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Strategic inertia and renewal: Contrasting responses to market changes

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ABSTRACT

The academic, consulting, and practitioner-oriented literatures present many examples of companies that have failed to adapt their strategy in the face of a changing competitive arena, even when their top managers and executives acknowledged the need for change—and had a reasonable idea of what ought to be done. By means of an in-depth study of two polar cases of large companies from the fast-moving consumer goods sector, this study sheds light on the complex intertwined causes that lead some companies into strategic inertia, while others engage in strategic renewal. Our theoretical framing of possible causes of inertia encompasses cognitive schema, power and politics, emotions, and communication. Our findings provide credible evidence that strategic inertia (or renewal) is the outcome of conjunctural causation, so that a similar initial cause may result in different outcomes depending on the processual interaction with other contributing factors at the organizational, group, and individual levels. The conjunction of various causes can lead a company's managers to adhere rigidly to their sources of past success or, alternatively, embrace novel pathways despite short-term uncertainty and anxiety.

1. Introduction

Although there are countless examples of organizations that illustrate that the roots of past or present success may, paradoxically, sow the seeds of future downfall, many companies still do not adjust their strategies until it is too late to lead the industry or even catch up. In the literature, this phenomenon is known as "strategic inertia," defined as failure by the top management team to undertake purposeful actions to reorient a firm's strategy and competitive moves when substantial changes in the external environment render its current positioning unfit for the future (Tripsas and Gavetti, 2000; Hodgkinson and Wright, 2002; Hill and Rothaermel, 2003; Hopkins et al., 2013).

To advance understanding of strategic inertia, this study addresses the question: *why do some top management teams, even when recognizing changes in their external environment, not adapt the strategy of their organization while others in the same industry renew their strategy?* Our search for an answer to this question took us to the literature, where we found diverse categories of causes of strategic inertia (see Section 2). The literature points toward bounded rationality resulting in cognitive biases and reliance upon outdated schema, inflexible routines, emotions associated with the status quo and change, managers' conflicting interests and political maneuvers, a stable organizational identity, patterned attention and communication, and constraining institutional pressures within

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industries. These explanations span different levels of analysis and lack theoretical integration. We designed our study to explore empirically how these proposed causes and their interplay enter processes resulting in strategic inertia or renewal.

We conducted an exploratory in-depth study of two polar cases—two multinationals in the same fast-moving consumer goods (FMCG) industry in Brazil, one of which hesitated while the other reacted to the same contextual changes. The analysis recognizes that strategic inertia is a multilevel phenomenon that includes the individuals with decision-making roles (e.g., their cognitive limitations, power-enhancing tactics, and emotions) and the dynamics among them, and extends elsewhere in the organization to its internal complexity and relations among units. We contribute to managerial practice by highlighting the roles of managerial attitudes, incentives, organizational values and history, communication among top management and the board, and the overall decision-making process in inertial and renewal responses.

By examining contrasting cases, this study delves into strategic renewal, which is a logical contrast to inertia. Analyzing the data to identify differences between inertial and adaptive organizations reveals that the triggers of strategic renewal may not simply be the absence (or opposites) of the roots of strategic inertia. Instead, the two phenomena may arise idiosyncratically within each firm. Similar drivers (for example, in our two cases, pride in past success and, afterwards, performance decline) may lead to distinct reactions by each company, depending on how drivers interact with other factors at multiple levels. This study improves current understanding about the complex, processual, and conjunctural nature of organizations' paths to strategic inertia versus renewal. Renewal is not a straightforward road, but rather one that coexists with inertial forces that need to be identified and overcome. Our results lend credit to the argument that successful renewal is an effortful process over time, with multiple thrusts and pushbacks, rather than a one-time move, which underscores the relevance of timing and pacing (Ben-Menahem et al., 2013; Nguyen et al., 2022).

2. Strategic inertia: a brief review

The management literature on inertia in organizations offers many examples and has advanced diverse explanations for its occurrence. We briefly review those explanations here.

Institutional pressures and constraints tend to produce macro-culture homogeneity within an industry (DiMaggio and Powell, 1983; Hill and Rothaermel, 2003). Macro-cultures, fostered by dense interorganizational value chain networks, account for the frequent failure of entire industries to renew their practices and strategies in the face of contextual shifts. The constrained flow of information within interfirm networks can limit managers' perceptions of the marketplace and produce shared mental models (Porac et al., 1989; Reger and Huff, 1993) that limit adaptive diversity.

Also, organizational identity, which relates to questions such as "who are we?" and "what do we do?" (Raffaelli et al., 2019), directs the development of capabilities, knowledge, routines, and issue framing (Tripsas, 2009). The (conscious or unconscious) resistance to identity-violating changes can be a source of organizational inertia when novel strategic possibilities are distant from the status quo, and thus trigger managers' opposition (Tripsas and Gavetti, 2000).

Organizations learn by encoding into their routines past actions and procedures that have produced satisfactory outcomes (Levitt & March 1988). However, highly structured routines can be a source of organizational inertia in otherwise changing settings because they tend to restrict organizational search for new information and novel ways of behaving. Routines that have become the core competencies of a firm may limit the organization's adaptability by becoming core rigidities in a changing environment (Leonard-Barton, 1992).

Managers are boundedly rational (March and Simon, 1958; Simon, 1976) and inherently have information-processing limitations that narrow the range of strategic options that they consider. They construct simplified mental models when dealing with complex problems (Schwenk, 1988). Managers can become excessively dependent on their established mental models and fail to notice or act on changes in the circumstances of their business environment until the organization's capacity for successful adjustment has been seriously impaired (Hodgkinson, 1997; Hodgkinson and Wright, 2002). Such cognitive inertia could be the result of information overload, previously learned formulas, and patterns of thinking that are extremely difficult to change (Reger and Palmer, 1996; Tripsas and Gavetti, 2000).

Managers also suffer from cognitive biases that distort their capacity to consider discrepant information and to employ unprejudiced reasoning for decision making. *Anchoring bias*, the tendency to rely excessively on one piece of information (usually the first one available), status quo *bias*, the preference to keep the current state of things, usually due to past decisions (even when superior alternatives are available), and the *sunk cost fallacy*, the tendency to continue investing in an path of action as a result of previously allocated resources (even when there are better alternatives), favor inertia in decision making.

The interplay of managers in organizations and their collective interpretation of an ambiguous external environment also involve political pursuits and negotiation of divergent interests (Kaplan, 2011). An organization's goals consist of a coalition of interests that emerge amid conflicts among individual members' goals (March and Simon, 1958). Coalition members tend to resist strategic moves that can potentially destabilize their dominant position, as these actors try to maintain their power and influence (Hill and Rothaermel, 2003; Kaplan, 2008). Managers' attempts to maintain existing allocations and control over resources promote inertia rather than adaptation to changing environments.

Also, there is evidence that top managers frequently act based on the emotions they experience at the time of a decision, in reaction to their expected outcomes (Loewenstein and Lerner, 2003). When affect and reason conflict, the former may outweigh the latter to govern behavior (Loewenstein et al., 2008). Changes that satisfy an individual's goals elicit positive emotions, while changes that threaten those goals produce negative emotions (Frijda, 1988; Lazarus, 1991). External shifting environments that impose relevant adaptational challenges on organizations can place emotional burdens on top managers that increase their resistance to revising their assumptions, beliefs, values, routines, incentives, or privileges (Huy, 2008).

Overlaid upon these intra-organizational considerations, formal and informal communication channels play a key role in directing attention and, ultimately, strategic change (Ocasio et al., 2017). Managers may be embedded in organizational structures where patterns of communication blur their perception of the competitive landscape, thus jeopardizing innovation processes and long-run performance (Vuori and Huy, 2016). Additionally, when internal narratives are deeply rooted in past beliefs and frames of reference that have not been updated to the new conditions of the competitive environment, they have the potential to limit the questioning of prevailing strategic assumptions and, hence, the company's adaptation to new challenges (Geiger and Antonacopoulou, 2009).

