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STRATEGIC INERTIA IN TOP MANAGEMENT TEAMS: CAUSES AND COMBINED EFFECTS

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LUIS FERNANDO PERINI

Strategic Inertia in Top Management Teams: Causes and Combined Effects

Tese apresentada à Escola de Administração de Empresas de São Paulo, da Fundação Getulio Vargas, como requisito para a obtenção do título de Doutor em Administração Empresas.

Linha de Pesquisa: Estratégia de Empresas

Orientador: Prof. Jorge Manoel Teixeira Carneiro

Co-orientador: Prof. Kent Douglas Miller

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ABSTRACT

This study investigates the phenomenon of inertia in organizations, especially what is conceptualized as strategic inertia, that is inertia affecting a firm's top management teams (TMT). The study is composed of three articles that dialogue with each other. In the first article we perform a systematic literature review of the different terms, definitions, and level of analysis the management field used to characterize the inertia construct, examine the multiple causes of inertia in organizations, and cluster them into six different groups of causes. In the second article we delve into the causes of strategic inertia affecting top management teams and individuals and suggest an integrated analysis of the interplay of these drivers, which have frequently been investigated separately. A tentative model of their interaction is advanced. The third article presents an empirical study that addresses the reasons for the adaptation and inertia of two companies operating in the fast-moving consumer goods (FMCG) industry. The results indicate that the pre-selected drivers of strategic inertia influenced the responses of both organizations, as well as other causes not previously considered. Strategic inertia is a complex phenomenon with multiple causes. The final section of this article discusses how some of the findings can be used by practitioners to support their organizations' adaptative capacity. The accelerating pace of changes in industries and markets demand that top managers continuously adapt and innovate their organizations.

Key words: inertia in organizations, strategic inertia, top management teams, drivers of strategic inertia.

RESUMO

Este estudo investiga o fenômeno da inércia nas organizações, em especial o que é definido como inércia estratégica, ou seja, a inércia que afeta o time do alto escalão. O estudo é composto por três artigos que dialogam entre si. No primeiro artigo nós realizamos uma revisão sistemática da literatura dos diferentes termos, definições e níveis de análise que o campo da administração tem usado para caracterizar o construto da inércia, bem como examinamos as suas múltiplas causas, as quais classificamos em seis diferentes grupos. No segundo artigo nos concentramos nas causas da inércia estratégica que afetam os times de alto escalão e executivos e sugerimos uma análise integrada da interação destas variáveis que, frequentemente, são investigadas separadamente. Um modelo tentativo desta interação é avançado. O terceiro artigo apresenta um estudo empírico que aborda os motivos para a adaptação e fracasso de duas empresas operando no mercado de bens de consumo rápido. Os resultados indicam que causas pré-selecionadas da inércia estratégica influenciaram as respostas de ambas as organizações, bem como outras variáveis não consideradas previamente. Inércia estratégica é um fenômeno complexo com múltiplas causas. A seção final deste artigo discute como alguns destes resultados podem ser usados por gestores para suportar a capacidade de adaptação das suas organizações. A aceleração do ritmo de mudanças em indústrias e mercados demanda que gestores do alto escalão continuamente adaptem e inovem as suas organizações.

Palavras-chave: inércia nas organizações, inércia estratégica, times do alto escalão, causas da inércia estratégica.

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INTRODUCTION

This is an inquiry in the field of behavioral strategy that investigates the phenomenon of inertia in organizations, particularly what is conceptualized as strategic inertia, that is inertia affecting a firm's top management team (TMT). Inertia in organizations is generally defined as an insufficient reorientation of a firm's strategy and actions in the face of significant changes in its external environment that render its current positioning unfit for the future (Tripsas & Gavetti, 2000; Hodgkinson & Wright, 2002; Hill & Rothaermal, 2003). Correspondingly, strategic inertia occurs when top management teams fail to take purposeful actions to adapt the strategic route of their organizations to changing competitive conditions (Hodgkinson & Wright, 2002; Hopkins, Mallete & Hopkins, 2013). The accelerating pace of changes in industries and markets and the consequent necessity that top managers continuously adapt and innovate their organizations is what substantiates this study. Investigating the causes that hinder an organization's adaptability capacity might produce a clearer understanding of how to avoid them, and consequently support top managers' decision making.

The management literature of inertia in organizations has advanced many explanations of this phenomenon and examples of its manifestations. Macro-cultures that constrain the flow of information from value-added networks and consequently limit managers' perceptions of the marketplace (Porac, Thomas, & Baden-Fuller, 1989), innovation in products, practices, or business models that are inconsistent with the shared identity of a company and therefore activate internal resistances (Tripsas, 2009), highly structured routines that limit an organization's adaptability by becoming core rigidities (Leonard-Barton, 1992), emotions that influence decision making without top managers' conscious awareness (Hodgkinson & Healey, 2014), incentive structures that form relational contracts among organizational participants (Kaplan & Henderson, 2005; Nelson & Winter, 1982), and managers' rigid mental models that influence their interpretive processes and limit adaptation (Daft & Weick 1984; Walsh, 1995) are some of the causes addressed by different authors. Additionally, the determinants of inertia have been explored at different levels of analysis, as industry (Hannan & Freeman, 1984), organization (Tripsas & Gavetti, 2000), group/team (Hodgkinson & Wright, 2002), and individual (Eggers & Kaplan, 2009) levels.

Despite all these efforts, nevertheless, the phenomenon of inertia in organizations has not received by the management field a structured and focused approach to refine the

conceptualization of the construct, categorize its multiple causes, explore how the causes can act in different combinations to produce such an outcome, and perform empirical research with the specific purpose of verifying the joint action of its multiple causes. These are the objectives of the current study to advance the knowledge in the field. This inquiry has the following umbrella question guiding its development: Why do some top management teams, even when recognizing changes in their external environment, not adapt the strategy of their organizations?

The study is composed of three articles that dialogue with each other. In the first article, titled "The Phenomenon of Inertia in the Management Field: Reflections on the Accumulated Literature", we perform a systematic literature review of inertia in organizations. The article begins with an appraisal of the different terms, definitions, and level of analysis the management field so far has used to characterize the inertia construct. We then propose a refinement of these concepts and suggest a more precise classification of the terms according to the respective object and level of analysis of interest. The second part of the article examines the multiple causes of inertia in organizations and cluster them into six different groups of causes, namely institutions, identity, routines, power, cognition and emotions. The final part of the article suggests a generic conceptual model of the causes of inertia and their respective level of analysis to be used in future studies addressing the phenomenon.

In the second article, titled "Cognition, Power, Emotions & Communication in Strategic Inertia", we draw from the classification elaborated in the first article to delve into the causes of strategic inertia affecting top management teams and individuals. At the team and individual levels, three main determinants have been observed: cognition, power, and emotions. We review how this literature relates to strategic inertia and present how each of the determinants can individually influence top management teams, and then we discuss their (pairwise) interaction. We then propose that organizational communication plays a critical role in how cognitions are framed, power is manifested, and emotions emerge, as communication is the medium where these variables manifest, and consequently it also influences strategic inertia. We end the article suggesting that an integrated analysis of the "drivers" of strategic inertia and communication, which have frequently been investigated separately, can offer a more robust explanation of the strategic inertia phenomenon. A conceptual model of strategic inertia is presented and explained.

In the third article, titled “Adaptation and Inertia: Contrasting Responses to Market Changes”, we present an empirical study that addresses the reasons for the adaptation and inertia, distinct outcomes, of two companies operating in the fast-moving consumer goods (FMCG) industry. Both companies had built quite successful business models but were equally challenged by significant changes affecting the FMCG industry, especially in Brazil, a key market for both companies and where they compete against each other. Interviews conducted with top managers from both companies provided the main data source, and annual letters to shareholders and public data were also collected for triangulation purposes. We based our collection of primary data considering the theoretical model of the “drivers” of strategic inertia developed in article two, specifically cognitions, power, and emotions, and the medium where these causes manifest, communication, but we were not restricted by it. We remained open to additional explanations of strategic inertia, or strategic adaptation for that matter. The findings suggest the aforementioned causes and communication interfered with the companies’ strategic reorientations, but other causes not previously contemplated as well. Strategic inertia and adaptation in both companies involved a complex net of causes occurring at different organizational levels. The final section of the article discusses how some of the findings can be used by practitioners to support their organizations’ adaptative capacity.

We close this exploratory study of strategic inertia with a summary of our findings and suggestions for future inquiries into the field.

ARTICLE 1

The Phenomenon of Inertia in the Management Field: Reflections on the Accumulated Literature

Abstract

Many companies do not change their plans and courses of action even when it becomes clear that keeping their current path will lead to failure, given unequivocal changes in the macro-environment, competitors' moves, and customers' needs. Research on inertia in organizations, however, still lacks clear conceptualization of the construct and consolidation of the main causes of the phenomenon. The present study produces a review and takes a stand on the accumulated literature in order to provide a clear depiction. We delve into inertia in organizations and categorize the various causes of the phenomenon advanced in the literature to provide consistent terminology and a parsimonious conceptual model. Inertia in organizations is a multilevel phenomenon with multiple causes, and this study proposes a structured approach to advance the elucidation of its different aspects.

Key words: inertia in organizations, inertia construct, causes of inertia, conceptual model.

Introduction

Inertia in organizations – that is, insufficient (or altogether total absence of) reorientation of a company's plans and actions even in the face of unmistakable changes in its environment that render the company's current positioning unfit for the future – has received reasonable attention in the behavioral strategy literature. However, the conceptual characterization of the construct is still somewhat blurred, and the various causes of the phenomenon would benefit from a more systematic arrangement.

Many causes of inertia have been identified in the management literature – for example, macro-cultures characterized by dense interorganizational value-added networks that limit collective adaptation (Abrahamson & Fombrun, 1994), identity-violating changes that trigger

resistance (Tripsas, 2009), emotions that influence decision making without top managers' conscious awareness (Hodgkinson & Healey, 2014), incentive structures that form relational contracts among organizational participants (Kaplan & Henderson, 2005; Nelson & Winter, 1982), and managers' crystalized mental models that shape their interpretive processes and block adaptation (Daft & Weick 1984; Walsh, 1995). All these variables interact to produce a strategic outcome – inertia – through the managerial decision process.

In fact, the literature on inertia in organizations has been prolific in advancing potential explanations of the phenomenon and examples of its manifestations, but the time seems ripe to take stock of what has been done in order to set a direction for moving forward – thereby overcoming inertia in research. This study produces a systematic literature review (Webster & Watson, 2002) that maps the domain of the focal construct and advances a generic conceptual model that categorizes the causes of inertia in organizations. As a multilevel phenomenon with multiple causes, the conceptual framework proposes a structured approach to advance the knowledge in the field.

Method and Data

The study is a systematic literature review (Webster & Watson, 2002) focused on the phenomenon of inertia in organizations. We searched for articles in the Scopus and Google Scholar databases, and more specifically in the following journals: Strategic Management Journal (SMJ), the Academy of Management Review (AMR), Academy of Management Annals (AMA), and Academy of Management Journal (AMJ). The search used the expressions organizational inertia, strategic inertia, cognitive inertia, inertia in organizations, TMT inertia and decision-making inertia. There was no limitation of period for the search. The abstracts of the articles were read and their references directed our search to other empirical and theoretical studies and book chapters related to the phenomenon of interest. After this review cycle, 67 articles and 4 books were selected for a detailed analysis of their contribution to the study's purposes, which sourced the core aspects of the present work. The literature review occurred between June 2019 and January 2020.

Domain Map of the Construct

Constructs are the basis of theory and a clear understanding of their meaning is essential to establishing their robustness. Achieving the necessary clarity of a construct requires a precise concept, delineation of the contextual circumstances and the connections with other related constructs, and coherence in the overall theoretical argument (Suddaby, 2010). Therefore, we begin by addressing how the management literature has characterized the inertia construct.

Population ecologists initially stated that inertia is present when the speed of change in the core structures of an organization is lower than the speed of change of its external environment (Hannan & Freeman, 1984). They named this phenomenon “structural inertia”. Departing from this foundational definition of the phenomenon, researchers from various subfields within management have presented other definitions of the concept (see Table 1). They all share the assumption that organizations operating in dynamic environments must be adaptable if they intend to remain competitive.

However, some articles do not provide a formal definition of the concept and use interchangeably different terms to refer to the same phenomenon. Although there seems to be a consensus about what inertia means overall, a more precise definition and consistency in terminology would be welcome.

A good start would be to categorize the terms according to the respective object and the level of analysis of interest for the study. A sound classification would be to reserve *structural inertia* as the appropriate term to be used at industry level of analysis, keeping coherence with previous works on ecological theory; *organizational inertia* would be appropriate at the organizational level of analysis, or *incumbent inertia*, when incumbents are the focus. For studies focusing on inertia affecting the top management team of organizations, *strategic inertia* would be the best term to describe the phenomenon, because top managers have the final responsibility for elaborating the strategy of an organization. *Cognitive inertia* should be used at the individual level of analysis, but one should notice cognition is both personal and interpersonal, and as such cognitive inertia can also manifest in a group of managers. Therefore, cognitive inertia has a distinct role when compared to the other concepts. Cognitive inertia may be one of the causes of strategic and organizational inertia and, as a consequence, of structural

inertia. Finally, *inertia* would be the term applied to this phenomenon when there is no clear delineation of the object of analysis. Although we acknowledge that the many terms and definitions have not hampered the study of the phenomenon, we believe the management field could gain from more explicit, precise, and agreed-upon understandings of the inertia concepts.

Table 1 – Terminology and definitions of inertia

Terms and expressions	Definitions	Level of Analysis	Examples of articles that have employed the term / expression
Structural Inertia	• Inertia manifests when the speed of change in the core structures of an organization is lower than the speed of change of its external environment (Hannan & Freeman, 1984)	Industry	Hannan & Freeman (1984)
Organizational inertia	• The inability to enact internal change in the face of significant external change	TMT / Organization	Geiger & Antonacopoulou (2009); also Eggers & Kaplan (2009, 2013); Eggers (2016); Kaplan (2015); Naslund & Pemer (2011), Tripsas & Gavetti (2000)
Incumbent inertia	• Inability of incumbent firms to overcome organizational inertia when threatened with discontinuous technological change	Organization	Gilbert (2005); also, Hill & Rothaermal (2003); Leonard-Barton (1992); Raffaelli, Glynn & Tushman (2019)
Active inertia	• An organization's tendency to persist in the activities that contributed to its past success despite even the most dramatic changes in its competitive environment	Organization	Sull (1999)
Strategic inertia	• Habitual reliance on a previously successful organizational recipe or success formula	TMT / Organization	Hodgkinson & Wright (2002); also, Abrahamson & Fombrun (1994); Hodgkinson & Healey (2011); Hopkins, Mallete & Hopkins (2013)
Cognitive inertia	• Actors become overly dependent on their mental models of strategic phenomena, to the extent that they fail to notice changes in the material conditions of their business environments until these changes have become so widespread that their capacity for successful adaptation has been seriously undermined	TMT / Individual	Hodgkinson (1997) and Hodgkinson & Wright (2002); also, Gavetti (2012); Hodgkinson (2014); Narayanan, Zane, Kemmerer (2011); Reger & Palmer (1996); Tripsas & Gavetti (2000)
Inertia	• Pressure to maintain the status quo • Adherence to the status quo and little agility in responding to external events • Level of commitment to current strategy, reflecting individual support for a given way of operating, institutional mechanisms used to implement strategy,	Individual / TMT / Organization	Barr & Huff (1997); Sibony, Lovallo, Powell (2017); Huff, Huff, Thomas (1992); Collinson & Wilson (2006);

	monetary investments and social expectations		

Note: TMT = top management team

Causes of Inertia

Just as inertia can be conceptualized at different levels of analysis, so can its causes. An effort to compile and organize the various causes of inertia in organizations produced Table 2. Upon reflecting on the essence of each cause, we have been able to identify six different categories – institutions, identity, routines, power, managerial cognition, and emotions – each of which can be manifested in multiple levels of analysis.

Institutions

Institutional pressures and constraints tend to produce macro-culture homogeneity within an industry (DiMaggio & Powell, 1983, Hill & Rothaermel, 2003). Macro-cultures, characterized by dense interorganizational value-added networks, account for the frequent failure of entire industries to renew their practices and strategies in the face of external innovations. Such networks produce homogeneous beliefs about boundaries, reputations, and strategic issues that limit collective adaptation, driving companies toward collective inertia. The greater the homogeneity of macro-cultures, the less likely are top managers to respond to threats or opportunities and then initiate change (Abrahamson & Fombrun, 1994). Studies analyzing different industries, such as the Scottish knitwear manufacturers and the Chicago Banking Industry, have shown that the constrained flow of information from value-added networks limited managers' perceptions of the marketplace and produced very similar mental models among top managers throughout the value chain (Porac, Thomas, & Baden-Fuller, 1989; Porac & Thomas, 1990; Reger & Huff, 1993).

Identity

Organizational identity is the result of how internal organizational actors and external

constituents recognize an organization (Tripsas, 2009). It answers the questions "who are we?" and "what do we do?" (Raffaelli, Glynn, & Tushman, 2019). Identity directs the development of capabilities, knowledge, routines, and issue framing (Tripsas, 2009). Organizational identity is sustained and reinforced by conversations and narratives that provide a sense of continuity and belonging (Narayanan, Zane, & Kemmerer, 2011). Innovation in products, practices, or business models might be inconsistent with the shared identity of the company (Narayanan et al., 2011; Sull, 1999; Tripsas & Gavetti, 2000). The (conscious or not) resistance to identity-violating changes is a source of organizational inertia because novel strategic representations that are distant from the status quo can activate opposition (Gavetti, 2012). Tripsas (2009) demonstrated how the identity of a flash memory company influenced the interpretation of its managers for an identity-challenging technological opportunity. Managers overlooked that part of the information that conflicted with the organization's identity. Blockbuster offers another example as its top managers dismissed the online streaming innovation opportunity for their "brick-and-mortar business" (Raffaelli et al., 2019). Geiger and Antonacopoulou (2009) illustrated how a web of self-reinforcing narratives became a source of organizational inertia by preventing a bio-manufacturing company from questioning its dominant assumptions and identity, despite the clear severe crisis.

Routines

Organizations learn by encoding into their routines the historical actions and procedures that have resulted in positive outcomes (Levitt & March, 1988). Structured routines serve as heuristics that reduce the cost of information acquisition and use, as well as help coping with managers' bounded rationality (Cyert & March, 1963; Nelson & Winter, 1982; Simon, 1947). Routines can be described as repeatable patterns of actions that require the coordination and cooperation of multiple actors (Eggers & Kaplan, 2013). However, highly structured routines can be a source of organizational inertia in changing settings since they tend to restrict organizational search for new information and adaptation of the current frames of reference. Companies might not recognize the value of new knowledge that resides outside their expertise (Cohen & Levinthal, 1990) and may fail to respond to competitive threats (Levitt & March, 1988) or opportunities. Leonard-Barton (1992) explored how routines that have become the core competences of a firm may limit the organization's adaptability by becoming core rigidities in a changing environment.

Eggers and Kaplan (2013) suggest routines are the building blocks of organizational capabilities, and depict three processes where managerial cognition and routines interact: (i) the role of cognition in the development and maintenance of routines, (ii) how these building blocks are assembled, grounded on managerial interpretations of the value of the resulting capabilities, and (iii) how selections about the application of capabilities to the environment are shaped by the interpretations of managers. The origin of organizational inertia would not be the scarcity of capabilities, but top managers' inability to apply them in order to address external changes (Danneels, 2010; Eggers & Kaplan, 2009).

Power

An organization can be described as a coalition of interest groups that compete with each other for scarce resources, while at the same time cooperating to achieve the company's objectives (Cyert & March, 1963). Parties settle these internal disputes through truces, with the consequent stable (albeit often informal) distribution of power and politics (Hill & Rothaermel, 2003). A truce is composed of a cognitive dimension – a mental frame about what should be done - and a motivational dimension – what gets rewarded or sanctioned (Kaplan, 2015). Most of the time strategic reorientations demand a redistribution of power and influence. Moreover, incentives are context-dependent and open to interpretation. Cognitive frames play a major role in structuring individual interests and in the usefulness of incentives used by companies (Kaplan & Henderson, 2005). Incentive systems are based on a series of historical relational contracts among managers and, consequently, are at the core of the motivational structure of a firm's established truces (Kaplan, 2015; Nelson & Winter, 1982). New or ambiguous environments might trigger confusion among organizational actors, who become unsure of which behaviors will be rewarded and how to identify them. In these cases, top managers avoid fracturing those implicit relational contracts and develop new incentive systems that can be deeply anchored in existing incentives regimes, contributing to organizational inertia (Kaplan & Henderson, 2005).

