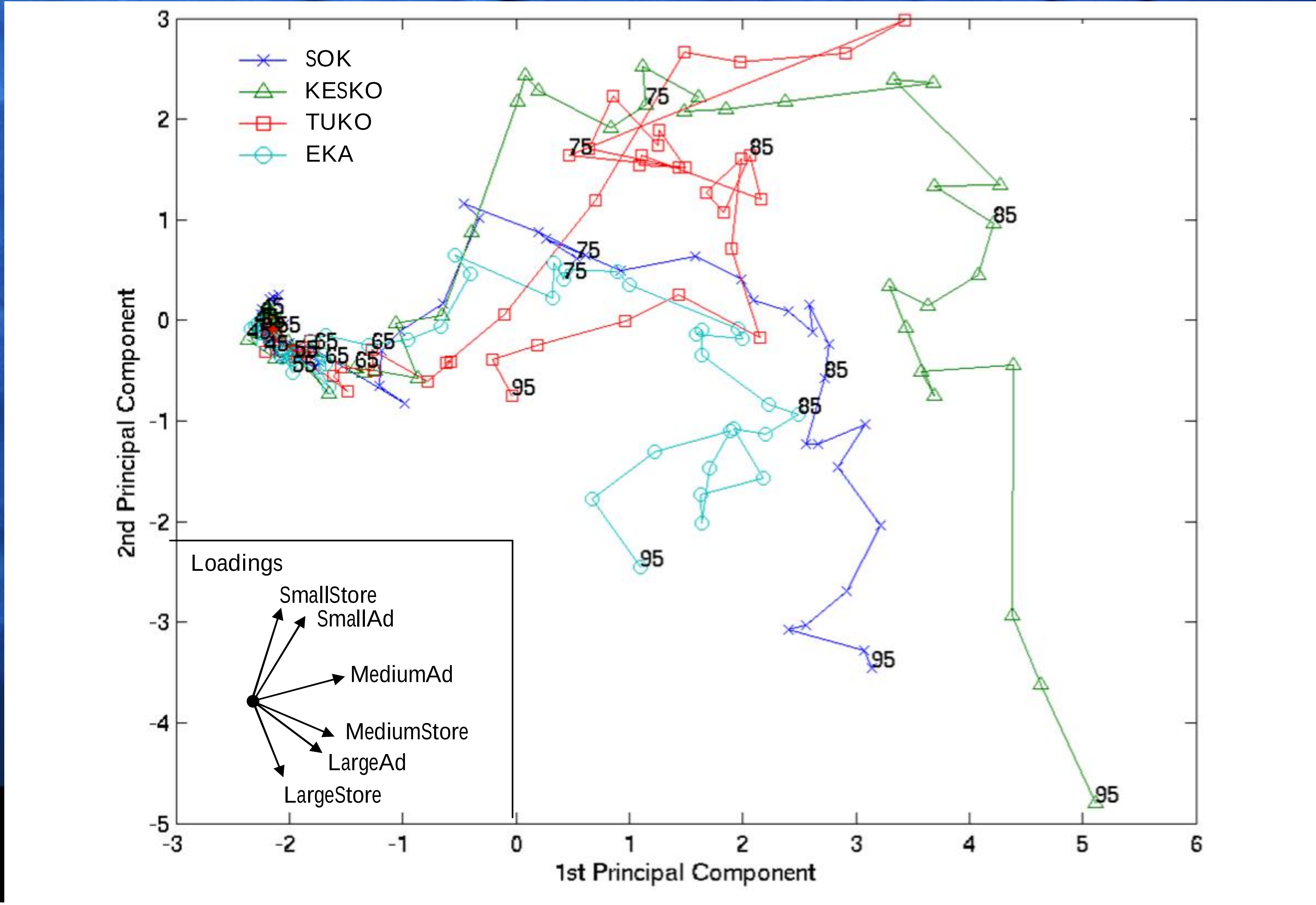
Figure 3b. Components of the measure of strategic consistency in a multidimensional situation