As presented in this concise review, the literature on strategic inertia highlights multiple causes, including cognitive limitations and biases, managerial power clashes, emotional load, organizational structures and communication patterns, and interfirm networks. The literature offers a rich set of plausible explanations for strategic inertia. These disparate explanations encompass various levels of analysis—ranging from the individual manager to the management team, organization, value chain, and industry—that have yet to be integrated theoretically and in empirical research. This study seeks to advance understanding of the process of strategic inertia and the interplay among these various causes over time. We explore why organizations diverge from one another—toward inertia or renewal—in a transforming industry. We do so, not from a single theoretical perspective, but from a framing that encompasses the diverse causes identified in prior research on strategic inertia.

3. Research design

In our quest for insights about root causes of strategic inertia, we chose an exploratory design to unveil explanations—whether present already in the literature or not. To shed light onto the accumulated stock of knowledge about strategic inertia in contrast to strategic renewal, our design deliberately revolved around two companies that were quite similar in many respects and experienced similar external pressures but reacted in opposing ways. In their contrasting behaviors, these companies "fill theoretical categories and provide examples of polar types" (Eisenhardt, 1989: 537). We framed our retrospective data collection and analysis from a process perspective, as contrasted with a variance perspective (Mohr, 1982).

3.1. In-depth study of two polar cases

The two companies, given pseudonyms Alpha and Beta, were large, internationalized firms employing similar sales approaches in the same fast-moving consumer goods (FMCG) industry. We intentionally chose two companies with distinct strategic responses (inertia versus renewal) to identify, through comparison, the factors leading to their divergent outcomes. In some cases, the same causal factor produced distinct outcomes in each of the two organizations, as explained in our findings.

During the time of the case studies, each competitor held a substantial stake in the Brazilian market, which was the context for our data collection. Alpha was headquartered in the United States and Beta had been founded and was headquartered in Brazil. Both companies had built quite successful direct selling models and were similarly challenged by changes in their industry, especially in Brazil, a key market where they competed against each other. One of the companies, Alpha, did not adapt promptly or sufficiently to the remarkable changes in the market, while the other, Beta, managed to adjust its strategic position (although not without instances of inertia along the way).

The U.S. market historically provided the largest share of Alpha's revenues until problems started to appear during the first decade of this century. Stagnant growth was followed by decreasing sales and margins, which a few years later further deteriorated into losses. Alpha's second most important market was Brazil, where it had been operating for approximately fifty years. As their financial results worsened in the U.S., Alpha saw Brazil as their greatest opportunity for recuperating. There, the company enjoyed the largest market share of its segment until 2005, when an indigenous competitor (Beta), then already internationalized, conquered that position. Despite losing its leading share in Brazil, Alpha continued to post steady growth rates in the country from 2005 to 2010, which made Brazil the largest and most important international market for Alpha. However, by the end of 2010, failures in the execution of a much-needed change in its outdated IT system caused a blackout of its order processing and delivery system that affected the results of Alpha Brazil and consequently the consolidated financial statements of Alpha. The IT revamping problems extended until 2011, which raised further concerns about the performance of the entire organization because of its increasing dependence on Alpha Brazil's results. At the time, Alpha's U.S. results continued to deteriorate because of new, specialized and more agile competitors, alternative distribution channels that offered replaceable products (refills), the obsolescence of its customer value proposition, and important technological advancements, such as e-commerce, which brought significant challenges to Alpha's traditional direct-sales approach. The years that followed showed that the concerns were justified, as the same market changes that started earlier in the U.S. were underway in Brazil and pushing companies to adapt quickly.

Beta was founded in Brazil and the domestic market remained its most important, even as it built a strong position in Latin America and engaged in some forays into Europe and the U.S. Beta was recognized by its differentiated approach toward the natural environment and the populations where it sourced most of its ingredients, as envisioned by Beta's founders since the company's inception. Later, the founders left the daily management of Beta's operations to preside over the company's Board of Directors, where they were involved actively in strategic decisions and discussions with the top management team and made a point to ensure Beta would not leave behind its differentiated strategy and values. Beta significantly accelerated its growth in the first decade of the 2000s and conquered market share leadership in its segment. However, by the end of that decade, Beta's top managers noticed that significant changes were taking place in the Brazilian FMCG market (the same changes that affected Alpha). They realized that if Beta were to keep its growth pace and market leadership, an ambitious strategic reorientation was crucial.

The two companies had implemented successful direct selling models in Brazil and elsewhere. However, this model was eventually challenged from multiple fronts. The following transformations characterized the first two decades of the 21st century of FMCG industries in Brazil:

- The growth of the domestic economy and of formal employment (under President Lula's tenure, 2003–2010) started to negatively affect the attractiveness of the direct selling occupation after years of consistent growth. Sellers in informal and part-time flexible work could now find formal jobs, which provided higher and more stable income.
- Large brick-and-mortar retail companies from the same industry and from other FMCG sectors expanded their product portfolios, conquered market share in their traditional channels, and expanded into direct selling.
- New competitors (mostly targeting price sensitive consumers) entered the industry via direct selling.
- As a result of the smartphone revolution, e-commerce and social media expanded rapidly, putting resellers at a disadvantage and altering the purchasing habits of consumers (who started to engage more intensively in price and brand comparisons and could choose products without the need of a printed catalogue provided by a reseller).

Alpha Brazil and Beta experienced simultaneously these significant changes in the Brazilian market. Hence, our logic in selecting these two companies was to gather data to examine a natural experiment that controlled, in general, for environmental influences and, to some extent, organizational attributes, thereby allowing us to focus primarily on the dynamics of the top management teams in their contrasting responses of strategic inertia and renewal.

3.2. Data collection procedures

We searched for annual reports and letters to shareholders as well as articles in the Brazilian and international business media published between 2009 and 2019. We chose 2009 as a starting date because until then both companies featured good results under relatively stable market conditions. However, in 2010, Alpha Brazil suffered an enterprise resource planning (ERP) system blackout with consequences that continued and intensified in the next year. In that same year, Beta hired a consulting company to forecast the industry twenty years ahead. From 2011 onward, market changes deepened. In 2011, Alpha's share price fell more than forty percent and Beta started to diversify its channels, and then its products and geographic coverage.

In addition to drawing from secondary sources, we conducted in-depth interviews (via video calls due to Covid-19) with current and former top managers of both companies—five from each company—between November 2020 and May 2021. Interviews were conducted in Portuguese and lasted for 64 min on average and ranged from 47 min to 100 min. We were able to triangulate between distinct sources of data (secondary and primary) and between key informants who were current executives or board members—and would therefore have an updated perspective—and those who had worked in the respective company during the focal period (2009–2019) and since left. Table 1 identifies the informants.

A semi-structured interview script (available in the online supplement) gave respondents latitude to identify potential causes of strategic inertia (and renewal), thus providing novel insights. It also allowed us to uncover ways in which these causes interact. The interview comprised two main parts. First, a *spontaneous* one, in which we started with open-ended questions about the most significant changes that affected the industry in recent years, how the company reacted to those changes, and how competitors responded to the same changes. Second, after digressions by the interviewee seemed to have reached a standstill, we initiated a *stimulated* part, in which we asked questions about specific roots of inertia covered in the literature (such as cognitions, politicking and power dynamics, emotions, and communication). The interviewees also spoke about their main competitor (either freely initially or stimulated by us later). Overall, we remained open to new insights, while we also were cognizant of the prior literature.

We acknowledge that retrospective accounts are a second-best alternative to longitudinal fieldwork, yet they suited our purpose of doing comparative studies of two parallel cases with divergent outcomes. Because retrospective data embodies potential biases, such us memory failures and *ex-post-facto* rationalization (Golden, 1992), we took four precautions to offset such biases. First, for each company, we ran in-depth individual interviews with several informants of varied functional areas (and all at the top management or board level), who had been with the company in different time periods. Second, we interviewed both executives that were still in the

Table 1
Key informants.