Cognition

Managerial cognition occupies center stage in explaining strategic inertia because top

managers must absorb, process, and disseminate information about issues, opportunities, and problems in information environments that are extremely complex and ambiguous (Walsh, 1995). How top managers make sense of the competitive environment affects the strategic decisions of their companies (Daft & Weick, 1984). Because decision-makers have inherent information-processing limitations that restrict the range of strategic options available and the assessment of threats and opportunities (Cyert & March, 1963; Simon, 1947), they construct simplified mental models when dealing with complex problems in their attempts to grasp and solve them (Schwenk, 1988, Walsh, 1995). The result is that top managers frequently solve pressing problems by searching only their local surroundings and adopt solutions that rarely violate the status quo (Gavetti, Greve, Levinthal, & Ocasio, 2012).

Outdated mental models can constrain the assessment of the competitive arena, acting as filters for all the complex information available in the environment, particularly turbulent ones (Hodgkinson, 1997; Porac et al., 1989; Reger & Palmer, 1996). Top managers who become excessively dependent on their established mental models can experience cognitive inertia, resulting in strategic inertia through managers' failures to notice or act on changes in fundamental circumstances in their business environments (Hodgkinson, 1997; Hodgkinson & Wright, 2002; Reger & Palmer, 1996; Tripsas & Gavetti, 2000). These rigid mental models can turn into shared beliefs among top managers, limiting the adaptive intelligence and the capability development of their companies (Barr & Huff, 1997; Danneels, 2010; Prahalad & Bettis, 1986; Sull, 1999; Tripsas & Gavetti, 2000). Others indicate that top managers' mental models are influenced by their past experiences and personal values, subsequently biasing their strategic responses (Hambrick & Mason, 1984; Cho & Hambrick, 2006). Also, the lack of managerial attention to new opportunities in the external environment can reduce the likelihood of organizational action (Barr, Stimpert, & Huff, 1992; Eggers, 2016; Eggers & Kaplan, 2009; Kaplan, 2008a; Ocasio, 1997).

Emotions

Emotions can be fundamental inhibitors or enablers of top managers' ability to respond to the challenges of inertia in strategic thinking and adaptive behavior (Hodgkinson & Healey, 2011, 2014). Top managers frequently make decisions not on the basis of a rational account of probable consequences but by the emotions that they experience at the time of choice in reaction

to their mental images of expected outcomes (Loewenstein & Lerner, 2003). When affect and rational reasoning conflict, the latter is usually outweighed in governing behavior (Loeweinstein, Rick & Cohen, 2008). Organizations should develop an internal environment that fosters a secure learning climate, as well as routines and incentives that acknowledge the need for emotional support (Hodgkinson & Healey, 2011, 2014). Routines that emphasize the potential negative consequences of events are likely to intensify undesirable affect and increase threat rigidity, leading to risk avoidance behavior (Dutton & Jackson, 1987). Supportive routines can support the responsiveness of mental models to change by reducing emotional commitments to predominant assumptions and beliefs of top managers (Hodgkinson & Healey, 2011, 2014; Raffaelli et al., 2019).

An example of this phenomenon was offered by Gilbert (2005), who analyzed how top managers of newspaper companies reacted to the rise of digital media. The author found that the perception of a strong threat tends to release constraints on resource rigidity, while amplifying problems related to routine rigidity. Threat motivated new resource commitments but routines remained unchanged. One possible explanation for these contrasting outcomes is that "threat perception led to a rigid focus on the existing business […] and resources […] causing managers to adhere more closely to familiar routines and behavior patterns" (Gilbert, 2005, p.758). Hodgkinson and Wright (2002) also describe how forcing the top management team of a company in the global publishing industry to foresee threatening future scenarios elevated conflict and decisional stress to unbearable levels. It gave rise to a series of defense mechanisms among the CEO and other top managers that undermined their efforts to assist top managers in their search for a renewed strategy.

Table 2 - Causes of inertia in organizations

Causes	Nature	Level of analysis	Source
Institutional norms	Institutions	Industry	DiMaggio & Powell (1983), Hill & Rothaermel (2003)
Macro-cultures	Institutions	Industry	Abrahamson & Fombrun (1994), Hodgkinson (2015), Porac, Thomas, & Baden-Fuller (1989), Porac & Thomas (1990), Reger & Huff (1993),

Embedded value networks	Institutions	Industry / Organization	Abrahamson & Fombrun (1994), Hill & Rothaermel (2003), Porac, Thomas, & Baden-Fuller (1989)
Founder's influence (legacy, values, stories)	Identity	Organization	Sull (1999), Tripsas & Gavetti (2000)
Company history	Identity	Organization	Sull (1999), Tripsas & Gavetti (2000)
Strong organizational identity	Identity	Organization	Eggers & Kaplan (2013), Gavetti (2012), Narayanan, Zane, & Kemmerer (2011), Raffaelli, Glynn, & Tushman (2015), Tripsas (2009)
Narratives	Identity	Organization	Geiger & Antonacopoulou (2009), Naslund & Pemer (2011)
Institutionalized capabilities	Routines	Organization	Eggers & Kaplan (2013), Leonard-Barton (1992), Tripsas & Gavetti (2000)
Highly structured routines	Routines	Organization	Eggers & Kaplan (2013), Kaplan & Henderson (2005)
Core rigidities	Routines	Organization	Collinson & Wilson (2006), Eggers & Kaplan (2009), Leonard-Barton (1992)
Competency traps (past success)	Routines	Organization	Eggers (2016), Eggers & Kaplan (2009), Levitt & March (1988)
Time required for learning	Routines	Individual	Barr, Stimpert, & Huff (1992)
Lack of appropriate absorptive capacity	Routines	Organization	Cohen & Levinthal (1990), Hill & Rothaermel (2003)
Overly dependence on exploitative strategy	Routines	Organization	Danneels (2010)
Power and politics	Power	TMT	Cyert & March (1963), Hill & Rothaermel (2003), Kaplan (2008b), Maitlis & Lawrence (2003)
Organizational truces	Power	Organization / TMT	Kaplan & Henderson (2005), Kaplan (2015), Mangolte (2000), Nelson & Winter (1982)
Resource dependency	Power	Organization	Collinson & Wilson (2006), Hill & Rothaermel (2003), Pfeffer & Salancik (1978)
Misaligned incentives	Power	Individual	Cho & Hambrick (2006), Kaplan & Henderson (2005), Kaplan (2015)
Established strategic frames	Cognition	TMT / Individual	Sull (1999)

Outdated mental models	Cognition	TMT / Individual	Barr, Stimpert & Huff (1992), Porac, Thomas & Baden-Fuller (1989), Reger & Palmer (1996)
Previously learned formulas	Cognition	TMT / Individual	Reger & Palmer (1996)
Patterns of thinking	Cognition	TMT / Individual	Porac, Thomas & Baden-Fuller (1989)
Inflexible schema	Cognition	TMT / Individual	Danneels (2010), Raffaelli, Glynn & Tushman (2015)
Information overload	Cognition	TMT / Individual	Reger & Palmer (1996)
Resilient shared schematic frameworks	Cognition	TMT	Barr & Huff (1997)
Shared cognitive frames	Cognition	TMT	Barr & Huff (1997), Kaplan & Henderson (2005), Prahalad & Bettis (1986)
TMT characteristics	Cognition	TMT	Cho & Hambrick (2006), Hambrick & Mason (1984)
Executive attention	Cognition	Individual	Barr, Stimpert & Huff (1992), Cho & Hambrick (2006), Eggers & Kaplan (2009), Eggers & Kaplan (2013), Eggers (2016), Kaplan (2008a), Ocasio (1997)
Cognitive inertia	Cognition	Individual	Danneels (2010), Hodgkinson (1997), Hodgkinson & Wright (2002), Reger & Palmer (1996), Tripsas & Gavetti (2000)
Cognitive biases	Cognition	Individual	Sibony, Lovallo, Powell (2017)
Threat perception	Emotions	TMT / Individual	Gilbert (2005), Gilbert (2006), Raffaelli, Glynn & Tushman (2019)
High stress levels	Emotions	Individual	Barr & Huff (1997), Hodgkinson & Wright (2002), Huff, Huff & Thomas (1992)
Emotions	Emotions	TMT / Individual	Hodgkinson & Healey (2011, 2014), Raffaelli, Glynn & Tushman (2019)

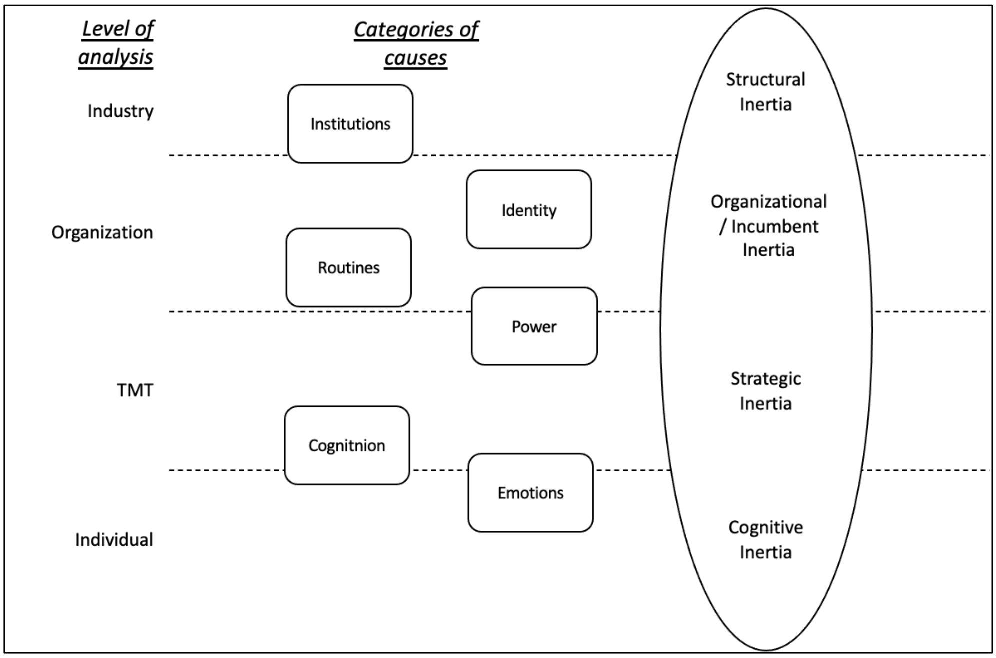
Note: TMT = Top Management Team

Conceptual Framework

The clarification of terminology, conceptualization of the phenomenon, and categorization of proposed causes offered here, sets the stage for further advances in research

on inertia. We propose a general conceptual framework (Figure 1) of the causes of inertia, which can be developed in future empirical research. The framework acknowledges inertia at four levels of analysis: industry, organization, top management team (TMT), and individual. Causes of inertia cluster in six categories: institutions, identity, routines, power, cognition and emotions, which also associate with distinct levels of analysis. Each category with different causes identified in the literature and previously presented in Table 1, which act in isolation or, more frequently, combined with others.

Figure 1 – Generic conceptual model of the causes of inertia



At the industry level of analysis, the model suggests that the category of institutions embraces the leading causes towards structural inertia. Inertia occurring collectively within certain industry's boundaries potentially has common causes affecting the companies involved, which indicates the necessity of a broad scope of analysis to understand the phenomenon. When the focus of analysis is a single firm, the model suggests that the categories of organizational identity and routines contains the causes responsible for organizational or incumbent inertia, followed by the category of power. At this level of analysis, the causes should affect collectively managers and employees. When addressing top management teams, the model suggests that strategic inertia is influenced by three main categories, namely power, cognition, and emotions. The causes in these categories affect individuals that interact in a group whose responsibility is strategic decision-making. Finally, at the individual level of analysis the model indicates that

cognition and emotion and their respective causes, which are frequently entangled with each other, can lead to cognitive inertia.

The categorization of the different causes of inertia in organizations does not necessarily isolate one cause from the other. On the contrary, institutions can affect identity and cognition, for example, as well as emotions pervade many aspects of organizational life. There are complex interactions among these categories and their respective causes. Moreover, the generic conceptual model cluster categories whose causes of inertia come from different areas of knowledge, such as psychology, sociology, social psychology, neuroscience, and management. Combining them, although challenging, might provide more complete explanations of a complex phenomenon as inertia in organizations. The generic conceptual model represents an effort in this direction.

Conclusion

Does research on inertia in organizations suffer itself from inertia? The historical trajectory of research in this domain suggests the need for new impetus. Research on inertia in organizations offers opportunities for further advances in theory and contributions to practice. Following a more precise description of the construct and identification of the most important causes of the phenomenon, strategic management and organization scholars can look for answers to questions regarding inertia and, thereby help practitioners and organizations overcome the paralysis detrimental to teams, companies, and entire industries. As a multilevel phenomenon with multiple causes, the conceptual framework proposes a structured approach to advance the knowledge in the field.

Powell, Lovallo, and Fox's (2011) called for studies that can contribute to the practice of behavioral strategy. In this regard, studies focused on top management team offer an interesting possibility. Considering top managers use simplified representations of reality (mental models) that screen out potentially important but weak signals of information, that top managers are not fully conscious of how their emotions move their decisions, and that they are part of complex organizational structures vested in interests that culminate in relational contracts (truces), the way ahead should search for tools to address these shortcomings in order to reduce and ultimately avoid strategic inertia (Hodgkinson & Healey, 2014).

Sibony et al. (2007) proposed one such way that emphasized that it is possible for companies to prevent strategic inertia from becoming entrenched in their operations by architecting better decision-making processes. Consideration should move to the "decision architecture of the firm" (Sibony et al., 2017, p. 8) to help overcome top managers' cognitive flaws. The authors offered seven levers for designing superior strategic decision processes: formality, layering, information, participation, incentives, debate, and closure. Formalized decision processes are conducted by planning teams, through structured meetings and extensive data gathering and analysis, and supported by written documentation. Layering refers to choosing the appropriate number of decision layers by assigning decision approvals to multiple people, usually in different roles. Rules establish the amount and type of information required, as well as the related analysis, before a decision can be reached. Participation complements layering by decentralizing the decision-making process and by empowering representatives of different functional areas, project teams, or external stakeholders. Incentives refers to the "financial and nonfinancial motives and interests that people bring with them as participants in decision processes" (p.12). Incentives acknowledge that people bring their own agendas and vested interests, which must be carefully understood and somehow dealt with, to influence the opinions that people verbalize and the decisions they may be prone to support. Top managers should also promote debate (in complement to layering and participation) in order to avoid groupthink and (unwarranted) consensus. As regards closure, it is important that "there are clear voting and decision rules (such as majority rule, or a single-veto rule)" (p.12), so that when a decision has been, and the nature of that decision, become explicit. By promoting these levers, a company will tend to minimize cognitive flaws and stimulate evidence-based management (i.e., "to base [decision] practices on best available evidence", *cf.*, Rosseau, 2006, p. 256), thereby overcoming strategic inertia.

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ARTICLE 2

Cognition, Power, Emotions & Communication in Strategic Inertia

Abstract

Research on the determinants of strategic inertia has identified three main causes of the phenomenon, related to cognitions, power disputes, and emotions. While it has been acknowledged that these causes may interact with one another, research has in general investigated their isolated impacts. We argue for an integrated approach of the three determinants and propose to add communication, as a medium that can enhance or else attenuate the (isolated and combined) impact of the determinants. We advance an integrative conceptual model about the strategic inertia process linking top managers' cognition, power and politics, and emotions and the role of communication practices in shaping (and being shaped by) those determinants. We recognize the methodological obstacles to collecting data, particularly on power (which entails organizational politicking in multiple moves) and emotions (which may not be easily recalled in retrospect). Therefore, a research design that incorporates process and real-time data would be recommended.

Key words: strategic inertia, cognition, power, emotions, communication, top managers.

Introduction

Top management teams often fail to take purposeful actions to adapt the strategic route of their organizations to changing competitive conditions, but rather reinforce past courses of actions, a phenomenon known as strategic inertia (Hodgkinson & Wright, 2002; Hopkins, Mallete & Hopkins, 2013).

Determinants of strategic inertia span over multiple levels, such as industry (Hannan & Freeman, 1984), organization (Tripsas & Gavetti, 2000), group/team (Hodgkinson & Wright, 2002), and individual (Eggers & Kaplan, 2009). At the team and individual levels, three main determinants have been examined: cognition, power (disputes), and emotions; however, the field still lacks an integrated analysis of the interplay of these possible causes, which have frequently been investigated separately. Besides, organizational communication plays a critical

role in how cognitions are framed, power is displayed, and emotions emerge. Nevertheless, the role of communication (Kwon, Clarke, & Wodak, 2014) as a medium where the drivers of strategic inertia manifest has been virtually neglected.

We draw from the literature in order to briefly present how each of these constructs (cognitions, power, and emotions) can individually influence top management team's strategic inertia, and then we discuss their (pairwise) interaction. We contribute to the literature on the determinants of strategic inertia by discussing how organizational communication affects (and is affect by) the manifestations of each of those determinants and thereby influences strategic inertia. Finally, we advance a tentative model of the interactions, which shall benefit from more conceptual refinement and empirical scrutiny, and hopefully might inspire future research.

Method and Data

The study investigates the phenomenon of strategic inertia in top management teams (TMT) and how cognition, emotion, power and communication relate to it. We searched for articles in the Scopus and Google Scholar databases, and more specifically in the following journals: Strategic Management Journal (SMJ), the Academy of Management Review (AMR), Academy of Management Annals (AMA), and Academy of Management Journal (AMJ). The search used the expressions strategic inertia, cognitive inertia, TMT inertia, decision-making inertia, TMT adaptation, emotions in organization, emotions and decision making, TMT emotions, strategy and emotions, affect in organizations, TMT affect, affect and decision making, power in organizations, power and decision making, TMT and power, strategy and power, communication in organizations, communication and strategy, TMT and communication, and communication and decision making. There was no limitation of period for the selection of the articles. The abstracts of the articles were read and other references in the articles directed the search to other empirical and theoretical studies and book chapters related to the phenomenon of interest. After this review cycle, 62 articles and books chapters were selected for a detailed analysis of their contribution to the study's purposes, which sourced the core aspects of the present work. The literature review occurred between February 2020 and December 2020.

Impact of Cognition

Top managers have a duty to interpret the internal and external aspects of their organizations (Kaplan, 2011). They need to absorb, process and disseminate information about environments that are extremely complex and ambiguous (Walsh, 1995). They are responsible to initiate, shape and direct strategic reorientations when confronted with new competitive forces (Tushman & Romanelli, 1985). Overall, the way they comprehend the competitive environment influences the strategic recommendations to their companies (Daft & Weick, 1984). While some companies successfully navigate challenging scenarios, others fail to respond properly. The recurrent paralysis of top managers to correct the route of their organizations underscores the importance of examining their cognition and in particular the consequent strategic inertia.

Researchers in the strategic management literature have acknowledged that top managers are bounded rational (Cyert & March, 1963; Simon, 1947). They inherently have information-processing limitations that restrict the range of strategic options available and the assessment of threats and of potential opportunities. They construct simplified mental models when dealing with complex problems; under complex situations, such mental models (also known as schemas or cognitive frames) only approximate rationality (Schwenk, 1988). When they address pressing problems, top managers tend to scan only their local environment, and then adopt solutions that seldom challenge de status quo (Gavetti, Greve, Levinthal & Ocasio, 2012). Gavetti (2012) used the expression “behavioral failures” to refer to the mental impediments of strategic leaders that limit the ability of companies to react to threats and to seize opportunities.

Examples in the literature are abundant. One of the pioneering studies on managerial cognition was the assessment of Scottish knitwear manufacturers’ competitive boundaries, conducted by Porac, Thomas and Baden-Fuller (1989). They interviewed top managers and surprisingly found that their competitive spectrum encompassed only other similar Scottish manufactures. Current and potential competitors from other countries and other parts of the UK that produced similar products were totally or substantially ignored. The study indicated that this reduced competitive boundary was the result of top managers’ shared mental models, which limited their vision of the marketplace and reinforced their already biased strategic beliefs and decisions-making processes.

Hodgkinson (1997) ran a longitudinal field study about how the mental models of senior managers working in the UK residential real estate industry, at the time characterized by high volatility, remained stable or else changed little over time. Findings suggested that senior managers were experiencing cognitive inertia, which manifests when individuals become excessively dependent on their established mental models that they fail to notice or act on changes in fundamental circumstances of their business environments until the organization's capacity for successful adaptation has been seriously impaired (Hodgkinson,1997; Hodgkinson & Wright, 2002). The article provided evidence that senior managers' (shared) mental models remained unchanged, collectively and individually, despite a significant downturn in the real estate market coupled with changing circumstances confronting the industry.