The level of strategic consistency

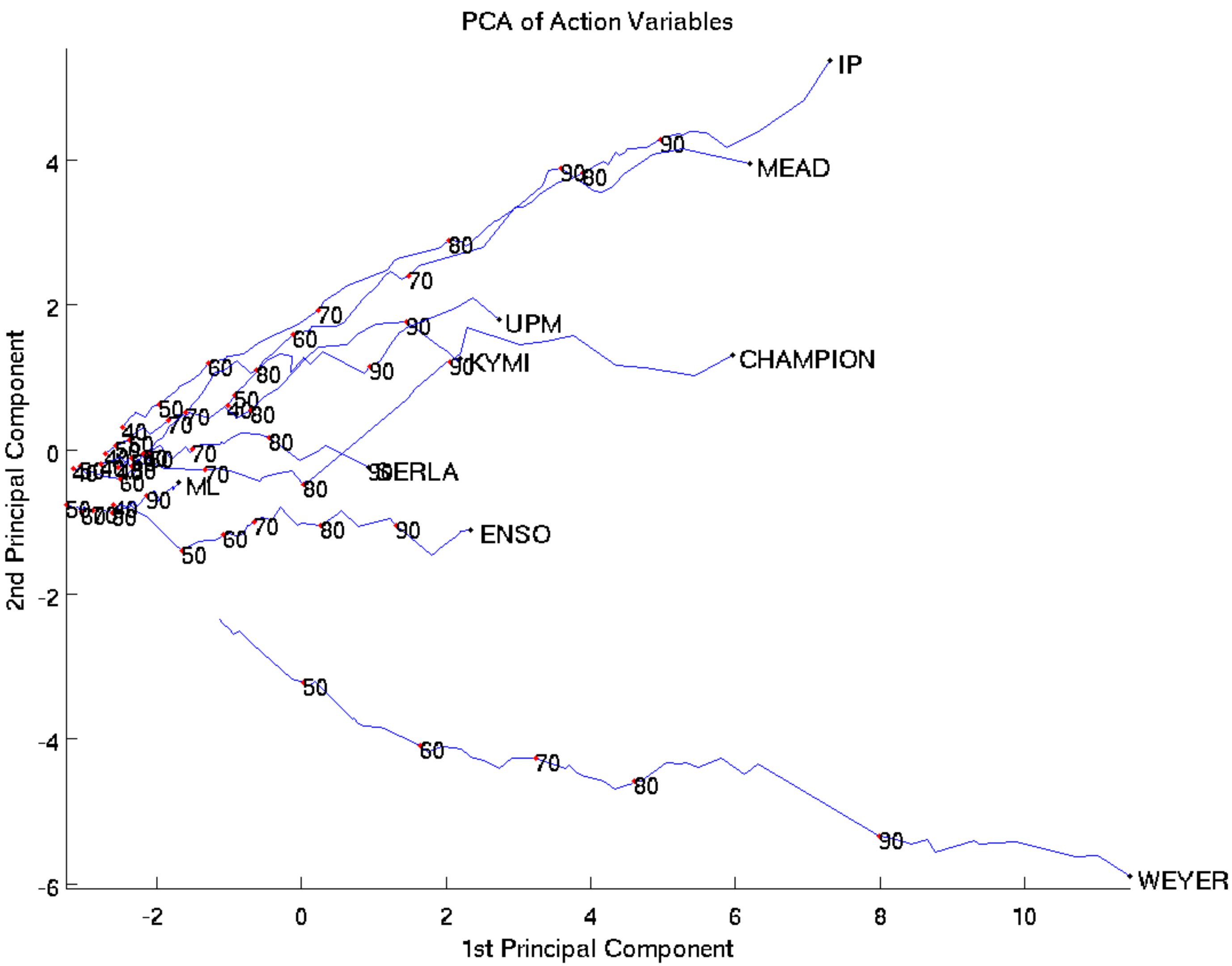
Period		Kesko Value (Upper limit) (Lower limit)		TUKO Value (Upper limit) (Lower limit)		EKA Value (Upper limit) (Lower limit)		SOK Value (Upper limit) (Lower limit)
Regulation (1945-1965)		0.425 (*) (0.468) (0.382)		0.380 † (†) (0.426) (0.333)		0.414 (0.433) (0.395)		0.509 * (0.556) (0.462)
Deregulation (1966-1980)		0.483 (*) (0.501) (0.465)		0.363 † (†) (0.397) (0.329)		0.631 * (0.663) (0.599)		0.560 (0.591) (0.530)
New means of competition (1981-1995)		0.303 † (0.326) (0.280)		0.484 (0.527) (0.442)		0.510 * (†) (0.550) (0.470)		0.454 (*) (0.484) (0.423)