	Organizational role	Tenure in the company
Alpha (in Brazil)		
A1	CEO	1982–2012
A2	CFO	2012–2017
A3	VP of Human Resources	2013–2016
A4	Director of Sales Development	2015-present
A5	Director of Supply Chain	2016-present
Beta (in Brazil)		
B1	CEO	1989–2014
B2	Business Controller	2006–2015
B3	Sales Model Manager	1988-present
B4	Director of E-commerce	2012-present
B5	Marketing Channel Manager[a]	1985–1995

[a] This executive was a consultant to the industry at the time of our interview.

company (since the period when inertia manifested) and executives that had left the company (who are supposed more neutral and detached). Third, since there might be an effect of groupthink, we asked the informants of each company to provide their view about how the other company (their major rival) had reacted to the transformations in the external environment. Such cross-case view by the informants is expected to be less susceptible to groupthink and emotional attachment. Thus, we triangulated within each organization and between them. Convergence among independently obtained views made us confident that potential biases from collecting retrospective data had been attenuated. Fourth, while we deliberately focused on informants' retrospective interpretations (as opposed to contemporary "factual" observations), we also triangulated across the cases and with "facts" published in secondary sources (companies' annual reports and letters to shareholders as well as articles in the business media).

3.3. Data analysis procedures

Verbatim interview transcripts were coded in Atlas.ti software, version 9.0.7. One of the researchers conducted the first round of coding, which was revised by a second researcher, and differences were reconciled between them. The Gioia method (Gioia et al., 2013a, 2013b; Magnani and Gioia, 2023) guided the data analysis. The analysis began by identifying initial concepts in the data and grouping them into categories. Conceptual coding reflected the language used by the informants whenever possible. Then axial coding was performed, in which relations (similarities and differences) between the categories led to assembling them into higher-order themes. The letters to shareholders contained in the companies' annual reports were also coded and served for triangulation purposes. We constructed a factual timeline of events to bring a longitudinal process perspective to the organizations' experiences of strategic inertia and strategic renewal.

4. Findings

We found various causes of strategic inertia, and of strategic renewal for that matter, in the top management teams and the interactions among their members. Other causes were more dispersed within the organization and related to company history and organizational structure and processes. However, the inertial forces did not act in isolation; we observed conjunctions among multiple causes that either hampered or fostered the strategic adaptation of each company to market changes.

Table 2 provides an overview of the second-order codes organized by themes. The online supplement presents the complete data structure, which starts from empirical evidence—consisting of quotes from the interviews (translated from Portuguese to English) and the letters to shareholders—that led to data-derived first-order constructs. The first-order constructs, in turn, motivated second-order constructs that we grouped according to themes. Table 2 summarizes second-order codes for both companies organized into seven themes: organizational performance, cognitions, emotions, power and politics, communication, organization structure and processes, and strategy execution.

Table 2
Second order codes.

Theme	Alpha	Beta
Organizational Performance	• unsatisfactory local financial performance • unsatisfactory corporate financial performance	• discontent with financial performance and sense of urgency to turn around
Cognitions	• headquarters knowledge gaps about local market and operations • local operations knowledge gaps	• awareness of market changes • slow and incomplete recognition of implications
Emotions	• positive feeling about company's history • denial of new reality • lack of motivation to act	• confidence in the company's capacity to turn around • pride and fear delayed new strategy
Power and Politics	• misaligned incentives • self-serving and parochial behavior • lack of openness to dissenting voices	• misaligned incentives • defense of status quo • power clashes • silence of dissonant voices • direction from top leadership
Communication	• poor communication with main sales channel • deteriorating relationship with main sales channel • improved communication technology • overoptimistic about external communication	• active and authentic communication
Organization Structure and Processes	• centralized decision making • organizational rigidities • management and personnel turnover	• openness to new ideas and propensity for experimentation • unanchored views of the future • consensual decision making • balance between current and future performance (ambidexterity) • focus on stakeholders
Strategy Execution	• "milk the cash cow" behavior	• efficient strategy execution • stakeholders' conflicting interests delayed execution

4.1. Alpha case

There were two distinct phases of Alpha Brazil's history of strategic inertia.

4.1.1. Phase I: antecedents of potential misfortune

Phase I refers to the period when Alpha was growing steadily in Brazil, until 2010. Despite the first signs in the U.S. that its strategy was becoming outmoded and the loss of its leadership position in Brazil, Alpha's and Alpha Brazil's top managers did not change the strategic course of the company. Interviews with current and former top managers from Alpha Brazil made it clear that the company did not notice relevant changes on the horizon, such as the upcoming trend of integration of multiple sales channels into an omnichannel approach, the obsolescence of its customer value proposition, and the need to digitalize the relationship with sales representatives and consumers, to name just a few of the issues. Interestingly, top managers from the competitor, Beta, almost unanimously reinforced this perception by highlighting that Alpha was seen as an aging competitor that had stopped innovating and did not notice important market changes. In the words of Beta's CEO, "[Alpha was] an old brand, offering a service worse than ours [Beta's], significantly worse than ours."

In terms of cognitions, Alpha presented knowledge gaps (mainly by the headquarters) about the local market and operations, that is, "[Alpha] slept on a cushioned bed and did not notice that the world was changing … did not notice it is omnichannel, that all is integrated" (VP of Human Resources). The headquarters would make decisions without listening to local managers: "The [corporate] head of supply chain could say: 'my strategy of supply chain for [Alpha] is this. Brazil is going to be like this, Mexico is going to be like that' … and the general manager of Brazil, who was here to operate this day to day, had a decision [taken by the corporate headquarters] that he had not necessarily agreed to or taken" (Director of Sales Development).

Alpha also suffered from knowledge gaps by their own local managers, including wrong perceptions of products, sales representatives, and customers: "When you are the leader in a traditional model you don't question much, you accept because you are really good at it … but you don't necessarily satisfy your customers' needs" (CEO). This was confirmed by Beta's opinion about their main competitor: "… in my opinion [Alpha] became an archaic company because it was slow to notice the significant change in the Brazilian consumer 20 years ago … [Alpha] did not understand that the customer had changed, that the reseller had also changed" (Channel Marketing Manager, Beta).

There were also overclaims about the strength of the direct selling model as reflected in the executives' perceptions: "If we could sell everything … through direct selling … everyone would sell 100% using direct selling. It is the best channel of all industries I know" (VP of Human Resources); "[t]he guy that was abroad [at the headquarters] would look at Latin America and think: 'Latin America will have another 30 years of direct selling. Nothing to worry about because there it sells easily'" (Director of Supply Chain). Alpha's 2010 letter to shareholders, despite mentioning some initiatives to enhance the value proposition to sales representatives, emphasized that the company's direct-selling model and portfolio were "as relevant as ever," and stated that the company expected to return to past growth and profitability by focusing on "excellence in execution" in all aspects of its business. Alpha's 2013 letter to shareholders stated, "Direct sales is the core of [Alpha]'s business and strengthening the fundamental processes that support a healthy direct selling business is a top priority."

Alpha was late to engage in digital technology and e-commerce: "I think Alpha remained steps behind in terms of digitalization … in the way the company interacted with its resellers and customers … I think it was a bit slow" (Director of Supply Chain). A Beta manager conveyed: "Alpha's reaction … was slow … it started the digitalization transformation in 2016, still based on its relationship with the reseller … the e-commerce took much longer … and it did not work" (Director of E-commerce, Beta). Subsequently, Alpha's 2016 letter to shareholders claimed progress on digitalization during that period: "In 2010, we launched a comprehensive suite of e-tools, including the e-brochure and other web-based tracking tools."

The interviews provided evidence that the successful past of Alpha hindered changes to its long-established strategy. Top managers emphasized that Alpha leadership knew how to "manage prosperity but not scarcity" (CEO) and that employees were proud of the company's reputation. Alpha had experienced a comfortable market position for a long time and did not acknowledge that the world was changing. Interviewees also mentioned that Alpha's historical success and market leadership led to hubris among top managers that contributed to mistakes in decision making and late reactions to external changes and competitors, as well as problems with the service and commercial conditions offered to representatives.

Alpha's blindness, or outright denial, of the changing reality was to a great extent the consequence of emotions—particularly, arrogance from past success, as voiced by Alpha's CEO: "Our mistake was possibly the leader's hubris … the customer will have to accept my deficiencies because they are the leader's deficiencies … until the day someone makes it better than you." As perceived by Beta's Channel Marketing Manager, "This hubris, this arrogance, was an impressive mark of [Alpha] executives." The VP of Human Resources pointed to the nostalgia for the organization's glorious past: "I'm sure there were traces of nostalgia because it was so successful."