One of the effects of cognitive inertia in TMT's is the fixation on a particular competitive boundary at a particular point in time (Porac & Thomas, 1990). This is the case unveiled by Reger and Palmer (1996) who examined the cognitive maps of top managers in the financial industry regarding competitive positioning. They found that their mental models reflected obsolete industry barriers and were not updated quickly enough to keep pace with volatile environments. The authors argued the cognitive inertia manifested by top managers could be the result of information overload, previously learned formulas, and patterns of thinking that are extremely difficult to change.

Tripsas and Gavetti (2000) explored how the cognitive inertia of Polaroid's top managers influenced their strategy making during the shift from analog to digital imaging. They concluded that the way managers modeled the new problem space and developed strategic prescriptions for a new environment were based on past representations, which constrained learning efforts and directed search processes. Top managers remained stuck with the "razor blade" business model and could not change their ingrained strategic beliefs. Such dominant logic (Prahalad & Bettis, 1986) among top managers limited the adaptative intelligence of the company.

In a case where the cognitive inertia of top managers affected the development of dynamic capabilities (Teece, 1997), Danneels (2010) explored how Smith Corona, a large manufacturer of typewriters, confronted the obsolescence of its core product category due to the arrival of personal computers. The company "tried to alter its resource base by leveraging existing resources, creating new resources, accessing external resources, and releasing

resources" (Danneels, 2010, p.1-2). However, the efforts failed to materialize in viable new products because of a fundamental missing resource: cognition. Resource cognition is related to the mental models that top managers embrace to answer questions like "what are our resources?" and "what are the potential applications of our resources?" (Danneels, 2010, Eggers & Kaplan, 2013). At Smith Corona, the rigidity of top managers' mental model about the product's brand and customers' behavior contributed to the failed attempts to renew the strategy of the company.

Failing to make the necessary adjustment in top managers mental models was the source of strategic inertia as found by Barr, Stimpert and Huff (1992), who examined the strategic moves of two companies in the railroad industry. The authors suggested that delays by the top managers of one of the companies to update their mental models contributed to organizational decline by intensifying the divergence between the data available and the information processing. The attention of top managers to the changes in the environment and how they cognitively framed it (Ocasio, 1997, 2011), directed the action of the organization and led managers to neglect or altogether disregard the external transformations that were taking place.

Overall, these examples substantiate the idea exposed by Barr & Huff (1997, p.341) that "[… the top management team of organizations must be epistemic communities of some strength […] to be viable economic units. While individuals […] have unique beliefs and interpretations, they share many beliefs and understanding with others [… so that] the resulting sharing schematic frameworks simplify a complex world and provide the basis for coordinated activity]".

Prahalad and Bettis (1986) similarly suggested that the coalition of top managers is not an abstract representation, but the result of top managers' individual schemas, described as pre-existing knowledge systems formed by their personal experiences. This collective mindset, named "dominant logic", is sustained by the dominant coalition of top managers and emerges from learned and problem-solving behaviors that are recalled for strategic decision-making purposes. The authors further explain that this stored repertoire of collective tools and preferences is assembled and reinforced by the firm's historical economic success, and consequently influences the current interpretation of strategic issues faced by the top management team. However, important changes in the competitive environment can make

these interpretations inappropriate, but top managers seldom develop and negotiate a new knowledge system in a timely manner.

Also addressing how individuals' schemas collectively interact within organizations, Lyles and Schwenk (1992) proposed that decision-makers' individual schemas will lead to widespread cause-and-effect beliefs in organizational settings. While the term schema refers to individual-level knowledge, the authors explain that "knowledge structure" denotes shared beliefs at the organizational level, and the core characteristics of this structure will endure over long periods of time, with changes occurring only at a firm's peripheral features. Moreover, due to the importance that top managers have for strategic decision-making, their collective schemas have a great influence on the development of an organization's knowledge structure, a process built on consensus and political negotiation. When beliefs about cause-and-effect are not challenged, these rigid structures will continue to be extensively accepted and applied within the organization.

Impact of Power Disputes and Incentives

The decision-making process of top management teams is not only the result of the interplay of top managers' individual schemas and their collective interpretation of, and agreement on, an otherwise ambiguous environment, but also involves the political pursuit and negotiation of different interests among the members (Walsh, 1995; Kaplan, 2011).

Cyert & March (1963) highlighted that a firm can be defined in terms of a coalition of interests that comes to prevail over the internal conflicts, which originate from different individual goals. This settlement occurs via agreements that are institutionalized into semi-permanent arrangements. The authors further explain that "[…] organizations have memories in the form of precedents, and individuals in the coalition are strongly motivated to accept the precedents as biding" (p.33). Therefore, the bargaining of the past will influence the current allocation of resources and functions among coalition members; as a result, organizational structures, routines and informal rules are built within a political bargaining process (Cyert & March, 1963). Moreover, the settlement of these disputes brings stability to organizations and accommodates the distribution of power and politics (Hill & Rothaermel, 2003). When organizations face the problem of adapting to changing environments, coalition members will resist strategic moves that can potentially destabilize their dominant position, as these actors

will try to maintain their power and influence (Hill & Rothaermel, 2003). A potential outcome of such organizational actors' play is the phenomenon of strategic inertia among top managers.

Nelson and Winter (1982) likewise addressed the tacit and political agreement among organizational parts and proposed that organizational routines implicate a "truce" in intraorganizational conflict. The authors claim that control systems play a critical but limited role in making routine operations possible, and that organizational members have significant room for behavioral discretion that is not motivated solely by the organizational mechanisms that impose the procedures. Consequently, effective routines will be arranged to suppress the effects of divergent members' interests. "There is […] a truce in the struggle for advancement, power, and perquisites among high-level executives. Nobody is trying to steer the organizational ship into a sharp turn in the hope of throwing a rival overboard – or if someone is trying, he correctly expects to be thwarted" (Nelson & Winter, 1982, L. 1545).

Kaplan & Henderson (2005) focused on the motivational side of organizational actors by addressing incentives are context dependent and open to interpretation. Incentive systems are based on a series of historical relational contracts among managers and, consequently, are at the core of the motivational structure of a firm's truce (Nelson & Winter, 1982; Kaplan, 2015). New or ambiguous environments might trigger off confusion among organizational actors, who become unsure of what behavior will be rewarded and how to correctly measure them. In these cases, top managers avoid fracturing these implicit relational contracts and might develop new incentive systems that can be deeply anchored in existing incentives regimes, thereby fostering strategic inertia (Kaplan & Henderson, 2005).

Impact of Emotions

In calls to understand (and help) reduce the prevalence of strategic inertia afflicting organizations, Hodgkinson & Healey (2011, 2014) proposed that emotions perform a central role in strategic decision-making. Strategic management theorists and practitioners have overlooked the importance of emotions by focusing mostly on the bounded rationality assumption. Nevertheless, the authors point out that emotions could be the fundamental inhibitor or else the enabler of top managers' ability to respond to the challenges of inertia in strategic thinking and adaptive behavior. As Bromiley (2005) put it, "… people are more complex than our current bounded rationality models. Alternative studies may find it useful to

modify this assumption to examine things such as the roles of emotion …" (p.14).

In fact, emotions are at the core of what motivates individuals and prompts their actions. Barsade & Gibson (2007) maintain that affect pervades every aspect of organization life and materializes every time managers have to deal with topics that are important for them or relate to their company's performance. Elfenbein (2007) contends that all decision-making episode is an affective event, and that managers use their anticipated emotions (even if unconsciously) to guide their decisions. Managers prefer situations that lead to positive emotional experiences and tend to avoid negative ones (Loewenstein & Lerner, 2003), and certain circumstances can lead emotions to dominate deliberative thinking in judgment and decision making (Hodgkinson & Healey, 2014). The impact of emotions, though, is rather complex, since the same type of emotion (e.g., positive or negative for that matter) can both stimulate strategic change or instill strategic inertia.

One should also notice how related terms and expressions – specifically, emotion, mood, dispositional affect (or affective traits), and affect – are used in the literature. Affect is a broad term that comprises emotions, mood and affective traits, and can be used in reference to the different feelings, short and long-lived, that individuals experience (Barsade & Gibson, 2007).

Affective traits, or dispositional affect, denote a stable personality tendency to feel and act in certain ways, "a person's affective lens on the world" (Barsade & Gibson, 2007, pg. 38). Different individuals experience some types of affect more than others. Individuals with positive affective traits tend to experience more positive moods and emotions, while individuals with negative affective traits tend to experience more negative ones - he seems always happy; he seems always sad (Barsade & Gibson, 2007). An example of this kind of research approach was a cross-sectional analysis of the Spanish banking industry, in which Delgado-Garcia & De la Fuente-Sabaté (2010) explored how CEO's affective traits influence firm strategic and performance conformity. The results suggest that manager's negative affective traits are related to more conformist strategies and ordinary performance. Positive affective traits are likely to generate outcomes that deviate from the industry standards. Their findings support evidence that a predominantly positive dispositional affect leads to more innovative decision-making, while negative dispositional affect leads to more conservative decisions.

Moods are diffuse and take the form of a general positive or negative feeling (e.g., happy versus sad) (Elfenbein, 2007). Moods tend to persist for long periods, are not related to a specific event, object or person, and are examined by their hedonic tone (positive or negative), considering how pleasant or unpleasant the mood is (Barsade & Gibson, 2007). There is a long debate about the influence of positive and negative moods on decision making. There is consistent evidence that positive moods lead to better decision making by facilitating the efficient and flexible use of new information. However, depending on the context, positive moods can jeopardize productivity and promote inertia by suggesting to mangers that "all is good", thus leading to complacence or overconfidence (Ashton-James & Ashkanasy, 2008; Elfenbein, 2007). On the other hand, studies have also pointed out that negative moods can lead to better decision making by stimulating managers effortful processing and instilling a sense of urgency and call to action. Negative moods indicate that something is wrong, fostering the search for a solution (Elfenbein, 2007).

In contrast, emotions (e.g., fear, anger, joy, pride) are discrete, intense, contextual and transitory (short-lived), and represent feelings towards an event, object or person (Barsade & Gibson, 2007). The emotion process starts with the exposition of a person to an external eliciting stimulus that provokes its registration and the experience of the affective state, with consequences for the person's attitudes and behaviors (Elfenbein, 2007). Different emotions have different embedded core action tendencies that can be related to an individual' specific behavior outcome, although the resulting behavior is also contingent on the emotion's intensity and context (Frijda, 1988; Lazarus, 1991). These action tendencies activate and prioritize the person's behavior and signal that it is necessary to respond (or not) to aspects of the environment (Fridja, 1988). Even if quickly and imperceptible, the emotion process is characterized by having a systematic arranging (Elfenbein, 2007). Organizational studies that focused on discrete emotions usually explored what kind of emotions are elicited by events that affect companies and how the elicited emotions interact with members' cognition to influence their behavior. Strategic change, technological innovation and top managers' decision making appear on the list of studies looking at consequences of discrete emotion (Kouame & Liu, 2020). Strategic change, for example, may bring high emotional load to the fore as it demands substantial modifications in structures, processes, resources distribution and managers' beliefs, (Huy, 2005). Top managers may resist changes whose outcome is unknown because of the anxiety elicited or fear of the potential consequences (Huy, 2008). Therefore, it is essential to manage emotional dynamics properly, so as to reduce organization members' resistance to

change (Huy, 2005).

Exploring how emotions can elicit or hinder organizational learning (Argyris, 1976), Scherer & Tran (2001) highlight that some of the discrete emotions regularly found in organizational settings can be important sources of motivation for change or else maintenance of the status quo. The authors proposed the classification of selected discrete emotions according to their action tendencies (which could have positive or negative consequences depending on the specific intensity of the emotion experienced and the kind of situation an organizational actor is inserted in):

- Approach emotions: interest, hope, joyful anticipation;
- Achievement emotions: relief, satisfaction, contentment, joy, pride, elation;
- Deterrence emotions: anxiety, fear, distress, pessimism;
- Withdrawal emotions: sadness, resignation, shame, guilt;
- Antagonistic emotions: irritation, anger, hate, aggressiveness.

Approach emotions tend to enhance the exploration of new opportunities and encourage overcoming organizational challenges, as well as promote the search for new skills. However, when hope and joyful anticipation intensify up to the point of generating unrealistic expectations, they can produce risky and dysfunctional decision-making. *Achievement* emotions relate to the recalling of success and goal accomplishment in organizational settings, but when they are deeply rooted in past successes, they can lead to stagnation (e.g., a top manager that excessively prizes himself for his or her past achievements and as a consequence does not notice new threats or opportunities on the company's horizon). *Deterrence* emotions prevent managers from exploring new opportunities as they avoid exposing themselves or they attempt to escape from circumstances that cause these affective states. While deterrence emotions such as anxiety and fear can prevent excessive optimism and reckless decision-making, they may also induce not taking potentially attractive projects because they are deemed as risky. *Withdrawal* emotions tend to concentrate the attention and efforts of managers on internal processes rather than on the company's external environment, and thus tend to refrain the impetus to invest in new ventures. In periods where significant internal changes are necessary, such as restructuring, these emotions can help focus managers' energy on internal matters. Finally, if on the one hand, *antagonistic* emotions can drive managers to fight for their

personal and professional objectives, on the other, they can have deleterious consequences on top managers' agreement about the best strategic route.

Overall, theoretical and empirical research by multiple authors advises that the effects of discrete emotions on strategic inertia can vary significantly. As a result, we selected some discrete emotions for the purpose of this work and elaborated Table 1, which indicates how these emotions can augment or reduce top managers' strategic inertia, depending on the general circumstances top managers are involved in and must decide upon.

Table 1 - Possible Effects of Selected Discrete Emotions on Strategic Inertia

Emotion	Emotion family*	+ Strategic Inertia	- Strategic Inertia
Fear	Deterrence emotions	Escape, avoid exploration of new opportunities, paralysis	Ignite action to avoid the worst, detailed analysis of alternatives
Anxiety	Deterrence emotions	Escape, avoid exploration of new opportunities, paralysis	Ignite action to avoid the worst, detailed analysis of alternatives
Anger	Antagonistic emotions	General disagreement and lack of direction	Overcome challenges and obstacles
Envy	Antagonistic emotions	Sabotage and intrigue among team members	Strategic reorientation needed aligned with personal interests
Jealousy	Antagonistic emotions	Sabotage and intrigue among team members	Strategic reorientation needed aligned with personal interests
Hope	Approach emotions	Unrealistic expectations, double bet on current strategy	Exploration of new opportunities and alternatives
Pride	Achievement emotions	Status quo maintenance ("we are the best")	Moral maintenance in the face of difficulties
Joy	Achievement emotions	Status quo maintenance ("all is good")	Openness and energy to adapt and explore

** Source: Scherer & Tran (2001)*

The management literature frequently claims that positive emotions are advantageous for organizations, disregarding the fact that both positive and negative emotions result from the same registration process and both develop along each other, and negative emotions can have important roles in organizational settings (Elfenbein, 2007). The combination of feelings in terms of their hedonic tone as positive and negative reduces the perspectives to comprehend the antecedents, subjective experience, and behavioral consequences that each discrete emotion presents (Lazarus & Cohen-Charash, 2001). Additionally, the differences among discrete emotions can be more assertive for the understanding of adaptative problems of individuals and, consequently, organizations, since each emotion has its own characteristics and behavioral tendencies. In the words of Lazarus and Cohen-Charash (2001), "[…] if the dominant emotion is anger, we are dealing with a different kind of recurring adaptational drama than would be the

case if the dominant emotion were, say, anxiety, guilt, shame, envy, jealousy, and so forth" (p. 52).

The Compounding Effect of the Interaction Between Determinants of Strategic Inertia

The above-mentioned determinants of strategic inertia – cognitions, power, and emotions – also interact between one another in complex ways that influence the behavior of strategic decision-makers.

Power and Cognition

Strategy making under ambiguous scenarios can produce divergent interpretations about the best course of action, and this frequently competing views will be resolved by the political arrangement of the actors involved (Kaplan, 2008). This arrangement will include not only managers' personal interests, but also the cognitive frames applied to the situation at hand. Interests and cognitive frames are interrelated and reciprocally affect each other. Managers will pursue the strategic choice that best fit both their interests and cognitive frames and will try to coopt other managers towards they intended strategic direction. Decisions are postponed until this contest for a prevailing frame among different coalitions does not find a common ground (Kaplan, 2008). Eventually actors manage to turn their own (purposefully built) cognitive frames into the organization's predominant frame; in fact, a collective frame can be viewed as a truce that stabilizes the governing coalition (Kaplan, 2008, 2015).

Besides, as managers sense the consequences to their political position in the organization that might result if certain pieces of information are dealt with in the decision-making channels, they may (usually deliberately, but sometimes also unconsciously) adjust their focus of attention (Ocasio, 1997, 2011) and then filter the information that will feed their "rational and analytical" processing, by retaining and increasing the importance of the favorable (to their personal goals) pieces and ignoring or outright discarding others.

Therefore, managerial cognition is influenced by organizational politics, and strategic inertia can be the outcome of the resulting cognitive frame's rigidity, as well as of failures to establish a new frame due to managers' internal political practices, derived from unresolved dissonance (between the objective vs. the construed reality) and deferred decisions (Kaplan,

2008).

Emotion and Cognition

An important contribution of neuroeconomics to organizational studies has been to expose the circumstances that can lead emotions to dominate deliberative thinking in judgment and decision making (Hodgkinson & Healey, 2011; 2014). There is evidence that top managers frequently act based on the emotions they experience at the time of choice, in reaction to their mental images of expected outcomes and of disconfirming evidence of their engrained beliefs, not on rational probabilities or accounts of reality (Loewenstein & Lerner, 2003). When affect and rational reasoning conflict, the former can outweigh the latter to govern behavior (Loeweinstein, Rick & Cohen, 2008). Nevertheless, while emotions have been considered an obstruction to rationality, newer work has highlighted its adaptative nature (Elfenbein, 2007). Researchers who investigate the interaction of cognition and emotions demonstrate it would be unfruitful to describe human thought or behavior without addressing emotions (Ashkanasy, 2003).

In fact, perceived changes in the external environment, such as economic events or other conditions, can be important emotional elicitors (Brief & Weiss, 2002). Positive emotions will be elicited by events that satisfy an individual's goals, while negative emotions will be elicited by events that harm or threaten those objectives (Frijda, 1988; Lazarus, 1991). Furthermore, organizations have idiosyncratic features and dynamics with the potential to provoke a variety of emotions in top managers, collectively and individually (Lazarus, Cohen-Charash, 2001). External changing environments that impose significant adaptational challenges to organizations, for example, can place emotional burdens in top managers that potentially increase their resistance to revising their assumptions, beliefs, values, routines, incentives, or privileges (Huy, 2008). On the other hand, specific emotions can also function as relevance detectors that warn and focus the attention of top managers on relevant environmental changes, encouraging the search for an appropriate strategic answer (Scherer & Tran, 2001).

Ashton-James & Ashkanasy (2008) highlighted, for example, that the negative emotions of anger, fear and anxiety, and the positive emotions of joy and happiness, have each a different impact on top managers' cognition and decision-making. Anger arouses the action tendency to react against an event or object in the environment that is perceived to cause harm, hence it can

be a force to overcome organizational difficulties. Yet, it might also lead to impulsive behavior and excessive risk taking. Fear and anxiety share the action tendency to escape but might also produce more vigilant monitoring (although anxiety, differently from fear, does not have a clear object or event that acts as an emotion elicitor). Joy and happiness arise out of goal achievement (or anticipation of future good results), but when in excess can lead to impulsive and over-confident decision-making. The authors concluded by suggesting that anger and joy/happiness tend to promote increased risk taking, while fear and anxiety are related to risk-averse behavior.

Moreover, how top managers frame the arrival of an external innovation, named "emotional framing", would significantly affect their perception towards innovation opportunities (Raffaelli, Glynn & Tushman, 2019). Accordingly, top managers should foster routines and procedures that improve internal emotional dynamics by assisting members' emotions with the purpose of facilitating strategic renewal (Huy, 2005). These emotion-based dynamic capabilities would help organizations manage the emotions naturally elicited by the uncertainty involved in the exploration of new strategies, reducing organization members' resistance to change (Huy, 2005). Huy, Corley & Kraatz (2014) explored how top managers' failure to adequately manage these internal emotional dynamics can hinder strategic change. The study indicated how the transformation from emotionally positive assessment, based on heuristic processing, to emotionally negative assessment, based on detailed and analytical processing, climaxed in strong resistances to change among middle managers involved in a change project. The initial positive emotions present during the formulation phase of the change project, characterized by energy, excitement and feelings of calm, were taken over by disappointment, anxiety, anger and lost hope during the implementation phase.