* Highest value for the sub-period
† Lowest value for the sub-period

Movement in the landscape



The same metrics may be applied to other industries



Antecedents of strategic consistency

Earlier ecological understanding

- Consistency is an unintentional result of evolutionary process
- Organizations with high inertia (and thus high legitimacy, and low transformation costs) have higher probability of survival than do organizations with low inertia.
- *inertia*: "...speed of adjustment relative to the temporal pattern of key environmental changes." (Hannan & Freeman, 1989: 88)

The Red Queen Competition

- Running faster to keep the level
- Competition enhances adaptive learning
- As a result, firms acquire capabilities which makes them stronger and stronger in the specific context
- When they move to some other context they only have the special skills and knowledge (competence trap)
- However, without red queen competition (Blue Ocean Strategy) firms do not learn.

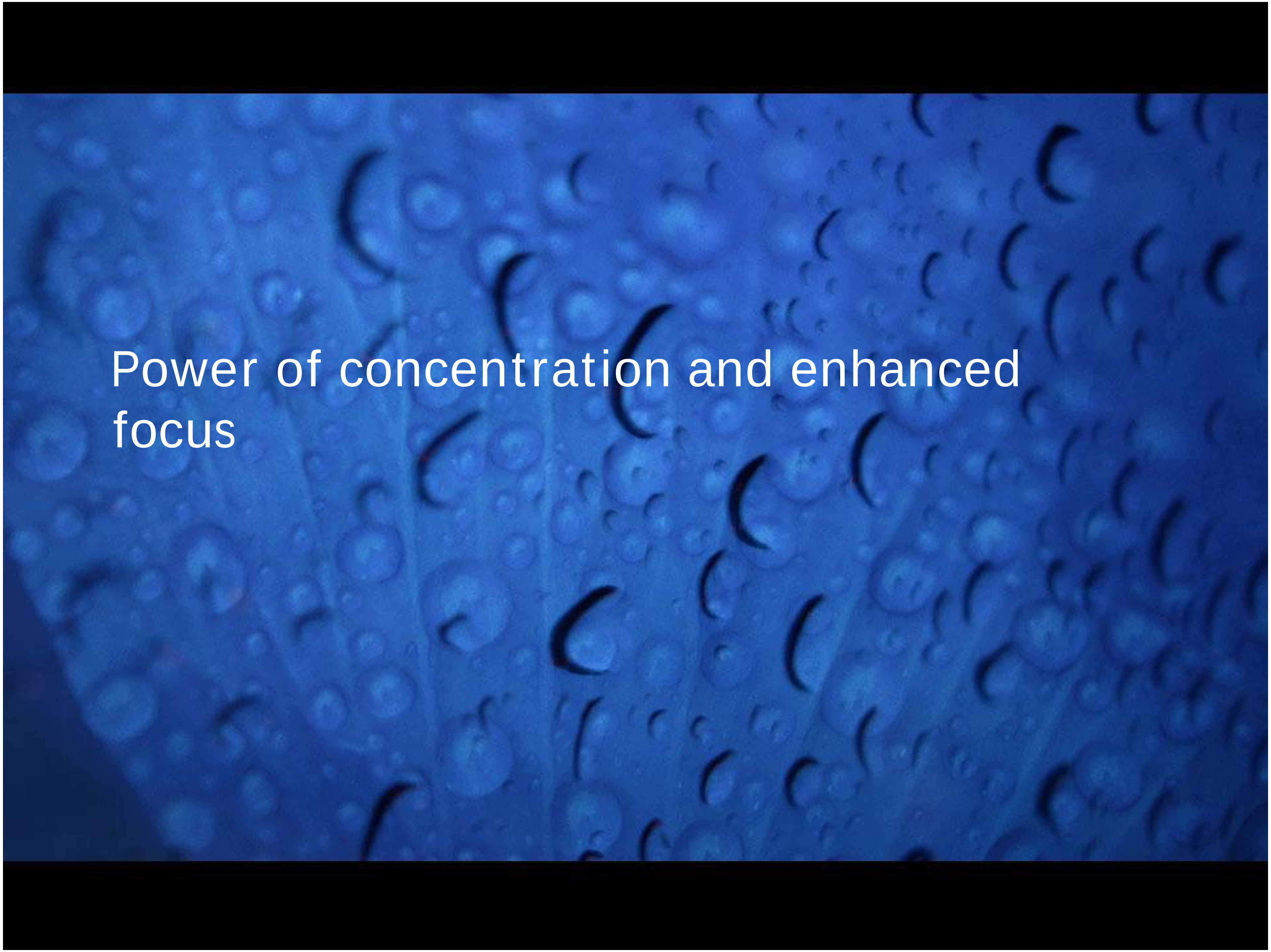
Three Glostra alternatives:

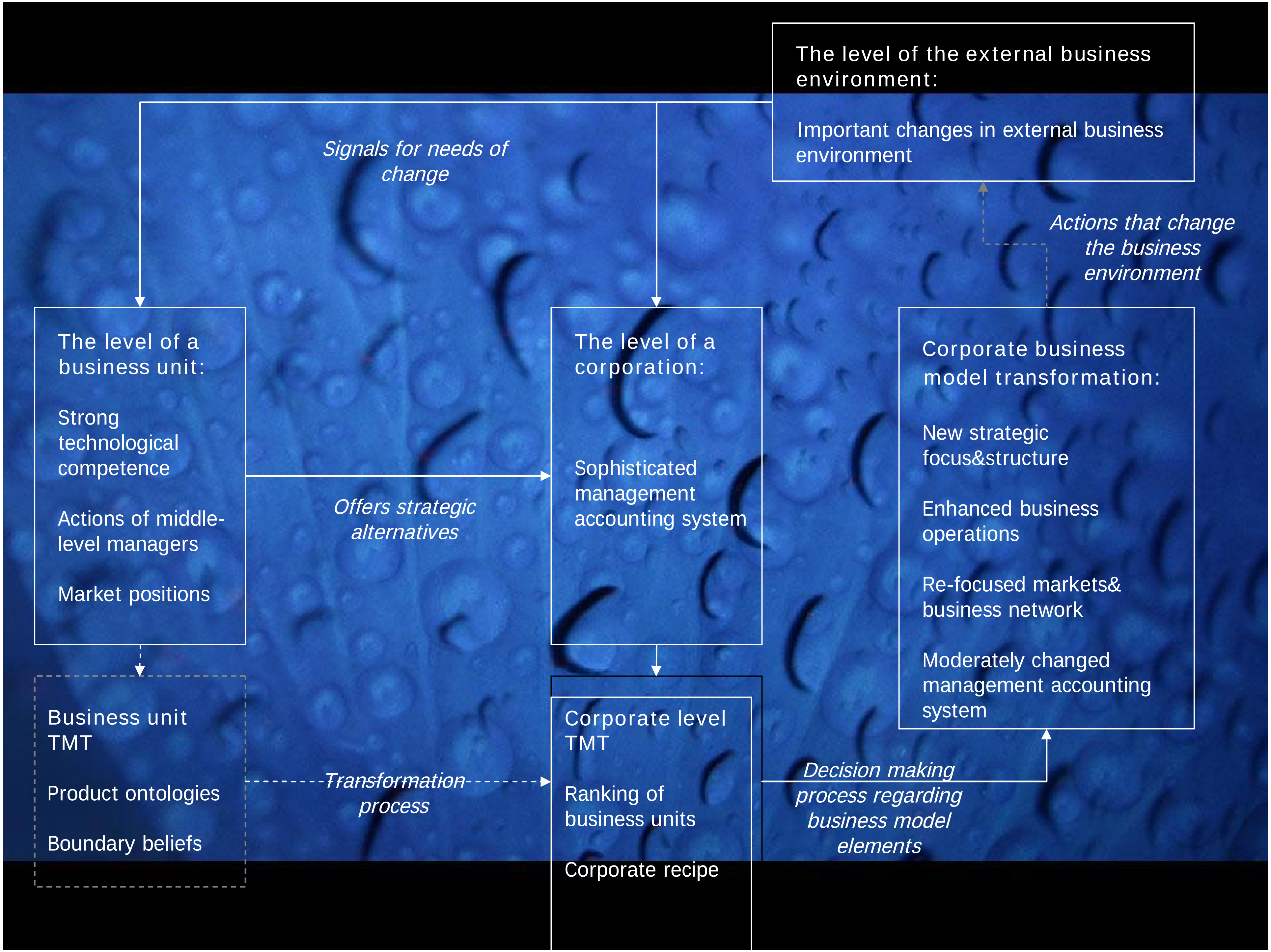
- Power of administrative and analytical resources and capabilities
- Power of concentration and enhanced focus
- Power of strategic leadership and entrepreneurial action