There was also a sense of powerlessness and the resulting lack of motivation to act because of pressure for short-term results: "You feel impotent, and the impotency is to say, I know what we should do, I would be an ally of this change … but publicly listed companies don't have the patience, don't have the time" (CEO). However, in their communication to external stakeholders, Alpha's headquarters somehow recognized the company's share of responsibility for the disappointing results, as shown in the 2010 letter to shareholders: "We conducted extensive research which confirmed that our performance in the second half of 2010 largely reflected execution and operational challenges in several key markets."

The interviews also revealed misaligned incentives. Alpha's multiple internal departments had their own goals, not linked to the overall profitability of the company, a situation that jeopardized communication and coordination across units. Managers and employees could receive their full yearly compensation if they met their annual departmental objectives, even when the company dropped in market share, sales, and profitability: "[Alpha] didn't reach the sales and profit results, but some areas received their full share of the profit [if they reached their division goals]" (Director of Supply Chain). Top managers' incentives were not linked to the company's strategy, but to short-term performance: "The incentives were focused on the results, not the strategy" (Director of Sales Development), which headquarters pushed to be delivered every quarter. Additionally, two current Alpha Brazil top managers stated that compensation packages were great, with high fixed salaries and low variable compensation tied to strategic results: "They [the managers] earned a lot [from] compensation packages from the prosperity period" (Director of Sales Development).

4.1.2. Phase II: failure to adapt and consequent decline

Phase II, which spans from 2011 to 2018, featured the arrival of a strong new competitor (other than Beta) in direct selling and the intensification of market changes, which accelerated Alpha Brazil's loss of market share. The CFO complained, "The financial model, the economic model, they were not paying off." With the continuous deterioration of financial results at Alpha headquarters, they intensified pressure on Alpha Brazil to deliver short-term results. The CFO of Alpha Brazil saw that the company was "looking for solutions based on a quest for short term results" and "the U.S. business situation affected even more the Brazilian subsidiary as it became a cash cow for the rest of the organization, hence reducing its investments that were needed for future growth." Beta's Marketing Channel Manager presented a similar opinion about the role of Alpha's Brazilian subsidiary: "Brazil and Latin America were the cash cow, because while the rest of the world was undergoing transformations and suffering, the model here in Latin America still guaranteed a financial return for [Alpha]."

In 2012, the CEOs at both Alpha and Alpha Brazil were replaced, and Alpha's letter to shareholders announced that the company would "take aggressive action to get the business back on track" and "rebuild the company's core" by reducing costs and improving margins, hiring better talent, and incorporating technologies connecting sales representatives. Subsequent letters to shareholders echoed the same speech about financial restructuring, value creation for sales representatives, strategy execution, and new products. In fact, Alpha's letters to shareholders displayed frequent allusions to the company's strong brand and leading position in direct selling, which conferred "unique advantage," even when Alpha was facing severe problems.

However, the letters also indicated that Alpha did not have a clear strategy to rescue its operation, as no plan was ever articulated. Alpha was trying many options at the same time, searching for a way out of the internal crisis and external challenges. Alpha Brazil's top managers, in hindsight, expressed hesitancy to commit to a strategy because, in the words of the VP of Human Resources, "not changing was sure death but changing in the wrong way was also sure death" and "how can we develop this [new] business model … without cannibalizing six million sales representatives that have built this company?"

In search of a turnaround, Alpha turned over its managers, which led to power clashes, as reflected in statements like: "… politics, some people with shorter tenure [as company employees] causing turmoil, [while] some people really engaged, and others were thinking more about the money than the company. And internal games, a pity, really sad" (CEO). The Director of Sales Development described managers taking a "protect my turf" stance: "… each one taking care of themselves" and thinking in terms of "what do I have to do to keep my job?"

Top-down decision making was the norm. The Director of Sales Development complained, "Decisions were concentrated at the global board, taking away autonomy from the general manager of each operation." The CFO stated, "We had autonomy, but it was an autonomy within the budget parameters … the question is: were the budgets realistic? [If] the budget is unrealistic, then in reality you are not giving me much autonomy or you are limiting my autonomy." Centralized decision making and gaps in knowledge about the local operation narrowed the alternatives available to top managers at Alpha Brazil, who complained that key decisions were taken at headquarters, such as the decision to update Alpha Brazil's IT system in 2011 (which culminated in a logistic blackout), and the launching of new product lines not suited to local market needs. Alpha Brazil had an unbalanced portfolio of products, with many items unfit for local consumer preferences, which jeopardized efforts to improve sales.

As pointed out by the Director of Sales Development, fear of being fired made local managers afraid to speak up ("I don't want to be seen as resistant to changes by the board") and the threat of punishment for mistakes ("mistakes at [Alpha] jeopardized your career") squelched dissonant voices. High managerial turnover disseminated anxiety and fear about the future: "a high turnover in all levels of the sales force, then starts that feeling: I'm not sure this is for the long term … that short termism contaminated many spheres" (Director of Sales Development). Some recognized that "our model is not working because of the high [sales] representatives' turnover" (CFO).

System rigidities also played a role: "the company was so complex, so large, that it didn't turn into execution" (Director of Supply Chain). Alpha's CEO put it this way, "When I'm talking about the system, it is not the digital part, for which we were already a little behind … I'm talking about the central system, the basics, invoicing, order processing, the heart of the business. We were late, very late."

The interviews and the letters to shareholders suggested poor planning and execution. Departments not only had their own goals disconnected from Alpha's overall result, but they also developed their own action plans (under time constraints and pressure for short-term results) with few interactions with other departments. Poor coordination among top managers at Alpha Brazil had a direct impact on the execution of plans. The company's Director of Supply Chain pointed out that Alpha often made plans quickly with little information and executed them poorly.

Among top managers, turnover and internal avoidance of conflict contributed to inertia. There were changes in the chain of command and the top management team of both Alpha and Alpha Brazil from 2012 onwards. New executives arrived with the mission of promoting a turnaround, but results fell below expectations. Accordingly, top managers started to hedge their positions as successive cost-cutting plans were underway, allegedly to bring the company back on track. Two of Alpha Brazil's top managers (Director of Sales

Development and Director of Supply Chain) remarked that managers were fired for not delivering the expected (short-term) results, and mistakes at the company could jeopardize one's career. Some top managers had reservations about decisions taken at the headquarters but, due to internal politics, refrained from speaking up; those who questioned headquarters' turnaround proposals could be seen as resistant to changes and would have to bear the consequences.

As a result, the company settled into "milk the cash cow" behavior. This was evident in downstream relationships: "We had a disequilibrium between pull and push, we started reducing investment in customer pull, but made a channel push: buy because you [the sales representative] will have advantages … but what about the sell out?" and "people acted considering what were the quick wins" (Director of Sales Development). The headquarters drained the Brazilian subsidiary, "Instead of investing that profit from Brazil to create a digital model for the future, [they used] that money to fund the headquarters and other markets with poor performance" (CFO).

Short termism hindered strategy execution. As the Director of Supply Chain recounted, "I said: 'I have a restriction for this product' but it had been launched already" and "[Alpha] made quick decisions with little information, but during execution you realize you left something important out. And now? Then you had to improvise in the middle of the way."

Retrospective acknowledgement of strategic inertia was voiced by all interviewees from Alpha: "The past success … was the reason for organizational inertia … the model changed … and Alpha didn't follow through. Why? It [the model] was still working. It takes time to notice it" (VP of Human Resources). The company "lacked the vision to understand that our reseller and the world were changing quickly, and that the service value proposition for a customer is more and more effectiveness, speed, approximation" (CEO). Alpha was characterized by "this lethargy in adjusting the model to the current reality of resellers and customers; it didn't update its model, the commercial model" (Director of Sales Development). Alpha "also didn't update the service part of the business, left behind the modernization of systems and consequently also services" (Director of Supply Chain). The CFO summarized, "I think Alpha lost time, space in the developed world … it reacted late outside Brazil, especially adapting to the digital world."

However, despite the many inertial forces, there were some efforts to adapt the selling model (but still focusing on direct selling), such as attempts to modernize the company's communication. As argued by Alpha's CEO, "The largest change was the communication between the company, the industry, and the resellers … the possibility that the company could communicate and satisfy needs that were not perceived with the traditional model."