Finally, one should also recognize that several strategic choices submit decision-makers to ambivalence, that is, "the simultaneous experience of positive and negative emotional or cognitive orientations toward a person, situation, object, task, or goal" (Rothman, Pratt, Rees & Vogus, 2017, p. 33). Such state can induce opposing reactions, leading either to cognitive inflexibility (e.g., response amplification, reduced ability to decide, confirmation bias, or confirmatory order perception) or else to cognitive flexibility (e.g., expansion of the cognitive breadth or of the scope of attention or amplified motivation to engage in balanced consideration of multiple perspectives); much by the same token, ambivalence can provoke behavioral inflexibility (e.g., paralysis or resistance to change) or behavioral flexibility (e.g., openness to change, reduced escalation of commitment or interpersonal and collective adaptability)

(Rothman et al., 2017).

Emotion and power

Shifts in the environment can trigger emotional responses in top managers, and consequently their interpretation and consideration, individually and collectively, of the new strategic issue (Huy, 2008). Individuals tend to resist changes whose outcome is unknown because of the anxiety elicited or fear of the potential consequences. A relevant strategic issue with the potential to jeopardize the stable distribution of power and resources in an organization will probably have the same effect on top managers (Huy, 2005). Positive emotions might also prevent changes. Pride and joy, for example, might be so pervasive among the top management team that the negative emotions elicited by a threatening environmental shift may not have the necessary steam to disturb the equilibrium of the coalition, as the strategic issue is judged as unimportant or outright ignored (Scherer & Tran, 2001).

Additionally, emotions frequently found in organizations can also interfere with the internal coalition functioning. Envy is elicited when a co-worker gains something one wants but does not have (raise, promotion, recognition, etc.), with a possible loss of relative social status (Fisher, 2019). Envious organizational actors tend to hurt or sabotage colleagues and are less inclined to help and cooperate with them, since they are more suspicious of their peers and might try to improve their internal ranking by maneuvering new coalitions (Lazarus & Cohen-Charash, 2001). Similarly, jealousy is felt when a co-worker takes something that is valued by the other party, such as a favored relationship with a customer or a manager (Fisher, 2019). Lazarus & Cohen-Charash (2001) highlighted that one of jealousy symptoms relates to a professional that holds a better position compared to other peers and does not concede space to change the status quo, covering his or her current position. A jealous manager can work to block the advancement of colleagues or interfere in the equal distribution of incentives. On the positive side, the authors add, envy and jealousy can eventually lead actors to double their efforts for career advancement in ways that benefit their organizations, despite the side effects of their maneuvers against other members.

Accordingly, power games among top managers will inevitably elicit different emotions (Brundin and Nordqvist, 2008), as the maneuvers of individuals and coalitions to gain or preserve prestige, power and resources might affect other co-workers, who will defend their

positions, or plan to counterattack (Pettigrew, 1973). Top managers playing this political game will be immersed in a vast array of positive and negative emotions, the intensity and frequency of which will depend on both how well positioned they are in the "organization's battlefield", and the level of political activity within the firm (Eisenhardt & Bourgeois, 1988).

Organizational Communication

Managers express their cognitive understandings, power and emotions through communication. Communication practices can emphasize several components that stimulate or inhibit the strategic agenda and decision-makers "use a range of discursive strategies and linguistic ploys to shape shared views of strategic issues and legitimate their views" (Kwon et al., 2014, p. 4). As Balogun, Jacobs, Jarzabkowski, Mantere and Vaara (2014) have put it, "[…] words, in both their spoken and their materialized forms in text, are some of the most powerful resources for making and signifying an organization's strategy." (p. 175). Talking and other communication mechanisms allow strategists and decision-makers to negotiate and establish meanings, articulate their understanding of the competitive landscape, and individually and collectively project the future pathway of the organization (Samra-Fredericks, 2003).

An organizations' internal communication practices can also be understood as predominant and widespread narratives that influence managers' frames of reference and, consequently, how individuals relate to reality (Geiger & Antonacopoulou, 2009). When internal narratives are deep-rooted in past beliefs and frames of reference that have not been properly updated to the new demands of the competitive environment, they have the potential to limit the questioning of prevailing strategic assumptions and therefore the company's adaptation to new challenges (Geiger & Antonacopoulou, 2009). On the other hand, top managers can also alter the organization's internal communication by purposefully constructing innovative narratives that positively influence the interpretation of novel situations by its members and promote strategic change (Dalpiaz & Di Stefano, 2015).

Additionally, the firm's formal and informal communication channels have a key role in an organization's attention structures, as well as in strategic change and renewal (Ocasio, Laamanen & Vaara, 2017). Several researchers (Hodgkinson et al., 2006; Jarzabkowski & Seidl, 2008; Johnson et al., 2010; Kwon et al., 2014) have noted that companies are resorting ever more to informal discussions, rather than formal tools and techniques, to formulate their

strategy, among which are several communication (besides communicating) and coordination instruments (e.g., meeting, workshops, PowerPoint presentations); therefore, there is a need to deepen the nature, characteristics and influence of the communication channels and tools used by organizations (Ocasio et al., 2017; Vaara & Whittington, 2012).

Communication and Power

The context of organizational communication affects how strategy making unfolds. As Pettigrew (1973) put it, "[…] where a demand is voiced, who articulates it, who hears it, and how widely it is diffused are all crucial determinants of the way in which it is received and processed" (p. L5295). Top managers can establish and direct the strategic agenda and are an important nexus of the formal and informal communication within the organization (e.g., conversations, emails, memorandums, and reports) (Ocasio et al., 2017). They decide what issues are considered strategic and then get discussed (that is, agenda building, *cf.* Dutton, 1986), and ultimately can restrict the flow of information at the company (Eisenhardt & Bourgeois, 1988). Top managers and the dominant coalition will direct attention to issues that legitimate their power dominance (Dutton, 1986) and will try to mobilize other players in their favor (Pettigrew, 1973). Moreover, these key actors can use the available discursive resources to overlook those views that are not aligned with the preferable "strategy story" in order to stress or impose their own, thus "narrating" the organization strategic future (Balogun et al., 2014). Or they might also use discursive practices to distance themselves from strategic issues that might provoke criticism toward their performance to avoid responsibility, such as blame others for the firm's problems (Maitlis & Lawrence, 2003). Overall, communication and politics play a relevant role in engendering the firm's strategic agenda and in what is decided upon (Dutton, 1986).

Communication and Cognition

Cognitive researchers have suggested that language plays a key role in shaping cognition, and consequently how people talk has a direct link to how people think (Boroditsky, 2011). In organizations, communication affects cognitions by means of the ways in which managerial attention is shaped by the organization communicative practices, language and vocabulary (Ocasio et al, 2017). These multiple communicative patterns are reproduced, translated and transformed within the organization by their respective members, and

consequently orient what strategies should be pursued by connecting their common communicative characteristics (Ocasio et al, 2017).

Moreover, firms' communication channels structure "individuals' attention engagement", described as "[…] the process of intentional, sustained allocation of cognitive resources to guide problem solving, planning, sensemaking, and decision making" (Ocasio, 2011, p. 1288). These communication channels are the formal and informal meetings, reports and processes that focus the attention of top managers on specific threats and opportunities according to their availability and saliency (Ocasio, 1997). The company's adaptability capacity to changing environments relies on top managers directing their attention to the appropriate threats and opportunities, which in turn is also contingent on the organization's communication channels structure (Ocasio, 1997). Accordingly, these communication practices in organizations are important for how top managers comprehend their environment and can facilitate or restrain emerging strategic agendas (Ocasio et al, 2017).

Communication and Emotion

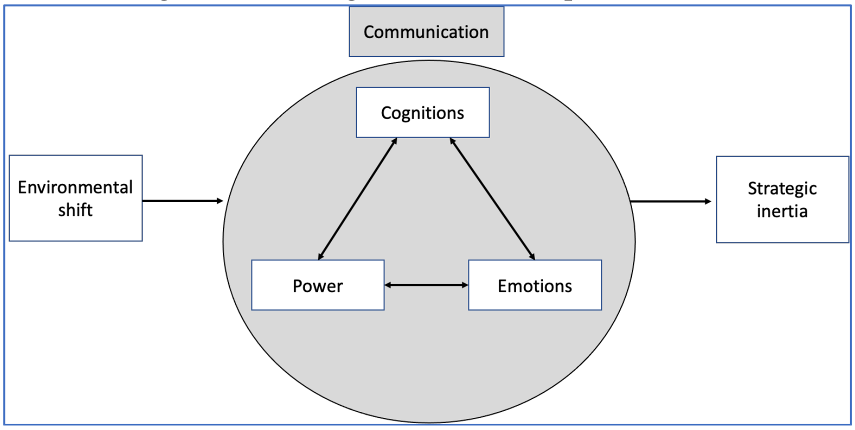
Emotional display in organizational settings, particularly among top managers, has a significant influence on strategy and decision making (Brudin & Nordqvist, 2008). Facial expressions, voiced words, written texts and others forms of communication are regularly embedded with emotions, which are open to interpretation and meaning elaboration. Therefore, evaluating the acts of communication within organizations without considering the role of emotions can provide a limited view of the process (Liu & Maitlis, 2014). Strong negative emotions demonstrated by a top manager can contribute to strategic reorientation failures by diminishing other members participation (Kisfalvi & Pitcher, 2003), as well as emotions purposively used in rhetoric during strategic meetings can persuade other participants towards the intended objective (Samra-Fredericks, 2003; 2004). On the other hand, managers can be inserted in organizational structures whose patterns of communication limit emotion expression. The concealment of fear display, for example, can bias top and middle managers perception of their company's internal capabilities, jeopardizing innovation process with severe consequences in the long run for the overall organization (Vuori & Huy, 2016).

An Integrative Model

The realm of behavioral strategy lies in “grounding strategic management in realistic assumptions about human cognition, emotion and social interaction […] including organizational politics” (Powell et al. 2011, p. 1369). Previous empirical research has frequently presented these three causes – that is, cognition, power and emotion – in isolation or at most in pairs, as cognition and power, power and emotion, or cognition and emotion. Cognition and emotions are entangled (Elfenbein, 2007), political and power games will elicit emotions, which will also influence the interpretation and evaluation of the interests involved within the dominant coalition. Then it is suggested that isolating the variables will not account for the whole story. Moreover, the drivers of strategic inertia manifest through communication. The role communication plays in the interaction of the drivers has been overlooked, despite its preponderant influence on top managers’ strategic decision-making.

Accordingly, we advance an integrative conceptual model about the strategic inertia process linking what has been exposed. Figure 1 illustrates the model and how the constructs interact, namely an environmental shift, followed by the interaction of top managers’ cognition, power and politics, and emotions, which will manifest in managerial communication. The model proposes that these three constructs – top managers’ cognition, power and emotions – can lead to strategic inertia, and that their impact should be analyzed interactively, not in isolation; besides the role of communication practices in shaping (and being shaped by) those determinants should be carefully considered.

Figure 1 – Strategic Inertia Conceptual Model



Additionally, the interaction of the drivers and the importance of communication in this process is foremost contextual. Communication is shaped by the drivers of strategic inertia when top managers purposively and actively use discursive practices to achieve their objectives.

They will use communication to influence others and to engender the strategic agenda of the organization towards their personal interests. In such cases, communication is the vehicle available for top managers to negotiate, dodge, delay or advance issues related to the organization's strategy. The strategic decision-making process of a company might serve as the main stage for such manifestations. The outcome of this development can be either the absence of consensus among top managers about a strategic reorientation, intentionally or not, and the consequent firm's inaction, or a decision to deal with the strategic issue on terms that do not alter the current distribution of power and interests among those involved. Both outcomes can lead to strategic inertia.

On the other hand, communication will influence top managers' cognitions, emotions and power through the organization's formal and informal communication channels and entrenched internal narratives, the later based mostly on the firm's history and past achievements. The communication channels can either direct the attention of top managers to strategic issues on the environment or direct their attention to more prominent (but strategically less important) problems, the latter delaying the recognition of threats to the company's long-term survival. Similarly, deep rooted narratives based on the firm's history can contribute to cognitive rigidity and to the exacerbation of past achievements, which might jeopardize an organization's strategic adaptation. The likely outcome of these biased environmental perceptions is that top managers will keep the organization on the current strategic route for not noticing potential threats and / or resting on their past achievements.

Overall, strategy formulation has been portrayed as rational, logical and analytical. However, strategy making (and strategy execution) in practice suffers from limits to human cognitive rationality and is also embedded in behavioral, power-driven, and emotion-laden contexts. In addition, the interaction among top decision-makers by means of their communication practices and tools can work both ways, either reinforcing the deleterious impact of team and individual-level determinants of strategic inertia or else attenuating them.

Recommendations for Future Studies

Future empirical research will have to overcome methodological hurdles. Strategic inertia in top managers emerges and develops throughout time in organizations and, as previously discussed, results from a process marked by the interaction of different drivers (e.g.,

cognition, power games, emotion and communication), which are entangled with each other in a complex web of mutual causality. Therefore, variance studies dealing with covariation among dependent and independent variables might not offer the best route to explore contexts where strategic inertia finds fertile ground. On the other hand, process studies, which focus on why and how a phenomenon emerges, develops and growths, and which addresses temporal progressions of activities (Langley, 1999; Langley, Smallman, Tsoukas & Van de Ven, 2013), would be a recommended methodological path. Strategic decisions are often undertaken in a series of interrelated events and discussions, along which emotions and cognitions change, power games unfold, and communications evolve; hence a process view allows addressing an organizations' chain of events related to top managers' strategic decision-making. A combination of interviews, archival data and observation, as well as a long involvement of the researcher to absorb the communication practices in real organizational settings can provide the appropriate understanding of processes at the micro level (Langley, 1999; Langley, Smallman, Tsoukas & Van de Ven, 2013), illuminating the interaction among cognition, emotion, and politicking, as well as their manifestations in communication practices.

Another methodological possibility is in-depth case studies. The study performed by Vuori and Huy (2016) is an example of such research strategy. The authors analyzed Nokia's rise and fall in the smartphone industry between 2005 and 2010 and carried out 76 interviews with the company's top managers, middle-managers and other actors between 2012 and 2014, which were then triangulated with factual sources. The method described by Gioia, Corley, and Hamilton (2013) guided the authors' analysis. A similar research strategy was used by Kisfalvi and Pitcher (2003) to investigate a firm's top manager, his management team, and the TMT dynamics in shaping the company's strategic reorientation. The longitudinal study relied on several methods such as interviews, direct observation, visual mapping, and archival documents. Also, the longitudinal study of Maitlis and Ozcelik (2004) using a cross-case comparison strategy, employed a range of qualitative methods, such as semi-structured and informal interviews, meeting records, and extensive documentary analysis in order to capture top managers' emotions and cognitions and the group's political games, as well as their communication practices.

Despite these possibilities, other challenges to investigate the interaction of the potential causes of strategic inertia remain. One of them is the identification of discrete emotions themselves, vis-à-vis moods or affective traits, because emotions offer a more fine-grained

perspective of affective states (Barsade & Gibson, 2007). While affective traits and moods tend to influence the likelihood of the type of emotions that a person will experience, it is the specific (discrete) emotion sensed at a moment of decision making that will influence the decision. Also, it is necessary to address how to recognize emotional contagion from individuals to the group, and from the group to individuals (Barsade, 2002) needs to be addressed. While collecting retrospective data on discrete emotions may not provide an accurate account, collecting real-time data entails challenges, such as obtaining authority for non-participant observation, identification of manifested (or perceived) vs. genuine emotions, and the potential modification of the emotional climate once the actors are aware that they are being observed. A possibility to address these difficulties is the micro-ethnographic approach used by Liu and Maitlis (2014) to identify different emotional dynamics of top management teams during strategizing meetings. Over a period of three months, the authors video-recorded and attended, as non-participant observers, several strategic meetings that allowed to capture the micro-behaviors and interactions among top managers.

Altogether, we have great challenges ahead with great potential rewards for our improved understanding of how strategic inertia develops. The methodological challenges will have to be addressed by performing diverse empirical studies focused on the phenomenon to evaluate the outcomes.

Conclusion

There is much to be studied about the strategic inertia phenomenon, and this conceptual model certainly can be further extended and enhanced, or criticized, as empirical research raises new questions and points to new directions. The intention is to deepen and expand the debate about this extremely interesting and pervasive phenomenon. More than ever, organizations need to permanently monitor new potential competitors, substitutive technologies, and disruptive business models, to name just a few of the challenges. Accordingly, top management teams are over enormous pressure. A better understanding of the causes that lead to dysfunctional decision-making – decisions that jeopardize the long-term prospects of an organization – due to a combination of elements that are, at the same time, constitutive of human beings and organizations, such as cognition, power, and emotions, will benefit the strategic management field and, more importantly, assist managers and organizations to overcome the challenges that lie ahead.

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ARTICLE 3

Adaptation and Inertia: Contrasting Responses to Market Changes

Abstract

This is an empirical inquiry into the strategic inertia field and the possible causes that facilitate or hinder the strategic adaptation of top management teams and their organizations to market changes. Two companies that operate through direct selling in the fast-moving consumer goods (FMCG) industry, and whose answers to an environmental shift differ, are the object of analysis. Interviews with top managers from both companies are the main data source. Although not restricted by it, a preliminary theoretical model of the "drivers" of strategic inertia, specifically cognition, power, and emotions, and the medium where these drivers manifest, communication, guided the study. The results of each case indicate that the drivers interfered, though not equally, with the performance of both organizations, but other variables not previously considered as well. Both companies experienced complex combinations of multiple causes that facilitated or jeopardized their adaptation to market changes, suggesting strategic inertia and adaptation demand broad perspectives for an adequate comprehension of the processes that conduct to such outcomes.

Key words: strategic inertia, strategic adaptation, drivers of strategic inertia, implications for practioners.

"… important changes in the strategy, to work out, need a lot of motivation… otherwise you have 1001 reasons for not doing it", Beta's CEO

Introduction

Ambiguous scenarios can produce divergent interpretations about the best strategic orientation. While negotiating the organization's strategic route, top managers will consider both their personal interests and cognitive frames applied to the situation at hand (Kaplan, 2008). Interests and cognitive frames are interrelated and reciprocally affect each other. Besides, research has demonstrated that top managers can frequently act based on the emotions they experience at the time of choice, in reaction to their mental images of expected outcomes

and of disconfirming evidence of their engrained beliefs, not on rational probabilities or accounts of reality (Loewenstein & Lerner, 2003). Power games among top managers will inevitably elicit different emotions (Brundin and Nordqvist, 2008), as the maneuvers of individuals and coalitions to gain or preserve prestige, power and resources might affect other co-workers, who will defend their positions, or plan to counterattack (Pettigrew, 1973). As a result, top managers' cognition, emotions, and politics constantly interact inside organizations, and top managers express their cognitive understandings, power and politics, and emotions through communication.

This empirical study addresses how cognition, emotions, power and communication influence top management teams (TMT), and consequently their respective companies, in their responses to an environmental shift. We investigate the reasons for the adaptation and strategic inertia, distinct outcomes, of two companies operating through direct selling in the fast-moving consumer goods (FMCG) industry. One of the companies is described as an advanced market multinational (Company Alpha), with global sales of more than USD10 billions (as of 2009, the initial year of our analysis), and whose headquarters is located in North America. The other company is a Latin America company (Company Beta), with total sales of more than USD3 billions (as of 2009, the initial year of our analysis), and whose headquarters is located in Brazil. Both companies had built quite successful direct sales models but were equally challenged by significant changes affecting the FMCG industry, especially in Brazil, a key market for both companies and where they compete against each other. Our analysis concentrates on the operations of both companies in Brazil, during a 10-year period (2009 - 2019). Interviews conducted with top managers from both companies provided most of the data, which was complemented by material published in public company's reports and the business media.

We based our collection of primary data considering a preliminary theoretical model of the "drivers" of strategic inertia, specifically cognitions, power, and emotions, and the medium where these drivers manifest, organizational communication, but we were not restricted by it. We remained open to additional explanations of strategic inertia, or strategic adaptation for that matter. The findings demonstrated the aforementioned causes and communication interfered with the companies' adaptability capacity, but other causes not previously contemplated as well, which interacted in complex processes that involved different organizational levels. The study produced three contributions to a better understanding of the strategic inertia phenomenon: (i) a natural experiment focused specifically on strategic inertia with two

companies that generated two distinct outcomes, (ii) the analysis of the combined effect of the drivers for strategic inertia and adaptation, and (iii) the verification that other drivers not previously considered, in combination, can facilitate or avoid strategic inertia, which demonstrates the intricacy of the phenomenon. We start presenting the conceptual model for the drivers of strategic inertia and communication, followed by the research design and data collection, and the description of the cases and their data analysis. Then we delve into the findings of the cases, where a conceptual model for each case is proposed and how their constructs relate to the strategic inertia literature. The next section is a discussion of the study's theoretical contribution, limitations and directions for future research, and a final comment on the implications for practitioners.

