

Abstract:

Discontinuous strategic renewal involves a fundamental change in firms' core businesses. While undertaking such renewal may be necessary for a firm's future viability, there are significant risks associated. We seek to understand why and when firms are likely to engage in discontinuous strategic renewal. Using an inducements-opportunities framework, we argue that poor firm performance creates an inducement to engage in problem-driven search that often culminates in renewal. Prior incremental change enhances dynamic capabilities that also make the firm more receptive to discontinuous strategic renewal. Entry into new markets increases firm scope and diversification and creates growth options to make a secondary or completely new business as the firm's core business. The negative relationship of performance with undertaking discontinuous strategic renewal is weakened by prior incremental changes but strengthened by broader firm scope. We test our predictions using longitudinal data on 457 Fortune 500 firms of which 66 undertook discontinuous strategic renewal during 1990-2010. We discuss the implications of our results for research on corporate entrepreneurship, organizational search, dynamic capabilities, and real options.