4.1.3. Summary of Alpha case

Cognitive inertia, hubris (resting on past glories), and misaligned incentives contributed to strategic inertia at Alpha. Centralized decision making at the headquarters and poor knowledge of the Brazilian reality led to strategic mistakes; as a result, the company (and its local subsidiary in Brazil) did not produce a coherent strategic plan. The local subsidiary was plagued by high turnover, and misaligned, short-term, incentives which prevented local executives from looking beyond quarterly results (which were under scrutiny by both the headquarters and the financial market), even though this posture meant sacrificing adaptive transformation. Financial distress, which might have lit the spark of strategic renewal, when coupled with avoidance of conflict, led to abstention from proposing innovative ideas (for fear of being questioned by the headquarters and fired) and from crafting a viable strategic plan. Overall, communication between top managers from Alpha Brazil and the headquarters proved inadequate to address well-known but under-discussed problems. Poor planning and lack of execution feedback undermined the (erratic) tentative actions to adapt the company to a new competitive reality. Table 3 summarizes the factors conducive to Alpha's inertia.

4.2. Beta case

The process of successful adaptation by Beta can also be split into two distinct phases.

Table 3
Roots of strategic inertia at Alpha Brazil.

Drivers	Individual	Management Team	Organization
Organizational Performance			Decline in financial results and consequent distress
Cognitions		Lack of local knowledge by the headquarters Lack of local knowledge by the new members	
Emotions		Arrogance from past success Overconfidence in the historically successful selling model	
Power and Politics	Incentives for short-term results	Turnover and unstable coalition	
Communication	Avoidance of conflict Refraining from speaking up	Suppress dissonant voices	Poor communication with sales channel
Organization Structure and Processes			Top-down decision making Organizational rigidity
Strategy Execution			Lack of articulated plan Quest for short-term results Poor execution of the plan

4.2.1. Phase I: antecedents of potential adaptation

Until 2010, Beta grew considerably in Brazil and in Latin America. Top managers kept a sharp eye on changes in the external environment that could eventually affect Beta, including transformations in more mature international markets where the company was not yet present: “As we evaluated the development of this segment [online selling] in more mature markets, in Europe, the USA, this was something we knew. We believed it would also happen in Brazil; it was a matter of time” (Business Controller). Additionally, the company frequently hired external consultants in unfamiliar areas to learn and gain support for internal decision making. As voiced by the Marketing Channel Manager, “[Beta] is a company that never measured efforts to hire external consultants for any and every topic. Do I know the topic? No, I don’t. Bring in an external consultancy that has the knowledge.”

By the end of 2010, top managers realized it was becoming harder to sustain Beta’s historical growth rates under their current strategy. Market research pointed toward new trends across distribution channels for the FMCG industry: robust growth of online sales, steady growth of physical retail sales, and decreasing growth for direct sales. The CEO stated that, by the end of 2010, their own research indicated that the company’s strategy had to change from “mono-brand, mono-geography, and mono-channel” to “multi-brand, multi-geography, and multi-channel.” The CEO reasoned that the strategy needed to be: (1) “multi-brand” because the FMCG market was fragmenting into specialized segments; (2) “multi-geography” because the growth prospects for Latin American economies for the next 20 years were below those for other continents, such as Asia; and (3) “multichannel” as a result of sales representatives’ rising incomes from other sources, which made direct selling relatively less attractive, and because digital technologies allowed consumers to bypass sales representatives. The letter to shareholders in Beta’s 2010 annual report stated that the company was “prepared to answer the challenges of the new times” and despite minding short- and medium-term objectives, Beta had “built its vision for 2030.”

Top managers highlighted that Beta had an easy-going and informal culture with “easy access to executives, an informal environment, a free environment, very easy communication … a great internal environment. I would say the best environment I have ever worked in” (Business Controller). “When you participated in meetings with the founders, you always left excited because there was room for any leader, any manager to do something new or creative” (Marketing Channel Manager), which stimulated the search for innovations in the company’s products and operations. As the Marketing Channel Manager put it, “We used to say the following: ‘[Beta] is the coolest company in which to release a trial balloon.’” Beta’s culture was that of a questioner, relentlessly trying novel approaches and tolerant toward failures, which fostered creativity and enthusiasm. Accessible communication channels among employees promoted open and broad interaction. This culture was clearly characterized by the Sales Model Manager: “The climate was more like ‘What is there we haven’t seen?’ and less of finding who was to blame, but like ‘What do we need to learn that we haven’t learned yet?’”

Additionally, Beta’s values and approach toward the environment and society made its employees proud of the company. The letters to shareholders successively mentioned not only the positive financial results the company posted during this phase, but also its positive contribution to sustainable development: “sustainability as a core principle … to guide our way of … doing business [and] our vision of generating a positive economic, social, environmental and cultural impact in the long term” (2017 letter to shareholders). Alpha’s managers noted the felt sense of pride: “[Beta] has in its roots … a sense of belonging, of being proud” (Alpha’s Director of Sales Development). The letters also presented positive indicators of the internal climate assessment and the intention to constantly improve in this regard. Beta was frequently featured in the public press as a company whose growth strategy was based not only on economic and financial performance, but also on environmental and social contributions.

Beta’s top managers underscored the company’s participative planning and execution process: “This democratic decision making is present in the whole organization … decisions are always shared, which significantly reduces the search for someone to blame” (Sales Model Manager). Long and detailed discussions permeated strategy meetings, and required participation from different departments, even those not directly involved or affected by the topic under discussion: “[Beta] gave ample space for people to communicate their opinions … it took a long time for decision making because people were asked: ‘What do you think? And you? What about this?’” (CEO). Management’s intention was to encourage different perspectives and work toward internal consensus, based on clear evidence, about the best course of action: “Debate with data and facts, and if there wasn’t a consensus, then let’s reschedule the meeting and return to the topic, eventually requiring further information about it, or even hiring a consulting firm to have its suggestions” (Business Controller). Even their main competitor noticed, “[At Beta] you had autonomy to dare [whereas …] at [Alpha] the culture was: mistakes jeopardize your career” (Alpha’s Director of Sales Development). Top managers described Beta’s strategic decision process as long, detail-oriented, evidence-based, and grounded on consensual negotiation. The interviewees also pointed out that execution was efficient as all parts involved were aligned and had a clear strategic direction.

Alpha Brazil’s top executives provided a corroborating description of their competitor, Beta. As maintained by Alpha’s Director of Supply Chain, “[Beta’s planning process] is well structured, with multidisciplinary groups … there are 50, 70 people” and “[Beta] takes care of the listening, the space to talk, it is much more open.” It is worth emphasizing that Beta intentionally experimented with new selling models, while preserving the (still) successful direct selling approach. Beta’s CEO stated, “We always had one team focused on the short term, targeting efficiency, and another team focusing on what can bring differentiation in the future.”

4.2.2. Phase II: successful strategic reorientation

Beta’s strategic renewal took place between 2012 and 2018. The company’s reorientation did not happen overnight, nor was it smooth. Despite previous discussions and apparent general agreement among top managers that it was necessary to redirect Beta’s strategy, internal resistance threatened the execution of the plan, which set a general direction but demanded adjustments through consensus building. Some top managers feared the possible adverse effects that diversification into new distribution channels could have on the company’s sales representatives. Top managers remarked that those representatives had always been at the center of

Beta's strategic decisions and the new strategy deviated from cherished beliefs. The lack of internal consensus also obstructed the open communication previously prevalent among top managers. The former CEO stated that "the disagreement was unspoken … [but] you could notice it at decision-making moments" and "in the second phase I think we didn't have the atmosphere to have an open discussion and for divergent opinions to show up because they were not comfortable as a result of this disagreement among them [the founders]."

Beta's past and present success with its strategy inhibited change, despite the warning signaled by a declining market share. Top managers noted that there were moments of arrogance—because they perceived their company as "the best"—that interfered with their acknowledgement of the speed of change required. As a result, important steps in the plan did not advance as intended.

The strategic reorientation also was marked by the arrival of new top managers coming from different industries: "Then they searched for executives from the pharmaceutical industry, executives from [another consumer's good company], that brought a high level of professionalism" (Marketing Channel Manager), while other top managers who had long tenures with Beta left. The transition to a new political coalition was not smooth: "It [power games] absolutely happened … and the first unhappy executives started looking for other opportunities in the market" (Marketing Channel Manager). Despite the power clashes, these newly hired executives brought unanchored views of the future. The CEO decided that it was time to leave, "After 10 years, also for personal reasons, I thought it was the moment for a renewal … [for] somebody more aggressive than me." The new executives were hired to bring new skills and help overcome the company's challenges, as well as to help implement the new strategy. However, changes in key positions fostered power battles, hurt the historical internal harmony, and made decision making less participative.