The Drivers of Strategic Inertia and Communication

The strategic management literature has recognized the role of managerial cognition for explaining strategic inertia. Top managers have a duty to absorb, process, and disseminate information about issues, opportunities, and problems in information environments that are extremely complex and ambiguous (Walsh, 1995). Consequently, how they comprehend the competitive environment directly affects the organizations strategic orientation (Daft & Weick, 1984). However, these key decision-makers have inherent information-processing limitations that narrow the scope of strategic options available (Cyert & March, 1963; Simon, 1947). As a result, some companies can successfully navigate challenging scenarios, while others fail to respond properly. The frequent difficulties top managers face to perform strategic reorientations highlight the importance of examining their cognition to advance our comprehension of organizations' strategic inertia.

In addition to cognition, emotions are at the core of what motivates individuals and prompts their actions. Affect pervades every aspect of organization life and materializes every time managers must deal with topics that are important for them or relate to their company's performance (Barsade & Gibson, 2007). Strategic decision-making, for their importance, elicits a range of emotions, and top managers will use their anticipated emotions (even if unconsciously) to guide their decisions (Elfenbein, 2007). They will tend to prefer situations that lead to positive emotional experiences and avoid negative ones (Loewenstein & Lerner, 2003). Under certain circumstances emotions can dominate deliberative thinking in judgment

and decision making, and therefore they can be inhibitors or enablers of top managers' ability to respond to the challenges of inertia in strategic thinking and adaptive behavior (Hodgkinson & Healey, 2014)

Nevertheless, the strategic decision-making process of top managers is not only the result of their cognitions and emotions, but also involves the political pursuit and negotiation of different interests among these members (Walsh, 1995; Kaplan, 2011). A firm can be defined as a coalition of interests that comes to prevail over the internal conflicts, which originate from different individual goals (Cyert & March, 1963). The settlement of these disputes produces stability to organizations and accommodates the distribution of power and politics (Hill & Rothaermel, 2003). When organizations must adapt to changing environments, coalition members can resist strategic moves that potentially destabilize their dominant position, as these actors will try to maintain their power and influence (Hill & Rothaermel, 2003). A potential outcome of this process is the phenomenon of strategic inertia among top managers.

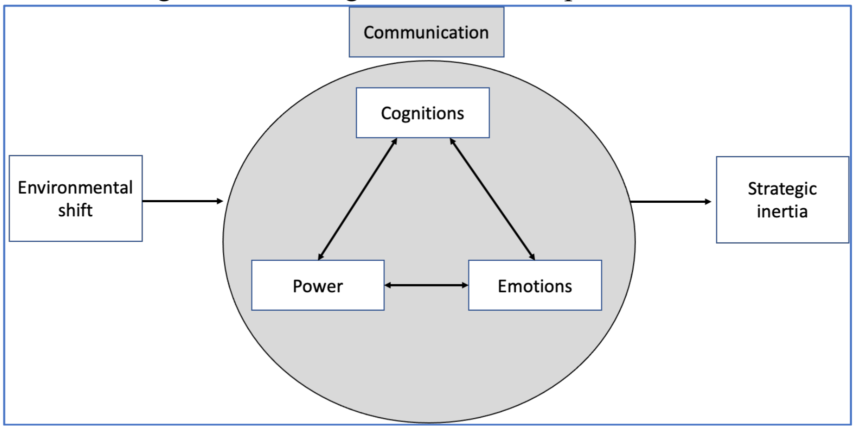
Additionally, an overlooked aspect of strategic inertia is the role played by top managers' communication practices. Managers express their cognitive understandings, emotions and power through communication. The communication practices can emphasize several components that stimulate or inhibit the strategic agenda controlled by key decision-makers (Kwon et al., 2014). Talking and other communication mechanisms allow top managers to negotiate and establish meanings, articulate their understanding of the competitive landscape, and project the future pathway of the organization (Samra-Fredericks, 2003).

Previous empirical research has frequently presented three drivers of strategic inertia – that is, cognition, emotions, and power – in isolation or at most in pairs. Cognition and emotions are entangled (Elfenbein, 2007), political and power games will elicit emotions, which will also influence the interpretation and evaluation of the interests involved within the dominant coalition. We suggested that isolating the variables will not account for the whole story, and that the role of communication should be considered.

As a result, we advance an integrative conceptual model about the strategic inertia phenomenon linking the three divers of strategic inertia with communication. Figure 1 illustrates the model and how the constructs interact: an environmental shift, followed by the interaction of top managers' cognition, power and politics, and emotions, which will manifest

in managerial communication. The model proposes that these three constructs – top managers' cognition, power and emotions – can lead to strategic inertia, and that their impact should be analyzed interactively, not in isolation. Additionally, communication practices shapes (and is shaped by) those determinants, which confers to it an important role in the interaction of the strategic inertia drivers.

Figure 1 – Strategic Inertia Conceptual Model



The interaction of the drivers and the importance of communication in this process is foremost contextual. Communication is shaped by the drivers of strategic inertia when top managers purposively and actively use discursive practices to achieve their objectives. They will use communication to influence others and to engender the strategic agenda of the organization towards their personal interests. In such cases, communication is the vehicle available for top managers to negotiate, dodge, delay or advance issues related to the organization's strategy.

On the other hand, communication will influence top managers' cognition, emotions and power through the organization's formal and informal communication channels and entrenched internal narratives, the later based mostly on the firm's history and past achievements. The communication channels can either direct the attention of top managers to strategic issues on the environment or direct their attention to more prominent (but strategically less important) problems, the later delaying the recognition of threats to the company's long-term survival. Similarly, deep rooted narratives based on the firm's history can contribute to cognitive rigidity and to the exacerbation of past achievements, which might jeopardize an organization's strategic adaptation.

Method and Data

This study examines two companies involved in a natural experiment producing two distinct outcomes. The two companies were purposefully chosen because they are similar in many regards (e.g., very large and internationalized, from the same industry, with similar sales models, and a very big stake in Brazil), which allows for proper comparison, and they also represent polar cases (Eisenhardt, 1989), given that one adapted to the changing environment and the other failed to do so. Accordingly, they offer the context to inform us on our main research interest concerning strategic inertia.

A combination of interviews with current and former top managers from both companies, and annual letters to shareholders as well as materials form the (local and international) business media from 2009 to 2019 were collected for triangulation purposes. The snowball technique was used for the interviews, where each informant recommended who could best explain the process of interest. As the objective of the research is to explore the possible causes of strategic inertia that concern top management teams, as well as to explore why some top management teams are able to overcome this problem, the interviews were conducted using a flexible semi-structured interview protocol (Appendix C). Although the interest in exploring the dynamics of cognition, power, emotions and communication among top management teams, the nature of the questions purposively allowed the interviewees to bring their perspective into different aspects not previously considered, which were then incorporated into the analysis. The interview protocol started with ice-breaking questions and followed with a set of open questions that aimed at eliciting spontaneous unfiltered perspectives from the interviewees about the changes in the business environment and how their company (and the rival company) responded to them. Then, questions explicitly about cognition, politics, emotions, and communication were forwarded. By applying this two-step protocol, we avoided imposing to the interviewees our preliminary conceptual model but secured the option of examining whether it seemed to fit the empirical evidence. Zoom was the platform used to conduct the interviews because of the necessary isolation caused by the current pandemic. For the same reason, in-site visit and observation of top managers interactions were not possible.

Ten former or current top managers were interviewed, five from each company, from Nov/2020 to May/2021. They were selected from different points in time in the companies' histories to better understand how the phenomenon of interest evolved. Some of these top

managers have been working or worked for more than 30 years at their companies, and consequently could provide detailed information about the different phases their companies went through. The interviews lasted from 42 minutes to 89 minutes. They were recorded and subsequently transcribed. Below we present the latest job position at the respective focal of each top managers interviewed:

Alpha Brazil:

- CEO
- CFO
- Vice President of Human Resources
- Director of Sales Development
- Director of Supply Chain

Beta:

- CEO
- Business Controller
- Sales Model Manager
- Director of E-commerce
- Channel Marketing Manager

The method described by Gioia, Corley and Hamilton (2013) was used to guide the data analysis. The method provides strategies to bring rigor for qualitative studies and is appropriate to understand how the interviewees experienced the events. The interviews transcripts were coded using the Atlas.ti software. The analysis began by identifying initial concepts in the data and grouping them into categories. Conceptual coding used first order code and the language used by the informants whenever possible. Then axial coding was performed, where relations between the categories conducted to assembling them into higher-order themes. The themes were then mapped onto the macro-constructs of the interest to the study, namely cognition, power, emotions and communication. For data that did not fit neatly into those four macro-constructs, new categories were added that had not been previously considered. The letters to shareholders contained in the company's annual reports and public press complemented the interviews data and served for triangulation purposes. Factual timeline of events, theoretical logic and different points in time of events described by the interviewees were used to build the companies conceptual models' mechanisms.

Alpha and Beta Cases Description and Data Analysis

Company Alpha (the advanced market multinational) had a strong presence in the Brazilian market, including local production. Company Beta was established in Brazil and had expanded extensively to Latin American countries.

Brazilian Context

The once-booming direct sales model of this FMCG industry started to suffer attacks from multiple fronts. Since the early 2000's, Brazil's GDP (gross domestic product) grew for more than a decade year after year with direct impact on the less favored segments of the population, who historically had engaged in direct selling to complement their household income, or even as their only source of income. This growth of the domestic economy and formal employment started to negatively impact the attractiveness of the direct selling recruitment after years of consistent growth of the major players of this segment, as current and potential new sales representatives had more opportunities to find a stable full-time job to provide them with a higher and predictable income. Additionally, large brick-and-mortar retail companies from the fast-moving consumer goods sector expanded their portfolio of products, conquering market share in the direct selling channel; besides, new competitors entered into direct selling to compete for a share of this relevant segment. An important movement of the latter was the launching in 2011 of a direct selling operation by the largest franchising company of the industry, whose products had been distributed through a large base of franchised stores for many years. This new entrant into the direct sales model innovated by operating at both retail stores and personal selling distribution channels, and quickly conquered market share from the traditional direct-selling incumbent companies. Finally, e-commerce and social medias were fast expanding and transforming the habits of resellers and costumers as a result of the smartphone revolution and change of purchasing habits.

Strategic Inertia of Alpha Brazil

Historically, the most important market for Alpha was the USA, where its headquarters was located. The USA market provided the largest share of Alpha's revenues until the first problems started to appear in the mid-2000. 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 50 years. There, the company featured the largest market share of its segment until 2005, when a local competitor (company Beta) conquered that position. Despite losing its leadership in Brazil, Alpha continued to post steady growth rates in the country from 2005 to 2010, which made Brazil the largest and most important market for Alpha. However, by the end of 2010 failures in the execution of a much-needed change of 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 even more concerns about the future performance of the whole organization because of its increasing dependence on Alpha Brazil's results. At the time, Alpha's USA operation continued to deteriorate as a result of new, specialized and more agile competitors, alternative distribution channels that offered replaceable products, the obsolescence of its costumer value proposition, and important technological advancements, such as e-commerce, which brought significant challenges to the traditional way Alpha products had been sold. The years that followed showed that the concerns were justified, as the same market changes that had initiated earlier in the USA were already underway in Brazil, forcing companies to adapt quickly.

Based on the interviews with former and current top managers of Alpha Brazil and secondary data sources, the analysis is divided into two different phases: Phase I – Antecedents of a potential misfortune, and Phase II – Adaptation failure and decline

<u>Phase I – Antecedents of a potential misfortune</u>

Phase I refers to the period Alpha was growing steadily in Brazil, until 2010. Despite the first signals of aging of its business model in the USA, and the loss of its leadership position in Brazil (the second most important market for Alpha at the time), Alpha's and Alpha Brazil's top managers did not change the strategic course of the company. Interviews with current and with then top managers from Alpha Brazil made it clear the company did not notice relevant changes in the horizon, such as the integration of multiple sales channels into an omnichannel mode, the obsolescence of its customer value proposition, and the needed digitalization of the relationship with representatives and consumers, to name just a few of the issues pointed (Figure 2 provides a summary of Alpha's coding, themes and respective quotes). Interestingly,

top managers from Beta, the main competitor of Alpha Brazil, almost unanimously reinforced this aspect by highlighting that Alpha was seen as an aging competitor that had stopped innovating and did not notice important market changes (Appendix B provides codes and themes of Beta's TMT perception of Alpha). Alpha's 2010 shareholder letter, despite mentioning some initiatives to enhance the value proposition to representatives, stressed 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.

In addition, the interviews brought into perspective that the successful past of Alpha hindered changes to its long-established strategy and business model. Top managers highlighted that Alpha was used to "manage prosperity and not scarcity", and that employees were proud of the company's reputation. They had experienced a comfortable market position for a long time and did not notice the world was changing. They also mentioned that Alpha's historical success and market leadership led to hubris among top managers which contributed to decision-making mistakes and late reaction to external changes and competitors, as well as issues with the service and commercial conditions offered to representatives. The analysis of Alpha's letters to shareholders also 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 that suggested its business model was under threat.

The interviews also revealed misaligned incentives among the top management team. Alpha's multiple internal departments had their own goals, not linked to the overall profitability of the company, a situation that jeopardized the communication among areas, with few fruitful outcomes. Managers and employees of a department could receive their full yearly compensation when delivering their annual objectives, even when the company had reductions in market share, sales and profitability. Also, top managers incentives were not linked to the company's strategy, but to short-term results, which headquarters pushed to be delivered every quarter. Additionally, two current Alpha Brazil top managers stated that remuneration packages were great, with high fixed salaries and low variable remuneration linked to results.

<u>Phase II – Adaptation failure and decline</u>

As previously mentioned, in Phase II the arrival of a strong new competitor in direct selling and the intensification of market changes accelerated Alpha Brazil's loss of market share. With the continuous deterioration of Alpha's headquarters operation, the pressure over Alpha Brazil to deliver short-term results intensified, and Brazil became an even more important source of funds to the headquarters, according to two former top managers who worked for Alpha Brazil at the time. Concomitantly, in 2012 there were the changes of Alpha CEO and Alpha Brazil CEO, and the company's announcement that it 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 management, and the incorporating technologies to the company's representatives, as stated in Alpha shareholder letter of that year. It is interesting to notice that the successive shareholder letters kept mentioning the aforementioned actions, especially the financial restructuring, and other topics related to value creation to sales representatives, strategy execution, and new products.

However, the shareholders letters also indicated that Alpha did not have a clear delineated strategy to rescue its operation, as no strategic plan was clearly presented whatsoever. What is implicit is that Alpha was trying many things at the same time, searching for a way out of the (internal) crises. The following excerpts from the company's documents, respectively from 2017 and 2018, that is, years after the problems had started, reinforce the previous assertion: "learn where our near and long-term opportunities lie" and "define the strategy to modernize Alpha, unlock its inherent value, and set a course to regain its competitive market position". Additionally, during the interviews with Alpha Brazil's top managers, even in hindsight, there were some moments of hesitation about the best strategic plan the company should have adopted, as "not changing was sure death but changing in the wrong way was also sure death" and "…how can we develop this business model… without cannibalizing 6 million sales representatives that have built this company?".

Besides the fact that Alpha did not have a clear strategic reorientation of its operations, there were two other issues related to the company's headquarters that affected Alpha Brazil: concentrated decision-making at the headquarters and knowledge gaps about the local operation. Together, both issues narrowed the alternatives available to top managers at Alpha Brazil to react. Top managers expressed that key decisions were taken at headquarters, such as the decision to update Alpha Brazil IT system in 2011 (that culminated in a logistic blackout), and the launching of new product lines. It was reported that Alpha Brazil had an unbalanced

portfolio of products, with many items disconnected from the local consumer preferences, which seriously jeopardized the commercial efforts to improve local sales. In addition, one current Alpha top manager explained that headquarters wrongly entered in new product categories and consequently didn't innovate in the needed categories.

This takes us to another issue identified during the interviews and frequently mentioned in the shareholder letters: planning and execution. Not only departments had their own goals disconnected from the overall result of Alpha as previously presented, but also each department was responsible to develop its action plan with few interactions with other departments. The plan consolidation occurred only afterwards, as highlighted by a top manager in charge of the logistics of Alpha Brazil, a key chain of the company's business model. The poor interaction among top managers at Alpha Brazil who were responsible for fundamental processes had a direct impact on the execution of these plans. The same executive recounted that Alpha frequently made plans quickly with little information and execute them poorly. This seems a probable outcome of a process in which there were few interactions among key decision-makers who spent time and resources developing their internal planning, under time constrains and pressure for results, and only afterwards were required to adjust or alter their plans by co-workers who also had not invited them to be part of their projects.

Another issue concerns top managers rotation and internal avoidance of conflict. There were changes in the command and in the top management team of both Alpha and Alpha Brazil from 2012 onwards. These new executives arrived with the mission of promoting a turnaround of the company, but the results turned out to be below expectations. Accordingly, top managers started to hedge their positions as successive cost cutting plans were being executed to bring the company back on track, as mentioned in the letters to shareholder and in the news by the general media. More than one Alpha Brazil's top manager remarked that managers were fired for not delivering the expected results, and mistakes at the company could jeopardize one's career. It was also mentioned that some top managers questioned internally some of the decision being taken by headquarters, but internal political factors refrained them from speaking up, as those who questioned headquarters' turnaround proposals could be seen as resistant to changes – and bear the consequences.

This mechanism in place did not allowed Alpha to renew its strategy and culminated with the company being acquired by a strategic competitor. Alpha's brands still exists and , as

a business unit of the acquirer company, is going through a repositioning of its brand and restructuring of its operations.