Power of administrative and analytical resources and capabilities

- Proposition 1. The more resourceful and focused the administrative body of an organization (Kesko and SOK), the higher the probability to achieve an optimal level of strategic consistency. Likewise, the more fragmented and weaker the administrative body of an organization (TUKO and EKA) the higher the probability of a suboptimal level of strategic consistency.

- Proposition 2. The less disputed a new strategic direction (Kesko) is, the easier it is to achieve an optimal level of strategic consistency. Likewise, the more disputed a new strategic direction is among political coalitions (TUKO and EKA), the higher the probability to choose easily available competitive actions (e.g. advertising versus store founding) resulting in a suboptimal level of strategic consistency.


Power of concentration and enhanced focus


The level of the external business environment:
Important changes in external business environment
Signals for needs of change
Actions that change the business environment
The level of a business unit:
Strong technological competence
Actions of middle-level managers
Market positions
Offers strategic alternatives
The level of a corporation:
Sophisticated management accounting system
Corporate business model transformation:
New strategic focus&structure
Enhanced business operations
Re-focused markets& business network
Moderately changed management accounting system
Business unit TMT
Product ontologies
Boundary beliefs
Transformation process
Corporate level TMT
Ranking of business units
Corporate recipe
Decision making process regarding business model elements

Market vs. Technology Dimensions of Niche

Technological scope (stock of routines & knowledge)		Market scope (coverage + position): Narrow	Market scope (coverage + position): Wide
	Narrow	Specialist	S - G
	Wide	G - S	Generalist