Beta and Alpha shared similar internal obstacles to strategic adaptation: a successful history and consequent arrogance, lack of consensus about (despite awareness of the need for) the strategic reorientation, tense atmosphere among decision makers, changes in the top management team, related political behaviors, and multiple episodes of hesitant strategy execution. However, unlike Alpha, Beta was able to renew its strategy and transformed itself into a multi-brand, multi-geographic, and multi-channel company. Beta opened its own physical retail stores for the first time and developed an e-commerce platform that integrated customers, physical stores, and sales representatives. Direct sales continued to be at the center of Beta's strategy, but with an enhanced value proposition. The company also engaged in strategic acquisitions abroad that brought new brands into its portfolio and provided access to international markets beyond Latin America, including a world-wide chain of physical stores.

Top managers reported that, as Beta's results deteriorated, the company developed a sense of urgency to change. As put by their CEO, "In my view what changed is that the company posted bad results." Beta's letters to shareholders and material published in the business press, even at the beginning of the transition to a new strategy, repeatedly mentioned the company's objective was to modernize the direct selling model by means of technology. The letters to shareholders stated that Beta needed to adjust the business model to a more dynamic and competitive reality ("marked by intense, fast-paced, comprehensive and interdependent relationships and by exponential connections") and "expand through different channels and markets." as stated in the 2015 letter to shareholders. The internationalization of its operations was mentioned frequently, highlighting the growth of the company in Latin America: "We sought inspiration in our history of expansion in Brazil to mold the strategy of growth in other Latin American countries" (2012 letter to shareholders). Movements toward physical retailing had the objective of evaluating the acceptance and performance of the corporate brand in this channel. The same occurred with Beta's online platform, first tested in specific geographic areas and then opened to representatives and consumers.

The strategic renewal accomplished by Beta was not free of inertial incidents. Past success itself delayed perceiving increased competitive pressures. As voiced by the Sales Model Manager, "I think the changes were not perceived at the first moment … We were growing in our channel, and about to come was a wave of higher competitiveness, higher diversity of value proposition to resellers that we were not observing at the moment." Arrogance from past success obstructed transformation: "There were moments of arrogance, when we believed we were sophisticated, moments that we didn't act on the products, or were resistant to change the product" (Business Controller). Beta's Business Controller raised concerns that the new business model would hurt relationships with sales representatives, "The largest paradigm was between direct selling and retailing, because there was this belief that resellers would be upset when [Beta] opened a retail store and generated internal cannibalization." In addition, the new compensation policy led to some sabotage across departments, the new strategic plan challenged the current business model and faced internal resistance. Top

Table 4
Triggers of strategic renewal at Beta Brazil.

Drivers	Individual	Management Team	Organization
Organizational Performance			Past growth unsustainable
			Declining market share
Cognitions		Attention to customers and competitors	Management professionalization
		Not anchored in past routines	Evidence-based management
Emotions		Pride in past success	Pride in their social and environmental concerns
Power and Politics		Transition to new coalition	
Communication		Openness to new ideas	
Organizational Structure and Processes		Encouragement of discussion until consensus	Participative planning and decision making
			Propensity for experimentation
			Attention to innovation
Strategic Execution			Focus on stakeholders
			Efficient execution

management turnover induced power clashes and some unhappy in-house executives left the company. Initial disagreements between the founders and top management team about the new strategy gave rise to fear of speaking up at some moments. However, in the presence of inertial forces, Beta persevered. As Beta's former CEO observed, "In order to work out, important changes to the strategy need a lot of motivation; otherwise, you have 1001 reasons for not doing it."

4.2.3. Summary of Beta case

Beta's posture of internal frankness facilitated open discussions about how external changes could affect the company's results. Having Brazil as its home country and its largest market facilitated alignment of strategic decisions with this market's demands. The intention to preserve its historical key resource—the direct salesforce—did not generate resistance to change, but instead encouraged the company to empower its salesforce and integrate it through new digital technologies and online channels. The onboarding of new executives, although provoking power conflicts and political maneuvering to which the company was unaccustomed, also stimulated the adoption of new ideas and sped up the implementation of changes.

Table 4 summarizes the contributors to strategic renewal at various levels of analysis as unveiled by the Beta case, along with the countervailing inhibitors that the company overcame.

5. Discussion

5.1. Empirical conclusions

Strategic inertia results from a complex interplay of causes over time, which, if not purposefully countered, reinforce adherence to an outmoded strategy. Our in-depth two-case study affirmed that the causes of strategic inertia and renewal span multiple levels—individual, group, and organization (see Tables 3 and 4). By and large, these roots of inertia and drivers of renewal have been identified in the literature. However, our study exposes that it is their combination and their processual interaction over time that produce strategic inertia. Although it seems tempting to search for simple patterns explaining inertia or renewal, our results defy such characterization. Inertia and renewal come about via ambiguous paths in which causal factors arise and interact over time.

Table 5
Conjunctural causation: Alpha and Beta cases.

Common driver	Alpha case		Beta case	
	Interaction with	Mediating outcome	Interaction with	Mediating outcome
Pride in successful past	• concentration of decision-making power • inward focus • knowledge gaps about local operations • poor organizational communication	• arrogance • overconfidence in the historically successful selling model	• cherishing of the long-term relationship with sales representatives • attention to the external environment • vision of the future • open communication • encouragement of divergent judgments • participative planning process • friendly political atmosphere, *but also power games* • tolerance to failure	• *arrogance* • *hesitation to make adaptations to the selling model* • confidence in the company's capacity to turn around • propensity to experiment • *slowness in making strategic decisions*, but managers' buy-in and commitment to execution once decisions had been made
	• strong organizational identity	• crystallization of structured routines and inflexibility	• strong organizational identity	• sense of unity • confidence in the company's capacity to turn around
Deteriorating financial performance	• pride in successful past • fear of speaking up	• denial (though not openly acknowledged) • avoidance of change	• frequent consultation with external experts • evidence-based management	• awareness of external changes • sense of urgency
	• short-term incentives for managers • unharmonized departmental goals • high turnover	• managers' conflicting interests and political maneuvers • "milk the cash cow" behavior • quest for short-term cost reduction rather than long-term strategic reorientation	• pride in successful past • organizational purpose (CSR) • consensual negotiation • founders' inspiration (*although some hesitation about the course to follow*)	• confidence in their capacity to turn around • propensity to adapt • wholehearted embrace of new positioning
			• replacement of top management • *power clashes as obstacle to consensual decision making*	• detachment from the past and propensity to strategic reorientation
OUTCOME	**Strategic inertia**		**Strategic renewal**	

Note: Parts marked in *italics* indicate inertial forces in what eventually turned out to be a case of renewal.

Table 5 summarizes evidence as to how conjunctural causation took place in the two cases examined. The companies shared some common conditions (specifically, pride in past success and deteriorating financial results) and organizational features (e.g., same industry and similar selling models; both were internationalized and had been quite successful). Yet their distinct leadership styles, decision-making architecture, cognitive flexibility, and managerial incentives produced divergent trajectories and strategic outcomes. The results portrayed in Table 5 illustrate how inertia and renewal unfolded in two particular cases, and should not be taken as general patterns applying across organizations.

5.1.1. Key factors in Alpha case

At Alpha, a vicious cycle was in place. The frustration derived from poor financial results (at the headquarters and the Brazilian subsidiary) after a long period of bonanza was met with arrogance and adherence to the historically successful direct selling model and unwarranted overoptimism. These led to a "milk the cash cow" strategy by which the local subsidiary was squeezed to produce short-term results, thereby sacrificing its prospects for a renewed future.