Figure 2 – Alpha's Codes, Themes and Quotes

1st Order Codes	*Themes*	*Quotes*

PHASE I

Channels and competitors

- **didn't notice that it is omnichannel**
- **new competitors in cosmetics from different channels**
- **increased competition coming from new companies**
- **new competitors in direct selling focused on mass products**
- **suffered because of lethargy in the face of new competitors**
- **company's brand lost value due to focus on low price competitors**

Products, representatives and costumers

- **areas of costumer dissatisfaction didn't receive attention**
- **didn't update customer value proposition**
- **main change was the modernization of the communication among company, industry and representatives**
- **didn't update its products, channel and representatives' relationship**
- **didn't update the system and services offered**
- **multiuse of cosmetics and make up by new customers' segments**
- **didn't update portfolio of products**

Technology

- **didn't update its model with technology**
- **operation around the world didn't update to online sales**
- **digitalization had the main impact in the direct selling industry**

Cognitive inertia

"... (Alpha) didn't realize it is omnichannel, that it's all integrated... and neither updated its business model with, for example, technology" (VP of Human Resources)

"...Alpha suffered more than it should because it had much lethargy, a strong market movement both in terms of competitiveness and external impacts" (Director of Sales Development)

"... we... like Netflix (mistankely used Netflix instead of Blockbuster), *we didn't notice that there was a certain streaming around, that there was a streaming threat... that was going to substantially reduce a space of dissatisfaction that we were used to"* (CEO)

"...but I believe it was this... a certain lack of vision, vision that our representative and the world were quickly changing, and the service value proposition to costumer is more and more effectiveness, speed and proximity" (CEO)

"...Alpha remained a few steps behind in digitalization... in the modernization of its relationship with representatives... in create a complete net between representatives and costumers" (Director of Supply Chain)

- **departments had their own goals, not aligned with the overall result of the company**
- **misaligned incentives among departments generated long debates internally**
- **incentives not focused on the strategy, but on short term results**
- **incentives were disconnected from the company's performance**
- **remuneration packages were great**
- **high fixed salaries with low variable remuneration**

Misaligned incentives

"...Alpha arrived in the current condition because it lived too long under this short-term management... each one taking care of itself and what I have to do to keep my job" (Director of Sales Development)

"...the incentive policy wasn't much linked to the operations' performance... there was a certain separation of divisions' goals... for example, (Alpha) didn't arrive in the sales and profit results, but some areas received their full share of the profit" (Director of Supply Chain)

"...those guys remuneration were fabulous... so someone say: if I hold myself for more two, three years it's better than starting a fight now" (Director of Sales Development)

Figure 2 – Alpha's Codes, Themes and Quotes

1st Order Codes	*Themes*	*Quotes*
○ managers were proud of the company's reputation ○ it had a slow death due to its past success ○ the successful past was the reason for organizational inertia ○ our mistake was due to the company's leadership arrogance ○ didn't notice the world was changing because had a comfortable situation ○ due to the historical success the company was used to manage prosperity, not scarcity	**Past success**	*"...our mistake was possibly the leader's arrogance… and the leader's arrogance: well, the client must accept my deficiencies because they are the deficiencies of the leader"* (CEO) *"...the past success… was the reason for organizational inertia... the model changed… and Alpha didn't follow through, why? It was still working. It takes time to notice it"* (VP of Human Resources) *"...Alpha had never had to make structural changes until that moment … the company's culture was positioned to manage prosperity, not scarcity"* (Director of Sales Development)

PHASE II

1st Order Codes	*Themes*	*Quotes*
○ didn't change was a guaranteed dead, but change wrongly was also a guaranteed dead ○ how can we develop this business model without cannibalizing 6MM sales representatives that help us to get here? ○ Alpha's representatives didn't have the means to adopt online sales ○ direct selling is the best channel, and you don't go to retail unless it is life or death ○ direct selling is the best channel ever, in all industries ○ the traditional direct selling model is more profitable than other channels ○ Alpha has the best strategic fit for the 2000's and even now in Brazil ○ Alpha is a sales management machine, and you have a lot to lose changing that ○ invested in better managers, and technology and supply chain capabilities ○ the daily focus was on improving the operation and logistics ○ there were a lot of changes, but they started too late ○ made a turnaround in online sales, but it was too late ○ it has to be an order fulfillment company and pretend it can differentiate ○ e-commerce was the opportunity because retail didn't work in other countries ○ it was necessary not only digitalization, but also the segmentation of consultants	**No clear strategic plan**	*"… direct selling is a gold mine… if you are in retail and want to move to direct selling is easy… but who is the stupid that will make the inverse? … I will grow a business that will jeopardize my P&L"* (VP of Human Resources) *"...so how do you make a migration to an e-commerce model if your representatives don't have access to internet, don't have a mobile, don't have a computer?"* (CFO) *"… the channel for us was e-commerce. The channel with stores we had tried in some countries and didn't work out. We really didn't succeed"* (CFO)

Figure 2 – Alpha's Codes, Themes and Quotes

1st Order Codes	*Themes*	*Quotes*
○ Alpha made quickly plans with little information and executed them badly **○ Alpha's planning was made by each department separately and consolidated afterwards** **○ the company was large, complex, and as a result didn't execute the turnaround plans**	**Planning and execution issues**	*"… Alpha made quick decision with little information, then at the execution moment said: and that thing? Now its gone… that thing that you have to improvise afterwards in the middle of the way"* (Director of Supply Chain) *"…there wasn't a process in place where I could give inputs… I said: I have a restriction for this product… but it had been launched already… then you interfere with execution, will need to fix it during execution… so I believe we lacked this process"* (Director of Supply Chain)
○ Alpha financial and economic model weren't paying off **○ exchange rate devaluation of main markets hit the company financially** **○ the company didn't have the funds to face competitors in new product categories** **○ changes in taxes affected more Alpha due to portfolio mix and demand elasticity**	**Financial problems**	*"… our model is not working because of the high representative turnover. Then it's better to invest at the beginning of her career, and when she understands she will profit, she will stay… the financial model, the economic model, they were not paying off"* (CFO) *"…I used to say: we started to share poverty because the investment available for two product brands now had to sustain a third… and you didn't have enough investment to sustain this product brand that you had to sell a concept with it"* (Director of Sales Development)
○ headquarter didn't react and lost USA market to multilevel **○ headquarters didn't understand well local reality** **○ headquarters belittled Beta** **○ headquarters' top managers didn't understand the final costumer** **○ headquarters wrongly entered in new product categories and consequently didn't innovate in the needed categories** **○ in the last years reduced the global presence to concentrate on main market** **○ headquarters opted to diversify geographically instead of investing in the main markets** **○ global CEO didn't have the drive for changes** **○ when you are weak as a top manager you hire weak people to avoid questioning** **○ strategy execution didn't happen because of top managers' incompetence in technology bets and implementation** **○ top managers locally and abroad were a disaster** **○ lack of pricing skills made it difficult to raise prices precisely**	**Lack of local knowledge**	*"…and what was the blindness? They (headquarters) had already lost the game in North America… but they were the ones in charge… it is a matter of strategic myopia… of understanding how a humble woman purchases and how it evolves"* (VP of Human Resources) *"…I insist on this issue of continental disorder, because we had different situations in different places… the guy that was abroad looked at Latin America and thought: Latin America will have more 30 years of direct selling. Nothing to worry because there it sells easily"* (Director of Supply Chain)

Figure 2 – Alpha's Codes, Themes and Quotes

1st Order Codes	*Themes*	*Quotes*
○ budget limited the range of autonomy of the local operation ○ IT system strategy was with headquarters ○ decision-making matrix concentrated on headquarters took power from local managers ○ with new top managers at headquarters with little experience in direct selling the decision-making matrix became a problem	**Concentrated decision-making**	*"…then I give you freedom insofar you deliver the budget, and the budget is unrealistic, so in reality you are not giving me much freedom… and this was the big dilemma for those managing the operation"* (CFO) *"…the 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 that he had not necessarily agreed or taken"* (Director of Sales Development)
○ important source of funds for headquarters ○ pressure for cost reductions lead to a heavy internal climate ○ pressure for short term results halted changes ○ you have success and peace with your superiors when you delivery results ○ focus on quick wins and short termism ○ public companies have to deliver every quarter ○ changes in the model did not happen for risk avoidance and focus on short term results coming from some managers	**Short-term focus**	*"… direct selling decline in North America… ended up impacting…. this matter of short vs. long term… the example is: North America is declining… how I guarantee Alpha? Well, I will take money from the profitable countries, Brazil had a big profit"* (CFO) *"… it was a needed investment for the future… but public companies are afraid… because the impact is significant... the short-term affects your professional life. You won't have short and medium term, you will be simply demanded"* (CEO)
○ managers fired for not delivering the expected results ○ high rotation of top manager jeopardized the execution of turnaround plans	**TMT's turnover**	*"… we fired many people… we entered that unit to make a turnaround"* (VP of Human Resources) *"… obviously, some heads would have to pay. And many people left, not only me. A manager left… a vice-president… the global CEO also left in the same year"* (CEO)
○ internally there was a lot of questioning, but also a strong political factor ○ mistakes at Avon jeopardized your career ○ top managers started to hedge their positions at the company ○ local CEO was the one who could question headquarters ○ who questioned headquarters turnaround proposal could be seen as "resistant to changes" ○ the company focused on reducing investments instead of costs because reducing costs demands risk taking and courageously decision-making ○ the critical situation of the company reduced possible power games among managers	**Avoidance of conflict**	*"…all this changes I'm telling you… the vast majority didn't have the agreement from the group that was inside the operation, but there was also a strong political factor… and those who opposed were seen as resistant to changes"* (Director of Sales Development) *"… the culture was: mistakes at Alpha jeopardized your career"* (Director of Sales Development)

Successful Adaptation of Beta

The most important market for Beta was Brazil, where it was founded and had been operating for decades. In the 80's and 90's, the company started expanding its operations to other Latin American countries. Beta was recognized by its differentiated approach towards the environment and society, as well as the values it adhered to. The founders of Beta envisioned this distinct positioning since the company's foundation and successfully led Beta to become an important player in the direct-selling segment of the Brazilian FMCG market. Later on, the founders left the daily management of Beta's operations to preside the company's Board of Directors. They were ever more actively involved in strategic decisions and made a point to ensure Beta would not leave behind its differentiated approach and values. Beta significantly accelerated its growth in the first decade of 2000's and conquered the market share leadership of its segment. However, by the end of that decade, Beta's top managers noticed that important changes were occurring in the Brazilian FMCG market (the same aforementioned changes that affected Alpha). They realized that, if Beta wanted to keep its growth pace and market leadership, some ambitious strategic reorientation was indispensable.

Based on the interviews with former and current top managers of Beta and on secondary data sources, the analysis is divided into two different phases: Phase I – Antecedents of a potential adaptation, and Phase II – Successful strategic reorientation.

Phase I – Antecedents of a potential adaptation

Phase I refers to the period Beta was growing significantly in Brazil, until 2010. Interviews with top managers from Beta indicated they were always monitoring changes in the external environment that would eventually affect Beta, including transformations in more mature international markets where the company was not present yet. Additionally, the company frequently hired specialized external consultants in areas it did not have the necessary skills in order to learn from them and support internal decision-making. Top managers realized it was becoming harder by the end 2010 to sustain the historical growth rates of Beta under their current business model, and that market research indicated different perspectives for the distribution channels of the FMCG industry: strong growth for online sales, steady growth for retail sales, and decreasing growth for direct selling. A former top manager stated that by the end of 2010 they conducted study that indicated the company's strategy had to change from

"mono-brand, mono-geography and mono-channel" to "multi-brand, multi-geography and multi-channel". S/he further explained the reasoning: "multi-brand" because the FMCG market was fragmenting into specialized brands; "multi-geography" because the growth perspectives for Latin American economies for the next 20 years were below those for other continents, such as Asia, thus further internationalizing the company was a matter of survival in a globalized world; and "multichannel" as a result of the raising income of sales representatives, which made the direct selling activity less attractive to them, and because of the advancement of digital technologies that were changing consumers' buying habits. The letter to shareholders of Beta's 2010 annual report stated the company was "prepared to answer the challenges of the new times", and that, despite minding short- and medium-term objectives, Beta had "built its vision for 2030".

In addition, top managers highlighted that Beta had an easy-going and informal internal environment, which permanently stimulated the search for innovations to be incorporated into the company's products and operations. The culture of Beta was described as questioner, relentless and tolerant towards failures, which fostered enthusiasm and excitement due to decision-makers' and managers' freedom to innovate and be creative. There were accessible communication channels among employees, and the company promoted open and broad talking. Additionally, Beta's values and approach towards the environment and society made its employees proud of the company. The letters to shareholders of Beta successively mentioned not only the positive financial results the company was posting during this phase, but also its positive contribution to a "sustainable development". The letters also presented positive indicators of the internal climate assessment and the intention to constantly improved that. Also, 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 societal pillars. Interestingly, Alpha Brazil's top executives provided a similar description of Beta when referring to it (Appendix A provides codes and themes of Alpha's TMT perception of Beta).

Beta's top managers underscored the company's participative planning and execution process. Strategic decision meetings were permeated by long and detailed discussions, and required the participation of different departments, even those not directly involved or affected by the topic under evaluation. The intention was to encourage different perspectives and obtain internal consensus about the best course of action. Top managers described Beta's strategic decision process as long, detail-oriented, and consensual negotiation. On the other hand, they

also pointed that execution was fast and efficient as all parts involved were aligned and had a clear strategic direction. This *modus operandi* for decision making started with Beta's founders, who continued to be involved in Beta's strategy development as active Board Members, and exerted surveillance on the values that had successfully guided the company along its growth trajectory. The executives interviewed emphasized the founders' "DNA" and vision of the future were vivid at the company and significantly influenced decision making.

Phase II – Successful strategic reorientation

Beta's strategic reorientation did not happen overnight, nor was it smoothly. Despite previous discussions and apparent general agreement among top managers that it was necessary to renovate Beta's strategy, interviewees mentioned that internal resistance jeopardized the execution of the plan. In fact, there was no consensus about the strategic reorientation, they reported. Some top managers feared the possible effects that the diversification to new distribution channels could have over the company's sales representatives. Top managers commented that representatives had always been at the center of Beta's strategic decisions and business model, and the new strategy represented deep changes to rooted beliefs. The lack of internal consensus also obstructed the open communication previously prevalent among top managers. A former top manager stated that "the disagreement was silent… you could notice it at the decision-making moments". Another issue raised during the interviews relates to how the recent successful past of Beta made its adaptation difficult. Top managers commented there were moments of arrogance, as they thought they were "the best", that interfered with their reading of the necessary speed of changing the company's route. As a result, important steps of the plan did not advance as intended. The strategic reorientation was also marked by the arrival of new top managers coming from different companies, while other top managers that had been with Beta for a long time left, including its CEO. The new executives were hired to bring new skills and help overcome the new challenges the company was facing, as well as to help implement the new strategy. However, these changes in key positions increased power games at the company, reduced the historical internal harmony, and made decision making less participative, according to top managers. Additionally, the aforementioned market changes were already affecting Beta, as public data informs successively reductions of the company's market share and growth figures during this period.

Interestingly Beta had faced similar challenges to strategic adaptation as Alpha did, not only derived from changes in the customers' habits and the sales representatives' expectations, but critically also in their internal circle: a successful history and the consequent arrogance, lack of consensus about (although full awareness of the need for) the strategic reorientation, tense atmosphere among decisionmakers, changes in the top management team and related "politicking" behavior. However, unlike Alpha, Beta was able to renovate its strategy and transformed itself into a multi-brand, multi-geography and multi-channel company, as more recent public data testifies. Beta opened its own retail stores for the first time and developed an e-commerce platform that integrated costumers, physical stores, and direct selling representatives. The latter continued to be at the center of Beta's business model, but with an enhanced value proposition, according to top managers interviewed and public data. The company also performed strategic acquisitions abroad that incorporated new brands to its portfolio and provided access to international markets other than Latina America, including a chain of world-spread physical stores. Top managers reported that as Beta's weak results endured, the company developed a sense of urgency to change. Furthermore, it is noteworthy that Beta's shareholder letters and public data, even at the beginning of the transition to a new strategy, successively mentioned the company's objective was to modernize the direct selling model by means of technology. The letters to shareholders stated Beta "needed to adjust the business model to a more dynamic and competitive reality" and "expand through different channels and markets". The internationalization of its operations was also frequently mentioned, highlighting the significant growth of the company in Latin American countries and its "pursue of internationalization". Public data also reported different movements toward physical retailing with the objective of evaluating the acceptance and performance of the brand in this channel. The same occurred with Beta's online platform, first tested on specific geographic areas and later on made fully available to representatives and consumers. The latest letters to shareholders already described Beta's as a "multi-channel and multi-brand group with purpose and global presence".

Figure 3 – Beta's Codes, Themes and Quotes

1st Order Codes	*Themes*	*Quotes*

PHASE I

○ in anticipation noted the market changes
○ quickly noticed the changes in costumer habits
○ companies' mono-channel models lost force
○ it is riskier don't do anything than do something because we will suffer in the future
○ raise of income in Brazil reduced the attractiveness of direct selling activity
○ realized was becoming harder to sustain the historical growth rates
○ couldn't sustain the growth and market share under the current business model
○ new competitors in cosmetics from different channels
○ research indicated online sales was growing strongly, retail regular grow, direct selling decreasing growth
○ the strategy had to change from mono-brand, mono-geography, mono-channel to multi-brand, multi-geography, multichannel
○ multi-brand because the cosmetic market is fragmenting into specialized brands
○ multichannel because of the digital and direct selling becoming less attractive due to raised income
○ multi-geography because was a matter of survival in a globalized world, considering the forecasts for Latin America in the next 20 years
○ monitoring of mature international markets
○ quickly comprehended women habit changes

Attention to market and competitors

"... in relation to online sales... as the assessment of what was happening in more mature market, in Europe, in the USA... it would happen also in Brazil, it as a matter of time" (Business Controller)

"...Beta had the correct perception that the costumer... wasn't at home anymore to consume the products, Beta comprehended this very quickly" (Channel Marketing Manager)

"... I said, I said: look, we go from here to low, it is going to be very hard to keep gaining market share under this business model" (CEO)

"...the costumer realized he could buy products in different ways... through digital, or retail... mono-channel started to lose force" (CEO)

"...realized the model that had sustained the company until that moment... it wouldn't be enough anymore" (Director of E-commerce)

○ hire of external consulting to learn
○ investment on management education
○ one team focus on short term goals and other team focus on long term goals
○ internal environment tolerant with failure
○ natura's culture is tolerant with mistakes
○ permanent stimulus to innovation
○ questioner and restless internal culture
○ management had autonomy for decision-making
○ entered segments C and D to become bigger and internationalize
○ offered products to class C and D to increase revenues
○ there was a great ambition to grow
○ entered in different price points, mostly lower ones, and conquered market share

Attention to innovation

"The climate was more like - What is there we haven't seen? – and less of finding who was guilty for it, but like - ... What do we need to learn that we haven't learned yet?" (Sales Model Manager)

"...Beta is a company that never saved efforts to hire an external consultancy... bring the guy, learn from them... they were part of our professional formation" (Channel Marketing Manager)

"...in the first internet bubble... Beta launched an online channel in parallel to the direct selling, generating a perception of competition... (representatives) boycotted... and Beta had to take a step back" (Director of E-commerce)

Figure 3 – Beta's Codes, Themes and Quotes

1st Order Codes	*Themes*	*Quotes*
○ decision-making is consensual and takes time, but execution is fast **○ search for consensus on strategic issues** **○ decision-making based on data** **○ natura is a company of narratives, you need to know the why's and how's to advance**	**Participative planning and execution**	*"Beta… is a company that normally takes time to decide because it searches the consensus, hearing different opinions… but when decides execution is normally really fast since most of the people are aligned"* (CEO) *"…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 hire a consultancy to have its suggestions"* (Business Controller)
○ founder's complementary visions **○ founder's vision of the future** **○ founders' DNA** **○ there was the founders' DNA** **○ it has to be good to clients, suppliers, environment, and society**	**Founders' influence on culture and decision-making**	*"The founders do not make a speech without saying that the development of capitalism has to bring distribution of opportunities and wealth"* (Director of E-commerce) *"…one of the founders always said: …I'm here to build something that somehow can inspire the whole society to take a certain path "* (Sales Model Manager) *"…it worked out because everyone had the DNA, everyone was linked to the founders, everyone answered for it"* (Channel Marketing Manager)
○ excitement due to the freedom to innovate and be creative **○ meetings generate enthusiasm among the participants** **○ natura has a strong purpose and sense of belonging that make employees proud**	**Positive emotions**	*"…you always left (meetings) excited because every leader had space, any manager could do do something new and do something creative"* (Channel Marketing Managers) *"…a great internal environment, I would say the best environment I have ever worked in"* (Business Controller) *"…maybe is the brand that best represents Brazil, the Brazil that succeeded outside Brazil"* (Director of E-commerce)

Figure 3 – Beta's Codes, Themes and Quotes

1st Order Codes	*Themes*	*Quotes*
PHASE II		
○ historical success delayed our perception of higher competitiveness and diversified value proposition to resellers **○ there were moments of arrogance that hindered changes** **○ recent past success made the execution of the new strategy difficulty** **○ we thought we were the best**	**Past success delayed changes**	*"...the execution was very hard... first, an important and recent successful history... we earned so many prizes... we were the most admired company"* (CEO) *"...there were some moments this commercial model had to be reviewed because it couldn't grow anymore... and then we had moments of arrogance"* (Business Controller)
○ the new strategy represented deep changes to rooted beliefs and current business model **○ although not aligned, top manager had a sense of direction** **○ there was resistance to retail channel due to beliefs it could jeopardize consultants** **○ lack of consensus about the best strategy** **○ lack of consensus among founders made the execution of the new strategy plan difficult** **○ lack of consensus affected communication**	**TMT's lack of consensus**	*"...the fact is that the agenda advanced slowly. Every time one said: Let's open the store? No, this store is not good enough. Let's turn the representatives? No, we can't turn them to digital now. Let's buy this brand? No, this brand is not good"* (CEO) *"...under this scenario we didn't have coherence... it wasn't a sum, it was more a division... but in hindsight it allowed us to make many experiments at the same time... from the point of view of the company's union and strategy it wasn't good, we had a lot of separation... and maybe some people did not survive... until the moment we returned to growth and good results"* (Sales Model Manager) *"...there were times I said: my god, this company is too big to convince everyone... but the leadership, although not aligned... they had a vision of direction"* (Director of E-commerce)
○ professional executives brought a high level of professionalization **○ professional executives had the mission of internationalization** **○ professional executives in the second phase of the company**	**TMT's professionalization**	*"...these executives from the market came with a mission, with the mandate to internationalize Beta for real... and then later on other executives were brought... that had a higher load in corporate finance, for example, for all that movement of acquisitions"* (CEO) *"...and then they started to search for executives of industry... that brought a high level of professionalization, but that initiated to lose this link with what was the company's differential. And the company had to requestion these values"* (Channel Marketing Manager)