Power of strategic leadership and entrepreneurial actions

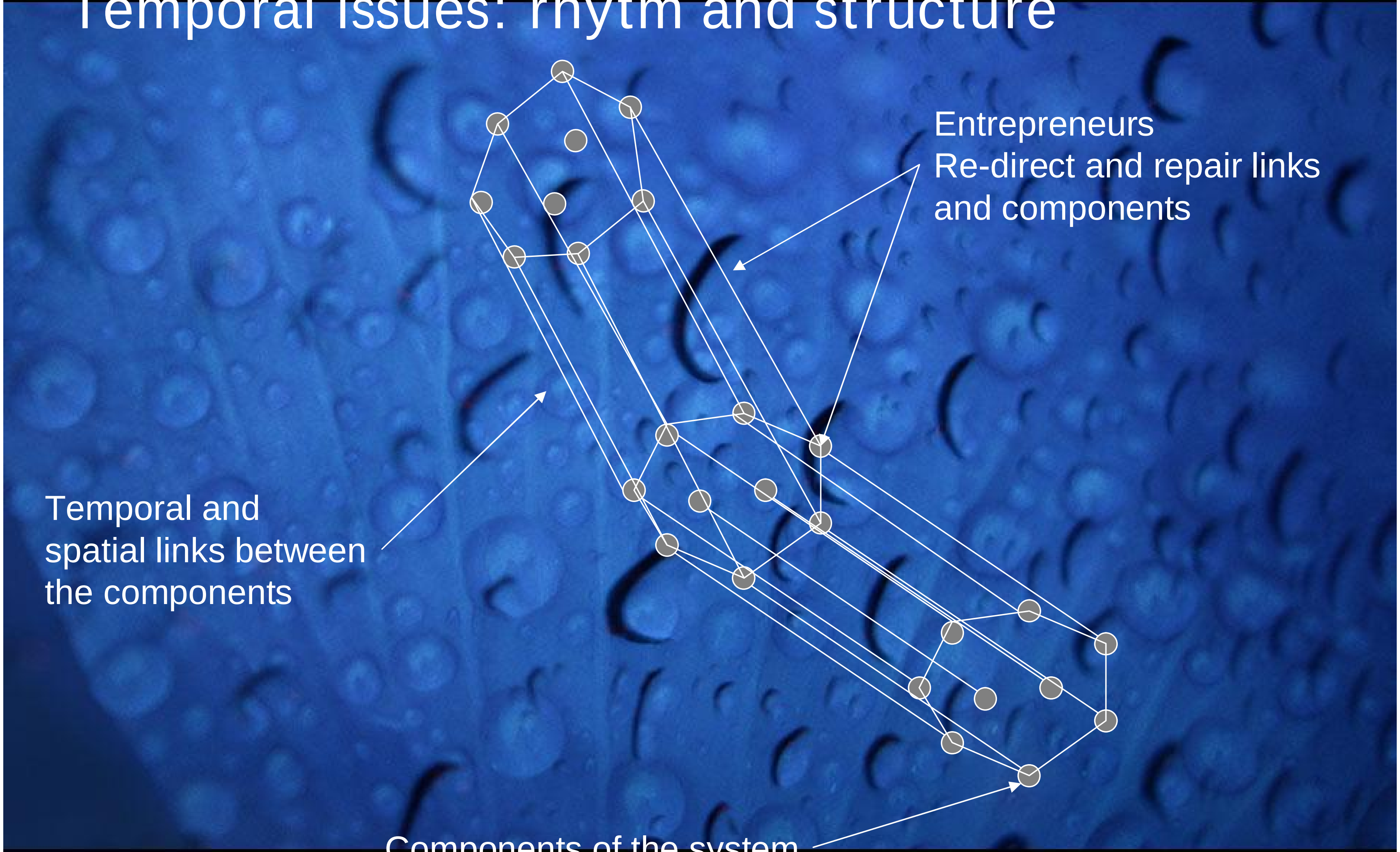
"...understand the power of improvised activities in the face of ambiguity and uncertainty, especially if there is the possibility of acting in concert. "

The story

- Finnish civil war 1918
- Collapse of the Russian market
- No organization for entry to new markets in the western Europe

- Critical case: observable changes in specific elements of the institutional system

Temporal issues: rhytm and structure



Strategic leadership

- Managerial wisdom, ability to learn, and ability to change may be the basic elements of strategic leadership. However, they are only elements. In order that strategic leadership successfully realizes these elements need to be *correctly combined*. In other words, besides that a leader should have a whole bunch of these capabilities and managerial wisdom, this bunch should also match with the organization and the broader environment.

Conclusion

- Strategic consistency is a necessary cause of long-term economic performance and ultimately organizational survival
- In an international – sometimes turbulent – business environment this (empirical) fact is easily forgotten
- Glostra research has identified:
- What strategic consistency is
- What are the causal pathways (i.e. forces) that manifest in strategic consistency
- What kinds of processes allow the emergence of strategic consistency