A strict top-down planning and decision-making process prevented the headquarters (located in the USA rather than in Brazil) from listening to local managers, thus leading to knowledge gaps about the local reality. Managers in Brazil were demotivated by this rigid structure and contributed little of their knowledge of the local market. Neglect of the local reality further compounded overoptimism and consequent inaction. An endowment effect based on the historically central salesforce and loss aversion ("mistakes at the company could jeopardize one's career") reinforced status quo thinking. Overly optimistic communication with shareholders contrasted with the deteriorating relationship and communication with sales representatives. Pride in the company's historical success coupled with a strong organizational identity produced inflexible routines. Dysfunctional (internal and external) communication and deficient information sharing, which lessened knowledge diffusion and reduced feedback (Brown and Duguid, 2001), fostered organizational drift and lock-in. Adherence to ingrained routines and praise of historical success produced a self-reinforcing loop of low risk tolerance and of avoidance of criticism (Miller, 1993).

The lack of a strategy and execution plan was a consequence and cause of inertia. Cognitive inertia occurs when actors become overly dependent on their established mental models and fail to notice changes in the conditions of their business environment until these changes have become so widespread that their capacity for successful adaptation has been seriously jeopardized (Hodgkinson, 1997; Hodgkinson and Wright, 2002). Management studies document how inattentiveness to significant changes in the external environment can lead to failure (Reger and Palmer, 1996; Tripsas and Gavetti, 2000). Alpha's managers remained stuck in their reliance upon a once-successful strategy that inhibited fresh thinking in their sensemaking. Alpha managers seemed to be deluding themselves when they affirmed that "[o]ur direct-selling model and world-class … portfolio remain as relevant as ever" and that their company possessed a "unique advantage" (2010 shareholder letter, Alpha). These characterizations suggest that cognitive biases (such as anchoring on past success, confirmation bias in the face of conflicting data, and over-optimism) hindered top managers from acting on what was recognized, but not openly voiced.

High turnover at the headquarters and at the Brazilian subsidiary (in response to pressures from the financial markets for short-term results and in recognition that something had to change) brought new personnel into the company but did not instill a predisposition for major change. In fact, lack of local knowledge and fear of speaking up increased. Despite the arrival of new managers, prevailing norms discouraged questioning the company's errors. Alpha's top managers started changes on many fronts to promote a turnaround, but they were tentative, not embraced wholeheartedly by the headquarters or the subsidiary, and disconnected in the absence of an overall strategy. The expectation of Alpha's managers that they might soon depart the company led them to place less weight on long-term prospects and in turn concentrate on short-term payoffs (cf. Helfat, 2022)—behavior inadvertently fostered by incentives misaligned with the needed overhaul of the company's strategy.

5.1.2. Key factors in Beta case

Beta reacted to the same external changes in a much more proactive and concerted manner than Alpha. The company benefited from the posture of the founders, who had instilled a sense of unity and of collaborative decision making and openness to divergent thinking and innovation. Pride in the company's past raised confidence that the organization would be able to navigate the change. Beta's cherished values of social and environmental responsibility, envisioned by its founders, united company members in their collective decision making so that they found common ground while considering a multitude of (potentially divergent) ideas.

Beta's decision-making process, characterized by a quest for consensual decision making, on the one hand slowed down strategic decisions, but on the other hand allowed for a general buy-in of the members involved, which sped up subsequent execution.

An innovation-driven history and an attitude regarding failures as learning opportunities gave managers confidence that they could lead, rather than just respond to, changes in the industry. Top management turnover injected and amplified new ideas, rather than inducing silent and fierce fights to safeguard parochial interests, as happened at Alpha, although some political maneuvering could also be observed in Beta, it was counterbalanced by the strong organizational culture that fostered a sense of unity and the appropriate incentives for the long-term transformation of the company.

However, Beta's strategic renewal involved fits and starts. Beta engaged in experimentation on multiple fronts, which generated some controversies, even as consensus was slowly building. The value placed on its consensual decision-making process threatened timely resolutions. Top management turnover promoted new concepts but also ignited some maneuvers for power. Pride in past success gave confidence and a sense of unity, but also diminished the sense of urgency. An acknowledged need for adaptation of the sales model diverged, to some extent, from the passionate intention to respect the wellbeing of the sales representatives, who had been the heart of the company since its founding. A culture and tactics for overcoming resistance, rather than the absence of countervailing forces, characterized strategic renewal at Beta. Renewal did not develop in a continuous and irreversible pattern; it was counteracted by inertial episodes that need to be overcome by purposeful forward-looking managerial leadership.

5.2. Dialogue with the literature

The literature highlights that some emotions can be strong sources of inertia, such as pride and contentment deeply rooted in past success (Scherer and Tran, 2001). Interviewees noted Alpha top management's "leadership arrogance" produced inertia, but Beta managers, although also plagued by arrogance, responded differently. Beta's top managers recognized the company's historical success as one factor that interfered with the pace of strategic reorientation; nevertheless, Beta's past success also fostered confidence to transform the company. Positive feelings about Beta's purpose, including enthusiasm about its focus on sustainability, social causes, and innovation, stimulated change to express the company's values under new circumstances. Huy (2005) described how companies that develop "emotion-based capabilities" favoring authenticity, sympathy, hope, fun, and attachment to specific goals can help their members explore new strategies and achieve continuous innovation.

Organizational incentives and politics influence managerial cognition and behavior (Kaplan and Henderson, 2005). Managers tend to select the strategic choice that best fits both their interests and cognitive frames (Kaplan, 2008). Managerial turnover, which helped Beta challenge their past routines and be more open to new ways forward, conversely led to more intense political fights and a "protect my turf" attitude in Alpha. Alpha's incentive system fostered an internal environment where any strategic reorientation demanding coordinated efforts and long-term planning found little support. Top managers attended to departmental, rather than company-wide, objectives. In the short run, they benefited from maintaining the status quo rather than exploring alternatives (see Sievinen et al., 2020). The misaligned incentives together with top managers' outdated mental models and groupthink maintained the status quo. Additionally, short-term compensation policies obstructed the company's planning and execution, which called for coordinated long-run efforts in the face of uncertainty (Oliveira et al., 2019). In their quest for short-term (and often mutually disconnected) solutions, Alpha's top managers did not sufficiently deepen their understanding of the changing business context or investigate root causes—thus missing opportunities to take corrective action. On the other hand, Beta's participative planning process provided fertile ground for learning, critical thinking, and evidence-based management (Pfeffer and Sutton, 2006), thus overcoming barriers to adaptive behavior (March and Simon, 1958).

Within Alpha Brazil, the political coalition avoided conflict with headquarters to preserve managers' positions during a period of internal restructuring and turnover. Criticisms of headquarters' decisions were interpreted as resistance to change, rather than as potential seeds of constructive adjustment. As such, there was little freedom to identify and speak up about potential errors in the disjoint strategy (Vuori and Huy, 2016). Borrowing a line from McMillan and Overall (2017: 278), Alpha inadvertently established "strong incentives for compliance and non-deviant behavior, regardless of the potential unintended consequences of such conformity on performance (March and Simon, 1958)", thus "incit[ing] intentional inaction."

The process of strategic learning, which consists of a combination of knowledge creation, dissemination, interpretation, and implementation (Sirén et al., 2017; Thomas et al., 2001), occurred in distinct ways in the two companies. Regarding knowledge creation (about changes in the industry), Alpha's U.S. headquarters would not heed the contextual knowledge of their large Brazilian subsidiary whereas Beta was intrinsically immersed in Brazil. Dissemination, as a social exchange process, went from the top down in Alpha, whereas it was more horizontal in Beta. Denial and arrogance impinged on knowledge interpretation at Alpha, whereas discomfort (with the financial results), openness to diverse perspectives, and confidence in the company's capacity to drive the market led Beta to consider alternative interpretations of the external changes. Finally, Alpha faltered at implementation by applying misaligned incentives, launching a defective IT system, and resorting to successive turnover of the top management team, whereas Beta brought new top managers who were not committed to past routines, but rather open to designing and implementing a new strategic direction.

Managers at the two companies experienced ambiguity and ambivalence, that is, "the simultaneous experience of positive and negative emotional or cognitive orientations toward a person, situation, object, task, or goal" (Rothman et al., 2017, p. 33). The literature indicates that organizations may react to ambivalence with either flexibility or inflexibility as regards cognitions and behavior (Rothman et al., 2017). Alpha displayed inflexibility in terms of response amplification, confirmation bias, and resistance to change (Rothman et al., 2017) as they idealized their selling model and favored one-sided confirmatory information, which produced simplistic views of the situation. In contrast, Beta reacted to ambivalence in a flexible way by expanding their cognitive breadth and scope of attention and by motivating their executives to engage in balanced consideration of multiple perspectives, which eventually reduced escalation of commitment and promoted interpersonal and collective adaptability that were essential for the subsequent execution of the renewed strategy. However, at times, Beta also showed signs of cognition inflexibility by hesitating to make necessary adaptations.