Figure 3 – Beta's Codes, Themes and Quotes

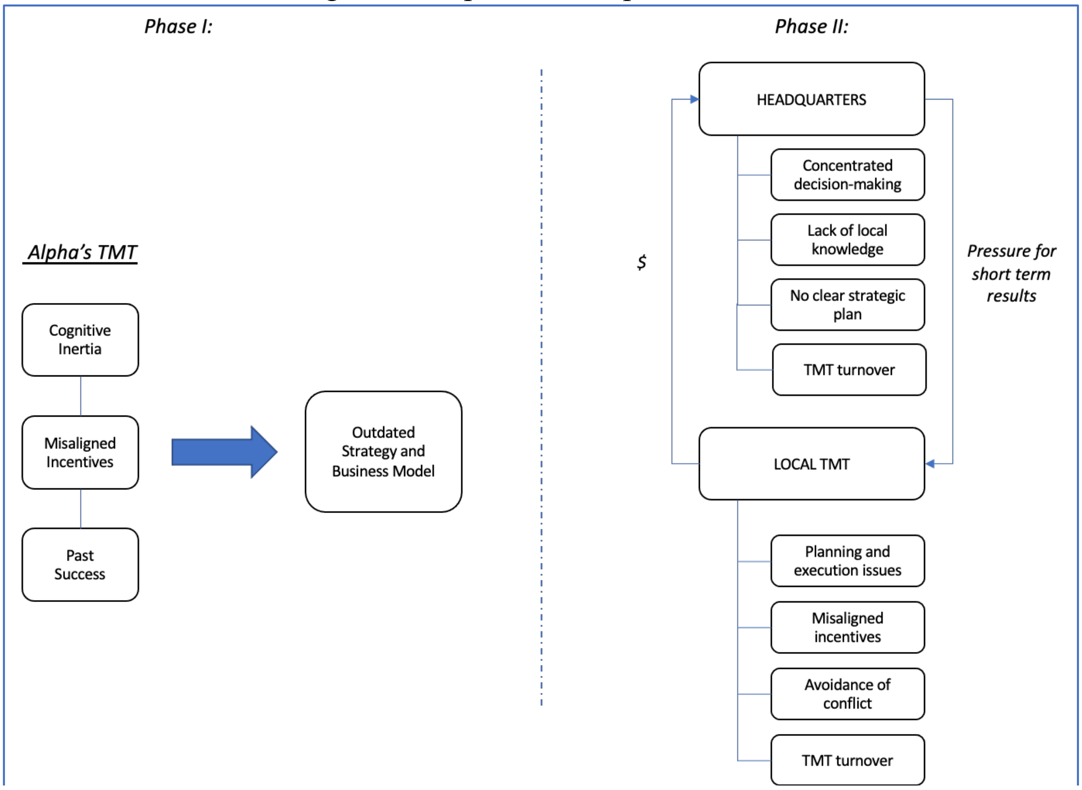
1st Order Codes	*Themes*	*Quotes*
○ **decision making become less participative and more deliberative** ○ **power games among executives became stronger in the second phase** ○ **professional executives' arrival increased power games** ○ **unhappy "inhouse" executives left due to power games** ○ **left for a more aggressive CEO to conduct the needed changes** ○ **there was more division than union among managers during experimentation** ○ **feeling of insecurity during experimentation period** ○ **while decision makers were not aligned, the political games started** ○ **to be "sponsored" by a top manager facilitated the implementation of changes**	**Transition to new coalition**	*"...and I also thought... give room for a renovation, and someone that... was more aggressive than me... who could challenge... and say: Look, if we don't do it, we will suffer much more"* (CEO) *"...I noticed a difficult climate in the moments that occurred the changes in the presidency. And then naturally the president... started changing its team... that was the period... where I saw some tense discussions"* (Business Controller) *"...at this moment appeared the first in-house executives unhappy, but who left to other market opportunities"* (Channel Marketing Managers)
○ **explored different channels to learn from 2012 onwards** ○ **consultants' informal stores turned into small franchisees** ○ **model evolved into social selling** ○ **modernize direct selling channel offering digital tools** ○ **had a platform and 1.5MM consultants that allowed us to be flexible and use different channels** ○ **invested in digitalization to differentiate from competitors** ○ **natura had the same value proposition for all consultants** ○ **natura made a turn and changed the value proposition to consultants through digital tools** ○ **segmentation and customization of value proposition to consultants** ○ **we envisioned the consultant as a micro influencer on social medias** ○ **omnichannel through the consultants** ○ **early adoption of online sales due to lower internal resistance**	**Experimentation of new strategy**	*"...but the fact is that we started a series of initiatives, among them the development of new brands and the acquisition of new brands... we had a very good platform, we had 1.5 million representatives"* (CEO) *"...during this process I think we realized that this modernization through the digital could take multiple forms, like this format of online stores that was important...but that wasn't enough for everything we wanted to do and for what the digital could offer"* (Director of E-commerce) *"...since that moment Beta started breaking a paradigm in relation to omnichannel... and it went through different models of online sales until arriving to what it is today"* (Business Controller) *"...everything was tried... e-commerce actions straight to the costumers... and on the other side our retail starting the strategy to open stores, while for our employees also affirming that this (direct selling) is the model of the future"* (Sales Model Manager)

Conceptual Models of Alpha and Beta

We will now present and discuss the conceptual models elaborated for Alpha and Beta, which draw from our preliminary conceptual framework and our inductively-derived reflections over the empirical evidence collected, and how their relate to the strategic inertia literature.

Alpha's Conceptual Model

Figure 4 - Alpha's Conceptual Model



Phase I clarifies that Alpha and Alpha Brazil did not update on time its strategy and business model. Several "causes" may have contributed to this apathy and dormancy: top managers' cognitive inertia (which blinded them from seeing the external transformations under way), misaligned incentives (which encouraged "milking the cow", rather than investing for longer term results), and resting on past success (which led to arrogance and complacency), and this is where all the problems started. Phase II starts from there and indicates that Alpha's top managers did not adequately screen its external environment and consequently did not have a long-term strategic plan. When the changes in its most important market accelerated and

significantly started to affect Alpha Brazil results, the headquarters was more than ever dependent on the subsidiary's cash flow, and consequently Alpha intensified the pressure for short-term results from their largest subsidiary, which hindered the much-needed strategic reorientation. Therefore, no consistent strategic reorientation plan was developed during the downturn period. Alpha's top managers initiated changes in many fronts to promote a turnaround, but they were tentative, not actually wholeheartedly embraced by the headquarters or the subsidiary, and disconnected in the absence of a consistent strategic plan. Concentrated decision-making at the headquarters together with limited knowledge of the market of Alpha Brazil led to decision-making mistakes that further intensified the crises in Alpha Brazil. Misaligned incentives as well as planning and execution problems made the possibility of a turnaround even more problematic in Alpha Brazil. The focus on cost cutting and margin improvement led to layoffs at the headquarters and the subsidiary and the resulting managers' turnover intensified internal politicking practices. The managerial coalition of the moment prevented questioning the company's errors for fear of being fired and to preserve their positions at Alpha Brazil. This mechanism limited even more the possibilities of Alpha adapting to the environmental changes.

On a broader theoretical level, Alpha's case displays that top managers' understanding of the competitive environment directly influences the strategic positioning of their companies (Daft & Weick, 1984) as they are in charge of key decision making (Tushman & Romanelli, 1985). Failures to notice significant changes in the external environment have been well documented in the management literature (Reger & Palmer, 1996; Tripsas & Gavetti, 2000). Cognitive inertia may take place when actors become overly dependent on their mental models of strategic phenomena and fail to notice changes in the conditions of their business environments until these changes have become so widespread that their capacity for successful adaptation has been seriously jeopardized (Hodgkinson,1997; Hodgkinson & Wright, 2002). In Alpha's case, the failure of the TMT to react to significant changes suggests such a phenomenon, reinforced even more by the fact that Alpha's historical main market, where its headquarters was located, signaled early on the necessity of changes on its strategy, but to no avail. Similar to Polaroid's TMT, who remained stuck with the "razor blade model" (Tripsas & Gavetti, 2000), Alpha's TMT remained stuck with the traditional direct selling model.

Managerial cognition is also influenced by organizational incentives and politics (Kaplan & Henderson, 2005). Managers tend to select the strategic choice that best fits both

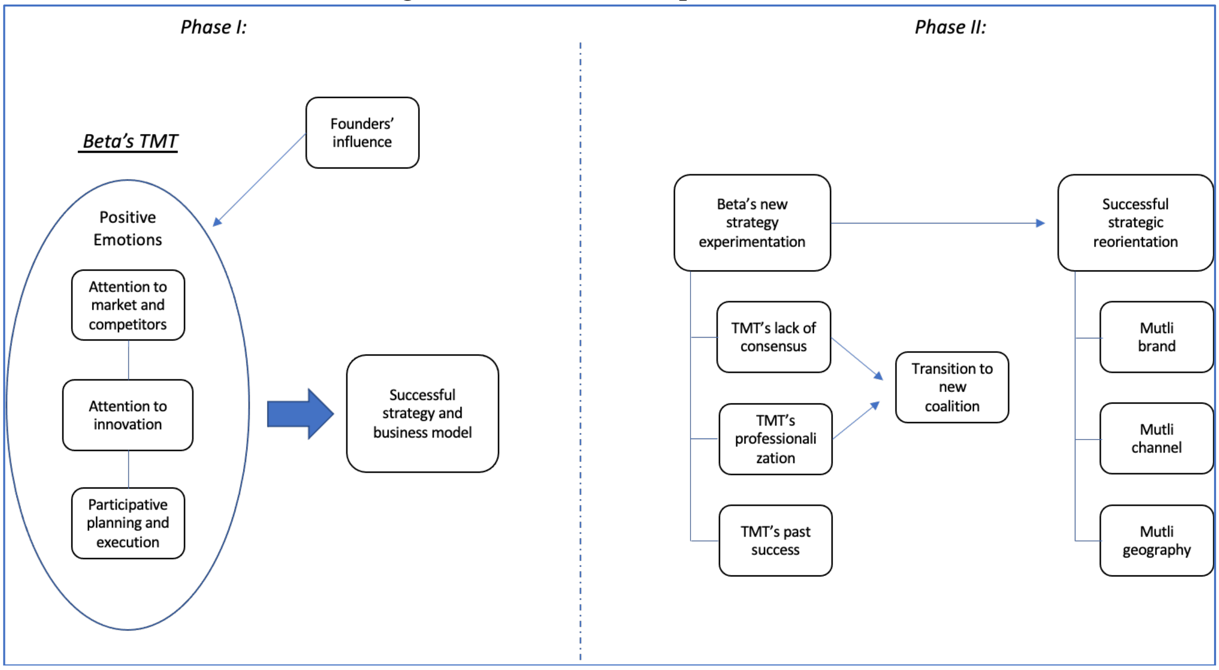
their interests and cognitive frames (Kaplan, 2008). Alpha's incentive system suggests an internal environment where any strategic reorientation, which demands coordinated efforts and solid long-term planning, found no fertile ground. Top managers had their attention (Ocasio, 1997, 2011) to their individual and departmental objectives, independently of the overall result of the company. The misaligned incentives together with top managers outdated mental models contributed to the status quo maintenance. Additionally, such inconsistency between the need for strategic adaption and the related uncertainty versus the (short-term) compensation policies had consequences for the company's planning and execution. Planning and execution demand coordinated effort and common purpose among those involved (Oliveira, Carneiro & Esteves, 2018), and it has been acknowledged that the more people involved with different views and perspectives in decision making, the lower the chances of something important going unnoticed (Sibony, Lovallo & Powell, 2017).

Besides, top managers can establish and direct the strategic agenda and influence the formal and informal communication within the organization (Ocasio, Laamanen & Vaara, 2017). At Alpha the coalition of the moment (Cyert & March, 1963, Nelson & Winter, 1982) was avoiding conflict with headquarters to preserve its position, especially in a moment of internal restructuring and turnover, and where criticism to headquarters' decisions were not well accepted. This suggests there was no open and adequate communication between Alpha and Alpha Brazil that would open up space to openly address strategic issues, and identify potential errors of its disjoint strategic plan (Vuori & Huy, 2016).

The emotion literature highlights that some of the discrete emotions regularly found in organizations can be important sources of stagnation, such as pride and joy, when deeply rooted in past success (Scherer & Tran, 2001). Interviewees described top managers' emotional attachment to Alpha's successful past, notably the "leadership arrogance", as defined by its former CEO. Additionally, Alpha's internal narratives were anchored in outdated assumptions of a successful past, as stated by its top managers and reinforced by the company's letters to shareholders. When internal communication is entrenched in past beliefs that have not been properly updated to the new demands of the competitive environment, they have the potential to limit the questioning of prevailing strategic assumptions (Geiger & Antonacopoulou, 2009).

Beta's Conceptual Model

Figure 5 - Beta's Conceptual Model



Phase I of Beta's conceptual model explains that top managers placed attention to changes in their industry, locally and abroad, and to how these changes could impact the company. The TMT also focused attention on innovations that could be incorporated into Beta's operations and used specialized external consultants to acquire knowledge when needed. Beta's strategy was highly influenced by its founders, who actively participated in strategic decisions as board members. The founders also envisioned and developed a well-recognized differentiated approach towards sustainability, society's and organization's values, as well as an informal internal atmosphere that allowed broad and open conversation among employees and managers, who were proud of working for Beta. The founders' presence at the board guaranteed Beta would not lose touch with the company's original core. Additionally, a long, participative, detail-oriented and consensual planning process promoted fast and efficient execution of the company's strategic plans. One can infer that all this contributed to the aggressive growth of Beta and the consequent leadership in its segment. However, the transition of Beta to a new strategy (Phase II) unveiled significant obstacles that established and successful companies face when deep strategic changes are deemed. In Beta's case, ingrained beliefs and lack of consensus among key decision-makers, including the company's founders, impaired the execution of its strategic plan; besides, the company inadvertently developed arrogance behavior derived from their past achievements. The arrival of new top managers with needed skills to support the strategic reorientation affected the dominant coalition of the past

with the consequent turnover of some long dated in-house executives. Power games came about temporarily, and internal communication suffered, until a new coalition among top managers was formed. Great “motivation” was necessary to implement the needed changes, and in the case of Beta the loss of market share and the slower growth accelerated the execution of the plan, as explained by its top managers. However, the previous competences attained by Beta were fundamental to its successful strategic reorientation. The company had the skills, even under a turbulent moment, to advance its plan by efficiently performing *experiments* based on its envisioned strategy that contributed to reduce resistances, build consensus, and adjust the strategic plan on a small-scale, failure-and-learning processes. Innovation and experimentation were already incorporated at the company’s DNA. Beta explored different channels and models to learn, incorporated technology and e-commerce into its direct selling operation, modernized the value proposition to its sales representatives, and acquired a niche and relatively small international retail company, not only to have access to international markets, but also to learn about retailing. Other larger international acquisitions followed as the company advanced its plan. This mechanism allowed Beta to successfully renovate its strategy by turning into a multi-channel, multi-brand and multi-geography company.

On a broader theoretical level, Beta’s case suggests how top managers’ attention can shape organizational adaptation (Ocasio, 1997, 2001). As proposed by Ocasio (2011) “the forward-looking attentional perspective of top managers facilitates an organization’s ability to overcome structural inertia and core rigidities” (p. 1292). Beta’s top manager attention to market, competitors and innovation had historically helped the company achieve the leadership of its segment and made it possible to anticipate the necessity of renewing the company’s strategy. Additionally, one should notice the previously described characteristics of Betas’ participative and detail-oriented planning process, where the presence of different perspectives of decision-makers had to be negotiated towards a common purpose (Sibony, Lovallo & Powell, 2017). The several references during the interviews to the planning process indicates that it worked as the main stage for debates, and to where the flow of information converged, and where negotiation and “convincing” among decision-makers occurred (Ocasio, Laamanen & Vaara, 2017). Besides, the necessity of different actors and departments to find a common ground through data and fact findings during the planning process forced top managers to search for evidence to support decision making (Rosseau, 2006).

The interviewees also explained the positive feelings they had about Beta's purpose and values, and the excitement caused by an internal environment focused on sustainability, social causes and innovation, characteristics related to the founder's positive legacy and vivid presence. Huy (2005) described how companies that develop "emotion-based capabilities" based on authenticity, sympathy, hope, fun and attachment to specific goals can help its members explore new strategies and achieve continuous innovation. The positive feelings used to describe Beta's internal climate indicates this was a relevant aspect to top managers' motivation and search for innovations (Ashton-James & Ashkanasy, 2008).

However, Beta transition to its new strategy highlights that strategic adaptation does not occur in the absence of inertial forces. The excessive emotional attachment to successful past strategies can also affect, even if temporarily, top managers of companies that have successfully adapted. Beta's top managers described the recent success of Beta as one factor that interfered with the pace of its strategic reorientation (Scherer & Tran, 2000), a similar but much longer-lived issue that also disturbed Alpha. Likewise, when companies have to adapt to changing environments, members of the dominant coalition might resist strategic moves that can destabilize their position and will try to maintain their power and influence (Hill & Rothaermel, 2003). The arrival of new executives with skills to be applied on the new distribution channels the company was experimenting, namely e-commerce and retail, and on the intensification of its international expansion objective, created a redistribution of functions, interests and power (Nelson & Winter, 1982; Kaplan, 2015), and consequently led to internal conflict, even when the "disagreement was silent", as expressed by one top manager. The interviewees mentioned that different top managers had different views about the best strategic future and tried to mobilize other players in their favor (Pettigrew, 1973). However, the different *experiments* performed by Beta suggests the company was collecting evidence to build a convergent decision-making, and, even if uninformedly, practicing evidence-based management (Rosseau, 2006). The new strategy *experimentation* allowed the development of a new business model that did not lose track with Beta's historical attachment to direct selling and its sales representatives. Additionally, it also permitted the emergence of a negotiated internal consensus and the accommodation of different views with the accompanying formation of a new stable coalition among top managers (Cyert & March, 1963).

Discussion

Contribution to Theory

Alpha and Beta cases highlight that it is necessary to have a broad perspective to answer the question of why some top management teams fail to adapt their organizations. The empirical study initially explored how the pre-selected drivers of strategic inertia, namely cognition, emotions and power, and the medium where these variables manifest, communication, act in combination. The results for each case indicate that the aforementioned drivers affected, although not with equal impact, the performance of both organizations. In addition, this study revealed other variables that led to inertia or else stimulated adaptation, but these drivers seem not to work in isolation, but rather interact with one another to produce the effect. These complex combinations of multiple causes, at different levels of analysis, hampered or else facilitated the strategic adaptation of each company to market changes.

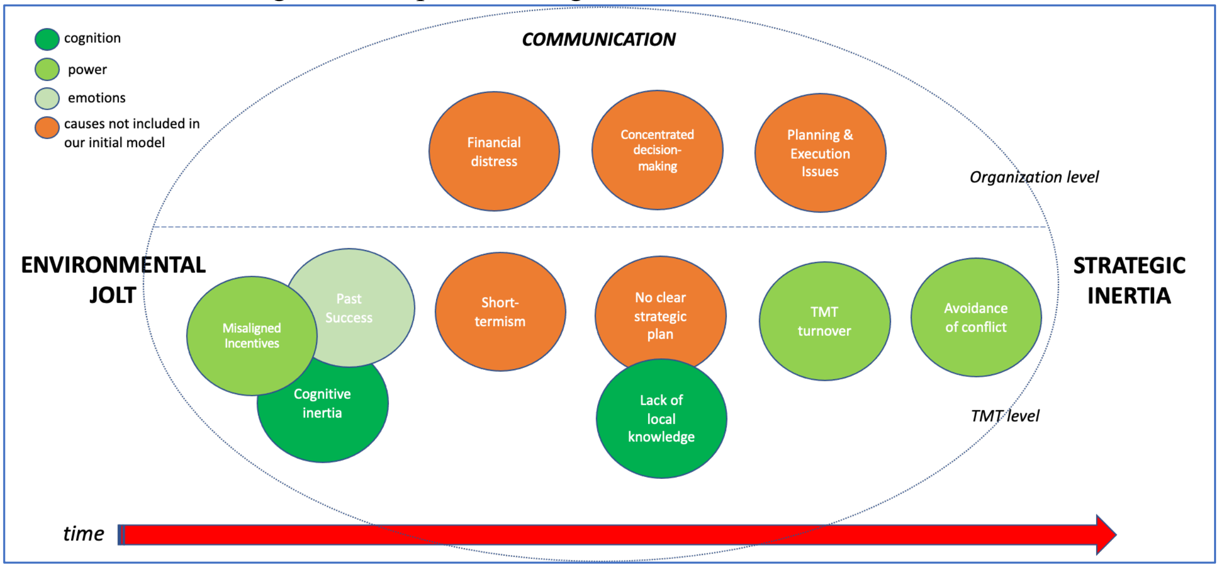
At Alpha, cognitive inertia (or rigidity), hubris and misaligned incentives, contributed to strategic inertia, while short-termism aligned to (or as a result of) financial distress further jeopardized the elaboration of a viable strategic plan. Concentrated decision-making at headquarters and poor knowledge of the local reality led to strategic decision-making mistakes and the absence of a solid strategic plan. Turnover among managers and avoidance of conflict refrained individuals from speaking up (possibly for fear of being fired), which suggests inadequate communication channels between top managers from Alpha Brazil and the headquarters to address latent (or else well-known but unspoken of) problems. Poor planning and lack of execution feedback into planning affected the (shy) tentative actions to adapt the company to a new competitive environment.

Figure 6 depicts Alpha's process towards strategic inertia and classifies the causes of inertia in terms of cognition, emotions, power and other causes not initially considered. The causes are also arranged in terms of top management team (TMT) or organizational levels. Communication embraces the whole process, as the causes are embedded in it. Alpha's original problems, characterized by misaligned incentives, resting on past success, and cognitive inertia are directly related to our general strategic inertia conceptual model. During this initial phase, the combined role of communication and the drivers of strategic inertia manifested mainly by the exacerbation of narratives about the past success of Alpha. The internal narratives of the

company were anchored on its historical success, demonstrating the biased perception of top managers about the new competitive environment.

As the strategic inertia process of Alpha evolved, other causes, not previously anticipated in our preliminary model, combined with cognition, power and emotions to hamper the company's adaptation. In this aspect, the importance of internal routines, highlighted by decision-making processes and planning procedures, as well as the effects of financial distress, emerged and combined with the previous problems.

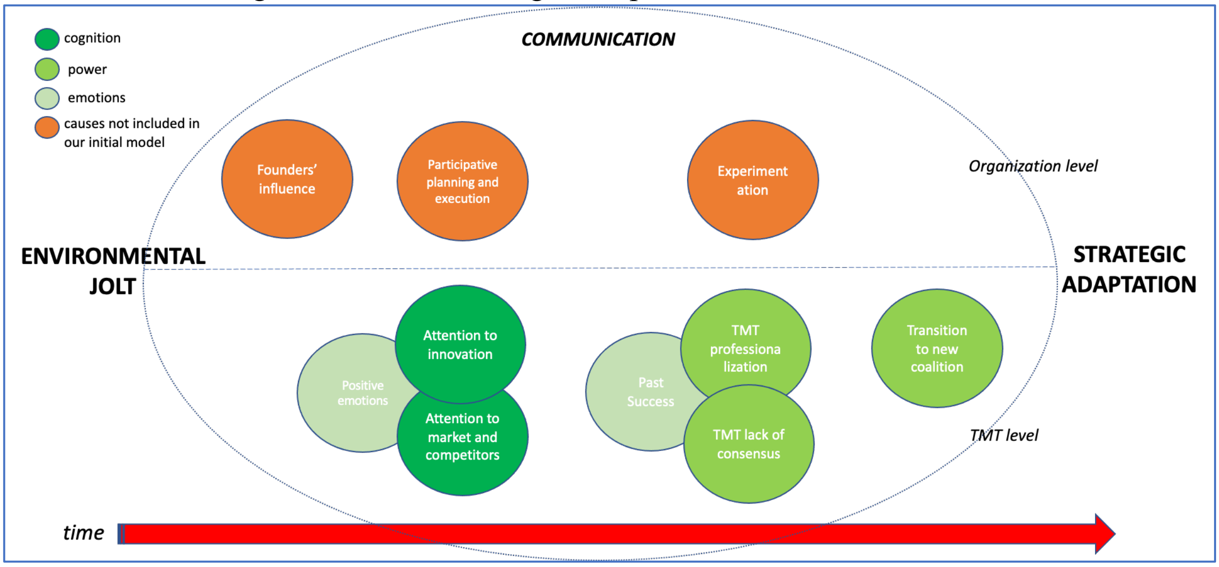
Figure 6 – Alpha's Strategic Inertia Process and Drivers



At Beta, attention to markets and innovations (cognitive flexibility), values and objectives that spawned positive emotions (highly influenced by the company's founders), and a participative decision-making process based on evidence, that later allowed for experimentation with the new strategy, contributed to its strategic shift. However, the transition did not occur in the absence of inertial forces. Beta's case exemplifies the importance of consensus building for strategic reorientation, and how the incorporation of new skills into an established organizational structure might demand a redistribution of power and interests among top managers and departments. These combinations of multiple "drivers" – some already identified in our initial conceptual model, some revealed by the empirical data – also highlight the complexity of strategic reorientations.

Figure 7 illustrates Beta's process towards its strategic adaptation, categorized according to our conceptual model and other drivers identified during the research. Cognition, emotions, and adequate communication channels contributed to Beta's sustained growth and leadership position in its market. Interestingly, power did not manifest as an important force during this period, suggesting a stable distribution of power and interests. However, as the strategic reorientation evolved, power emerged as one of the most significant factors. Additionally, top managers used communication to defend their positions and strategic vision, while internal narratives anchored in past achievements interfered with consensus building.

Figure 7 – Beta's Strategic Adaptation Process and Drivers



Limitations and Directions for Future Research

Alpha and beta cases focused on top management teams of both organizations, but other interesting lines of inquiry are possible. Top managers from both Alpha and Beta described the influence that the company's successful journeys in the traditional direct selling sector had for the firms' strategies and how employees were cognitively and emotionally attached to it. A future research path is to inquire into how strategic inertia and adaptation was influenced by questions about "who we are?" and "what we do?" (Raffaelli, Glynn, & Tushman, 2019), and how identities (Tripsas, 2009) directed the strategic responses of both companies. A deeper understanding of the role of organizational narratives (Geiger & Antonacopoulou, 2009; Naslund & Pemer, 2011) would also be welcomed to explore how it affected rigid assumptions and identity. Besides, the role of organizational communication also deserves further

examination. Additional explanations that could be incorporated are how core rigidities (Leonard-Barton, 1992) and competency traps (Levitt & March, 1988) hindered or facilitate inertia in both companies. Moreover, future studies based on a larger number of cases, possibly in different industries and settings, with companies facing similar market challenges, could corroborate, or else question, some of our findings. Process studies addressing the temporal progression of strategic inertia and adaptation and how these phenomena emerge, develop and growth (Langley, Smallman, Tsoukas & Van de Ven, 2013) are also an interesting path. The current study suggests that strategic inertia is the result of a series of interrelated events and causes. A process view would allow to address top managers' strategic decision-making throughout time. This approach demands a combination of interviews, archival data and observation, and a long involvement of the researcher to absorb and illuminate the interaction of cognition, emotion, and politicking through the communication practices.

The study has some limitations that ought to be acknowledged. Individuals, as they recollect past events, might have a biased perception of what really happened (Golden, 1992). We triangulated data from different sources to reduce this possibility, but this is always a point that deserves attention. We also did not have the study report reviewed by the top managers interviewed (since we were mindful of their available time limitations), but we intend to do so in the future as we require authorization to reveal the companies' names. Additionally, our flexible semi-structured interview script might not have captured other important elements that contributed to the different outcomes of the companies referred in the study, despite our ample inquiry and the fact that the first part of the script led to spontaneous reflections by the interviewees. The selection of two polar cases prevented overreliance on a single type (e.g., only successes or only failures), but it is not enough to provide evidence of external validity. The confidentiality agreement of the study also narrowed our possibilities of providing more detailed information about the companies' contexts.

Furthermore, this is an exploratory study of a multifaceted phenomenon, and as such it represents a first step in the direction of more elaborated studies that can build up on our findings. Finally, we immensely regret that the data collection phase coincided with the Covid pandemic. It prevented us from visiting the companies and expand our data sources and have *in loco* observations. For the same reason, we could not observe top managers during decision-making events. This could have provided interesting insights about the groups' dynamics and

some real-time impressions to be further compared with the past events informed by the interviewees.

Implications for Practitioners

As an applied field, strategic management at the end of the day should help decision-makers make better decisions and consequently improve the performance of their companies.

First and foremost, managers must be aware that strategic adaptation demands a lot of effort and energy. As stated by Beta's CEO, "you have 1001 reasons for not doing it". Thus, a good start to facilitate a firm's adaptation is permanent external environment monitoring vis a vis a long-term strategy perspective. The cases of Beta and Alpha offered good examples of contrasting outcomes in this aspect. Beta's attention and monitoring of market changes allowed the company to have a clear strategic direction, even if adjustment and internal negotiation delayed the adaptation process. The company knew something should be done, sooner or later, as earnestly engaged in finding a new balance with the new reality. Alpha, on the other hand, demonstrated the difficulties of "fixing the plane in mid-flight". By not minding the market changes and consequently not being prompt, the company's adaptation capacity was seriously undermined. A practical solution for top managers to avoid this from happening is to establish an internal team whose purpose is to identify long term trends in the firm's industry and markets (there are various approaches to scenario planning and this is only one of the possibilities). Ask the team to build three possible scenarios for the next ten to twenty years for the firm's industry and markets, and then delineate a single strategy for the company that has the potential to succeed in these three scenarios. Once the scenarios and the single strategy have been delimited, present them to other areas of the company, which will have the freedom to openly criticize and suggest changes and improvements to the strategy and scenarios until a broader consensus emerge. Besides, bring external specialized personnel, such as a consultant, to challenge the strategy and to provide insights, whenever possible. Then plan, plan and plan again in advance, but do not be hostage to the plan; rather use it as a flexible guiding route (Langley, 1995). Beta's detail-oriented and consensual planning provided an important advantage over Alpha. Strategic reorientation depends on captivating the whole organization, so it is necessary to have all areas aligned and engaged. For this purpose, the instruments described below might provide some support.

Incentives matter. Alpha's case showed the deleterious effects misaligned incentives may have on teams and planning. Given the well-known assertion that incentives should be linked to the short- and long-term goals and the consolidated results of the company, companies should design incentives to foment innovation. Reserve a share of the budget to be invested in pre-selected projects that have the potential to contribute to the long-term strategy of the company. Foment an internal environment where experimentation and failure are part of the game, hence teams involved in strategic innovative projects will have the necessary tranquility to take risks to develop their work. Some of these projects might threat individuals, departments, and the *status quo*; therefore it is responsibility of the highest ranks of the organization to sponsor these projects internally, and limit politicking from interfering with them.

Emotions permeate multiple aspects of organizational life. Incorporate into the long-term strategy objectives and values that truly represent what the organization aspires to contribute to society. Make sure all employees understand these values and objectives and ask them to openly express how they feel about it and what could be improved. Additionally, the company's actions must be aligned with those values and objectives, as well as the firm's internal environment. Cultivate an internal climate where positive emotions predominate, and all employees are self-motivated by knowing they are working for a broader purpose other than the firm's profitability and personal gains. Research has demonstrated that positive emotions enhance peoples' flexibility and creativity, both fundamental aspects of innovation processes. Such engagement-promoting behavior should start with the top management team, who should lead by example, and spend time and energy on this front. Beta's founders were an inspiration for those working for the company. We could even sense during the interviews that top managers had a great positive emotional attachment to Beta and the impact its founders had caused on them.

Appropriate internal communication channels are key. The participation of different departments in the elaboration of the firm's strategy can direct the attention of key decision-makers to common objectives. The strategic development and planning process is where managers can debate and reach a formal consensus about the best route for the envisioned future of the company. From there, a common narrative can flow back to other areas of the organization presenting the strategy and its objectives. Moreover, clearly communicating the incentives, and the how's and why's the company supports innovative projects, can reduce

potential interferences from those members that feel threated. Communication is also a key aspect of fostering a positive internal climate, starting with an environment where people can openly suggest improvement to their areas and company through adequate channels, which should flow back up to the top of the organization. Some of Beta's top managers highlighted the time and energy founders and themselves had spent to present the new strategy to several parts of the organization. Compare that to Alpha, which had poor communication among key areas of the company with the described consequences for the execution of its projects.

Finally, how do I manage all this? Obviously, there is no single answer, as solutions frequently depend on the context of the problem. However, Beta's case provides a possible direction. Use evidence to guide your decisions (Barends & Rousseau, 2018). The experiments Beta performed to "test" different possibilities of its strategic plan offered real-time guidance for decision making and consensus building. In the absence of sufficient internal knowledge to provide for the current problem at hand, Beta searched for external support. Specialized consultants, who frequently also have access to proprietary data, and external executives with the necessary skills and experience, joined to support decision making. Accordingly, structure a strategic decision-making process based on evidence. Define the quantity, nature and quality of the information required, as well as what kind of analysis will support decision making. Determine how final decisions will be reached (Sibony, Lovallo & Powell, 2017).

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Conclusion

Answering Powell, Lovallo, and Fox's (2011) call for studies that can contribute to the practice of behavioral strategy, this inquiry addressed inertia in organizations and, more specifically, the potential causes that contribute to strategic inertia, that is the reasons top management teams fail to take determined actions to adapt the strategic route of their organizations to changing competitive circumstances (Hodgkinson & Wright, 2002; Hopkins, Mallete & Hopkins, 2013). An adequate comprehension of these causes and how to avoid them can assist top managers in their strategic decisions. The pattern of changes affecting entire industries and markets nowadays, such as new potential competitors, substitutive technologies and disruptive business models, to name just a few, challenge top managers to build and manage organizations that are able to adapt to this volatile scenario.

The study started with the focal construct and the previous management literature to advance a generic conceptual model of the causes of inertia in organizations. Six major group of causes were identified, namely institutions, identity, routines, power, cognition and emotions, each containing a more fine-grained description of the drivers and their respective level of analysis. We expect that this initial conceptual model can be advanced by incorporating other causes of inertia not recognized in this study, which would also originate new categories. The relationship of causes and categories could also be further refined and complemented. In this aspect, the empirical article of the current study provides possible paths for future investigations.

From the initial general conceptual model, the study specifically addressed top management teams and strategic inertia, highlighting top managers are boundedly rational (Cyert & March, 1963; Simon, 1947), nonetheless they need to absorb, process and disseminate information about environments that are extremely complex and ambiguous (Walsh, 1995). These inherently information-processing limitations can restrict the range of strategic options available and the assessment of threats and of potential opportunities. Moreover, top managers' emotions could act as inhibitors or enablers of their ability to answer to the challenges of inertia in strategic thinking and adaptive behavior (Hodgkinson & Healey, 2011; 2014). Emotions pervades organizational life and materializes every time managers have to deal with topics that are important for them or relate to their company's performance (Barsade & Gibson, 2007).

Correspondingly, strategic decision-making frequently includes the political pursuit and negotiation of different interests among the members involved (Kaplan, 2011). When companies face the problem of having to adapt to changing environments, top managers and teams can resist strategic moves that potentially destabilize their dominant positions (Hill & Rothaermel, 2003). Lastly, communication plays an important role in an organization's attention structures, as well as in strategic change and renewal (Ocasio, Laamanen & Vaara, 2017). Top managers can use communication to manipulate the company's strategic agenda based on their interests. Therefore, the study advanced an integrative conceptual model of strategic inertia linking those drivers with communication. The model proposed that top managers' cognition, power and emotions can lead to strategic inertia, and that their impact should be analyzed interactively, including communication as a catalyst of these variables. The main challenges to advance this model rest on methodological issues, and the final part of the chapter offered some possibilities to overcome the difficulties, such as in-depth case studies and process studies of change (Langley, 1999; Langley, Smallman, Tsoukas & Van de Ven, 2013).

The third article presented an empirical study that addressed the reasons for the adaptation and inertia of two companies operating in the fast-moving consumer goods (FMCG) industry. The cases of Alpha and Beta explored how the pre-selected drivers of strategic inertia, namely cognition, emotions and power, and the medium where these variables manifest, communication, act in combination. The results indicated that these drivers had an influence on the responses of both organizations, as well as other variables not previously considered. At Alpha, cognitive inertia, hubris, misaligned incentives, concentrated decision-making at headquarters and its poor knowledge of the local reality, short-termism aligned to financial distress, turnover among managers and the consequent avoidance of conflict, and issues with planning and execution, acted together to jeopardize the tentative movements of the company to adapt to a new competitive environment. At Beta, on the contrary, attention to markets and innovations, predominance of positive emotions (highly influenced by the company's founders), a participative decision-making process based on evidence, and experimentation with the new strategy contributed to its strategic shift. These multiple drivers operating together highlighted the complexity of the strategic inertia phenomenon and the necessity of further investigations that can build up on these results. Lastly, we also expect that this study can

contribute to practitioners that have to navigate their companies through volatile markets and accelerating changes.

Appendix A - Alpha’s top managers perception of Beta

○ Beta is not a traditional direct selling company, so it was easier to enter into retail ○ Beta changed its commercial model and grew significantly ○ Beta made a turnaround focusing on service, digitalization, and marketing its brand ○ early adoption of online sales ○ Beta started investing in digitalization 10 years ago	**Beta’s reaction to market changes**
○ Beta's founders understood that the focus was still on modernizing direct selling, while expanding other channels ○ Beta's founders past experience and proximity to decision-making reduced power games	**Beta’s founders**
○ Beta's planning is multidisciplinary ○ Beta spends time planning and executes well	**Beta’s planning and execution**
○ Beta's culture promotes open and broad talking ○ Beta has a strong purpose and sense of belonging that make employees proud ○ Beta's culture is tolerant with mistakes ○ Beta's top managers made mistakes, learned, and corrected the route, understanding direct selling continued to be the main channel	**Beta’s internal environment**

Appendix B - Beta’s top managers perception of Alpha

○ headquarter didn't react and lost USA market to multilevel ○ headquarters' top managers didn't understand the final costumer ○ Alpha Brazil was the cash cow to the global operation, generating resistance to changes ○ Alpha Brazil remained chained to the global business model	**Alpha’s headquarters**
○ mercantilist and unfair relationship with distribution channel ○ Alpha had a more transactional relationship with all stakeholders ○ poor quality service to its representatives ○ Alpha was an old brand, offering a worse service, with a poor relationship with representatives ○ it never had its focus on final consumer needs ○ final consumer was jeopardized	**Alpha’s relationship with representatives and consumers**
○ the successful past was the reason for organizational inertia ○ managers were arrogant due to the company's good reputation ○ managers were proud of the company's reputation	**Alpha’s past success hindered changes**
○ executives' incentives directed them towards keeping the status quo ○ stimulus to continue with a model that had been successful	**Alpha’s misaligned incentives**
○ Alpha ERP change was 5 years late ○ Alpha was slow in adopting digital tools ○ distribution channel is still not digital	**Alpha’s IT issues**
○ products didn't adapt to local preferences ○ good quality products ○ products have not lost quality	**Alpha’s products**
○ unskilled management ○ vision obsolescence ○ managers found a "retrograde machine" ○ fired managers had a general feeling of frustration ○ I guess Alpha's CEO suffered internal resistance, because she had innovative ideas ○ renewal of management team didn't succeed due to their lack of experience	**Alpha’s TMT**
○ it is a logistics company operating with precision ○ kept operating with the same business model ○ sales strategy remained focused on women at home ○ didn't update its products, channel and representatives’ relationship ○ efficient and predictable delivery system ○ extremely low cost and efficient operation	**Alpha’s business model**
○ did not notice the change of customers habits 20 years ago ○ didn't know how to react to competitor ○ didn't notice market changes ○ stuck company for not comprehending society's changes ○ large company’s inherent immobility and slow decision-making ○ didn't have the power or speed to react	**Alpha’s market perception and response**
○ internal environment focused solely on results ○ Alpha was focused only on results, without a greater purpose	**Alpha’s internal environment**

Appendix C – Flexible semi-structured interview script

Introductory question

1. Could you please tell us your professional trajectory at the company______?

*Core phase – Cognition, Power, Emotion*s & Communication

2. What were the most important industry changes that affected [your industry] in the last years?
3. How did [your company] react to those changes?
4. How did your competitors react to those changes?
5. In your personal opinion, what other changes [your company] should have implemented?
6. And why some of those changes did not happen?
7. And how did you feel about it?
8. How other managers, your colleagues, evaluated those changes in the industry?
9. How the group decides about strategic matters when there are divergent opinions?
10. Who defines the strategic decision-making agenda?
11. Are there topics that should be discussed that are not?
12. What's your opinion about it?
13. How do you describe the relationship among top managers in the company?
14. How is the general internal climate and culture?

[If not yet tackled by the answers of the informant to the above points, questions were asked about the emotional atmosphere of company's formal meetings and the emotional climate of the company. Also, questions about political games or implications to power balance would be asked.]

Cool off phase

15. If you could return to the past, what you would do differently?
16. What's your personal and professional project for the future?