A key conclusion from the empirical findings is that the same factor may produce different results in combination with other distinct factors—thereby reinforcing or offsetting inertia—in different companies. This was evident, for example, in how the discomfort with declining financial results coupled with pride in past organizational success played out in contrasting ways resulting in (1) cognitive rigidity and avoidance of change in Alpha versus (2) cognitive awareness, confidence, and propensity to change at Beta. Another example of similar cause that led to distinct effects is the intention, by both companies, to preserve the relationship with the sales reps, which was core to the organizational identity of both; while Alpha chose to keep the original manifestation of this identity (i.e., the traditional direct selling model), Beta envisioned ways to keep the identity but adapt it to the benefit of the sales reps themselves and also of the consumers and shareholders. A further example is managerial turnover, which was motivated by pursuit of short-term results in Alpha and eventually compounded the lack of local knowledge and incited power games that hampered long-term vision, while in Beta those same inhibitors were counteracted by evidence-based planning and framing deliberations in terms of the overall company and a quest for long-term adaptation.

Thus, researchers need to frame a theory of strategic inertia in terms of both commonalities and contrasts with strategic renewal. Our findings point toward explanations of strategic inertia and renewal involving conjunctural causation (Aus, 2009) in which combinations of contributing causal elements affect an organization's outcomes over time. Managers' pride in their company's historical performance and strategy can foster either inertia or renewal depending on the conjoining conditions. A complex phenomenon such as strategic inertia derives from conjunctions of drivers at the individual, team, and organizational levels. Our two-polar-case design suggests that conjunctural causation (which is process based), rather than an interaction logic (which is variance based), better describes the interplay among causal factors occurring over time. We found that there are complex intertwined causes that lead some companies into strategic inertia while others engage in strategic renewal. That is, rather than taking a bivariate or multivariate approach to the roots of strategic inertia (in which individual effects sum to produce an outcome), we arrived at a conjunctural causation perspective, in which substantially different outcomes may come about depending on the processual interaction between initial triggers and multiple contributing factors at the individual, team, and organizational levels. In other words, initial homogeneity in causes may result in heterogeneity in outcomes because of complex combinations of path dependence, managerial incentives, organizational politics and structures, and agency behavior, among other contributing factors.

5.3. Practical insights and recommendations to boards and top managers

While one cannot claim that Alpha's case was one of organizational failure per se (in fact, the company posted positive, though declining, operating profits for most of the years in our sampled period), Alpha's strategic inertia derived from deficiencies in three aspects often associated with organizational failure (cf. McMillan and Overall, 2017): learning processes, planning processes, and strategic capacity for organizational agility. Overall, success or failure with strategy renewal revolved around: ability to notice impending contextual changes, intentional strategizing to act on what had been noticed, and aptitude in executing a new strategic plan.

Managers should not assume naively that a new strategy will be embraced enthusiastically (or even at all) by everyone in the organization because a change in strategy will inevitably affect relative status and the balance of power (Vassolo and Weisz, 2022). Boards and top managers should establish and direct the strategic agenda and influence the formal and informal communication within their organizations (Ocasio et al., 2017). When internal communication is entrenched in past beliefs that do not represent new realities of the competitive environment, questioning of prevailing strategic assumptions is impaired (Geiger and Antonacopoulou, 2009). Managers should welcome and discuss divergent ideas and bring them into participative decision making. Boards and managers need to be aware that communication and discursive practices—and the emphases therein—can stimulate or inhibit the strategic agenda (Balogun et al., 2014; Kwon et al., 2014; Ocasio et al., 2017).

Sibony et al. (2017) maintain that organizations should shift the "focus from individual decision biases to the design of behaviorally informed decision processes at the level of the firm" (p. 5) to "reevaluation of product lines, markets, or the general direction of the enterprise" (p. 9). Following these authors' guidance, organizations need to carefully calibrate their decision-making processes for the appropriate level of formality, number of decision layers, amount and nature of information used, degree of centralization, financial and non-financial incentives, level of encouragement of divergent opinions, and clarity of the decisions made.

Boards and managers must be aware that strategic renewal demands a lot of effort and energy to overcome inertial forces. Managers sustain renewal through change-promoting efforts reinforcing one another over time. Scanning of the external environment, with the help of external observers, and a long-term perspective should be pursued relentlessly. Managers should remain attentive to potential changes in the external environment, including weak signals, that is, vague information that may suggest possible change in the future (Ansoff, 1980). Listening to diverse voices—including those of outside consultants and the firm's various stakeholders—can expand awareness of industry changes. Plans should be frequently revised, but managers should not fall hostage to a plan; instead, they should use plans as flexible guides (Langley, 1995). Top management teams should foster experimentation (e.g., by investing in a few carefully selected and supervised projects that contribute to the long-term strategy), adopt evidence-based decision making, and accept failures as part of the learning process. As advised by Heifetz et al. (2009: 32), top management should exercise "adaptive leadership" by "(1) observing events and patterns around you; (2) interpreting what you are observing (developing multiple hypotheses about what is really going on); and (3) designing interventions based on the observations and interpretations to address the adaptive challenge you have identified."

6. Conclusion

This study reveals managerial attitudes and actions and organizational processes and structures that can lead to very distinct outcomes—adaptation or inertia—deriving from similar causes. Two rather similar companies (although different in some important respects, such as their national origin) when faced with one potential driver of inertia (specifically, pride in their history) and one potential driver of renewal (specifically, dissatisfaction with current performance) managed their way to distinct outcomes (inertia for one and renewal for the other).

Our study offers an integrative, processual perspective on the confluence of causes producing strategic inertia. Inertial forces may be present in a renewing organization, yet its full configuration of causes may be distinct from that of a rival stuck in inertia. Causes of inertia and renewal do not act in isolation; instead, they interact in complex ways to produce momentum in one direction or the other. Similar situations, interpreted differently by managers, may lead to markedly different outcomes across organizations. Our study unveiled some idiosyncratic factors, among the myriad of factors (at the industry, organization, group, and individual levels) that affect strategic inertia. Prior research identified many causes of inertia, but lacks theorizing about how to integrate them. Our study highlights that no isolated factor can be claimed to determine the outcome; instead, explanations are uncovered in conjunctions of multiple factors playing out over time (Aus, 2009). Conjunctural causation may be frustrating to theorists, who prefer parsimonious and consistent explanations, but it can be good news for managers. Managers seek interventions to change outcomes over time, and conjunctural causation affords numerous opportunities for managers to exercise their agency to alter outcomes. Their role as interpreters of the present situation can set the trajectory of their organization toward inertia or renewal.

Advances in explaining inertia are best achieved through research designs that (1) include contrasting inertial and renewal cases in the sample and (2) follow developments in the companies longitudinally. An explanation for inertia can only come from comparative research that encompasses inertia and renewal. Future studies with comparative cases could corroborate or challenge some of our findings. Longitudinal studies and participant observation would also be welcome to shed light on the dynamics of inertia and renewal (see Langley et al., 2013) and to illuminate the drivers of inertia or renewal as well as their interplay. The resulting theory should not be reductionistic; instead, it should be multilevel, multifaceted, and conjunctural. Overcoming strategic inertia is challenging precisely because it is not reducible to a simple cause.

Statements and declarations

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CRediT authorship contribution statement

Luis Perini: Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Project administration, Validation, Writing – original draft, Writing – review & editing. **Jorge Carneiro:** Conceptualization, Formal analysis, Investigation, Methodology, Supervision, Validation, Writing – original draft, Writing – review & editing. **Kent D. Miller:** Conceptualization, Formal analysis, Methodology, Supervision, Validation, Writing – original draft, Writing – review & editing.

Data availability

To protect sources, the data are confidential.

Appendix A. Supplementary data

Supplementary data to this article can be found online at https://doi.org/10.1016/j.lrp.2024.102441.

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