

Prospective on Corporate Renewal*

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ABSTRACT

This essay introduces the Strategic Management Review Special Issue on Corporate Renewal. Following Hofer and Schendel (1978), we define corporate renewal as a type of strategic renewal that is concerned with the processes and outcomes of changes in the scope and resource deployments among a firm's businesses. We introduce a three-part framework for corporate renewal that highlights the choice among various modes of corporate renewal, the different actors who can implement corporate renewal, and the processes that are involved in the execution of corporate renewal. We draw upon this organizing framework to categorize the essays contained in this volume and to outline potential directions for future research on corporate renewal.

Keywords: corporate renewal, strategic renewal, corporate strategy, corporate scope

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Introduction

Strategic renewal is defined as “the process, content, and outcome of refreshment or replacement of attributes of an organization that have the potential to substantially affect its long-term prospects” (Agarwal and Helfat, 2009: 282). Within this broad domain, corporate renewal is a type of strategic renewal that is concerned specifically with the processes and outcomes of changes in the “scope and resource deployments among [a firm’s] businesses” (Hofer and Schendel, 1978: 27). Researchers have highlighted various avenues that can be taken to achieve corporate renewal: internal capability development (Capron and Mitchell, 2009; Salvato, 2009; Gulati and Puranam, 2009), mergers and acquisitions (Zollo and Singh, 2004; Karim and Mitchell, 2000; Puranam et al., 2009), corporate venturing (McGrath et al., 2006; Zahra, 1993), divestitures (Feldman, 2014; Vidal and Mitchell, 2015), alliances (Kale and Singh, 2007; Kale et al., 2002) and turnarounds more generally (Robbins and Pearce, 1992; Pearce and Robbins, 1994; Barker and Duhaime, 1997). On the one hand, a particular approach should be selected from this list based on the relative efficacy and risk of the alternatives within the specific context (Baden-Fuller and Volberda, 1997). On the other hand, these approaches can also complement each other, as exemplified by the utility of combining acquisitions with divestitures (Capron et al., 2001; Bennett and Feldman, 2017; Kaul, 2012) and also alliances (Villalonga and McGahan, 2005), divestitures with alliances (Schilke and Jiang, 2019), and corporate venturing with both internal R&D (Dushnitsky and Lenox, 2005; Wadwha and Kotha, 2006) and acquisitions (Benson and Ziedonis, 2009).

In line with the above definition of corporate renewal, the seven essays in this volume consider the various ways in which firms renew themselves by changing the scope of their businesses and the deployment of resources across those businesses. A few themes emerge from

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these contributions, as highlighted in Figure 1. First, reflecting its increasing prominence as a mode of corporate strategy that can help firms reconfigure both their internal resources and their external boundaries (Feldman and McGrath, 2016; Feldman, 2014; Capron et al., 2001; Vidal and Mitchell, 2015), two essays in this volume analyze how divestitures can contribute to corporate renewal (Corredor and Mahoney, 2021; Vidal, 2021), and two other essays consider how resource redeployment can be used to achieve corporate renewal (Berry and Kaul, 2021; Sohl and Folta, 2021). These contributions underscore the point that various corporate renewal strategies should be selected from the whole range of alternatives based on their relative merits and on the context in which the renewal is taking place (Baden-Fuller and Volberda, 1997). In both of these pairs of essays, the analyses are inherently comparative in nature, contrasting alternative approaches to corporate renewal. Second, Harrigan and Wing (2021) present a comparative analysis of the different types of actors—external private equity investors *versus* internal corporate managers—who can conduct the process of corporate renewal. Last but not least, the two final essays in this volume investigate the processes involved in corporate renewal that is implemented through internal innovation (Furr and Eggers, 2021; Miller, 2021), highlighting the point that success of corporate renewal depends on the behavioral context within the renewed firm (Blumenthal and Haspeslagh, 1994; Ghoshal and Bartlett, 1996; Hailey, 2001).

-----Figure 1 here-----

In addition to these contributions, two pairs of essays in this volume are accompanied by commentaries written by the scholars who served as discussants when earlier versions of these papers were presented at the Strategic Management Review Special Conference on Corporate Renewal at Columbia Business School in May 2019. In particular, Nary (2021) draws parallels between Corredor and Mahoney (2021) and Berry and Kaul (2021), highlighting the idea that

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there are various ways in which firms may engage in corporate renewal. Wang (2021) compares Furr and Eggers (2021) with Miller (2021), focusing on complementarity between the two essays in considering the behavioral context for corporate renewal: whereas Furr and Eggers (2021) identify behavioral impediments to renewing the firm, Miller (2021) outlines potential solutions to these barriers.

In this introductory piece, we will next summarize the seven essays contained in this volume. After that, we will build on our earlier assessment of the state of current research on corporate renewal by providing a brief discussion of potential future research directions in this domain.

Summaries of Essays

The essay by Berry and Kaul (2021) combines ideas from corporate strategy and international business research to develop an integrative theoretical framework of corporate renewal in diversified firms. This framework distinguishes between two approaches to corporate renewal: *resource exploitation* that follows changes in output markets and involves redeployment, replication, or recombination of firms' existing resources; and *resource augmentation* that follows shifts in input markets and includes retirement, retrenchment, or renewal of firms' resources to serve existing output markets. This novel framework enriches each of the two streams of literature upon which it builds. From the perspective of research on corporate strategy, the framework extends the traditional focus of this literature on the redeployment of existing resources across product markets (Chandler, 1962; Penrose, 1959; Sakhartov, 2017; Sakhartov and Folta, 2014; 2015) to consider the possibility that diversified firms can retire, retrench, or renew their resources to capitalize on favorable changes in their factor markets. In addition, the framework highlights the point that the costs of resource

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redployment in diversified firms depend both on needs of each of a firm's individual businesses and on differences in institutional contexts across those businesses. From the perspective of research on international business, the framework also expands the existing literature on firms' motives for internationalization (Dunning, 1979) to consider resource redeployment and multinational arbitrage. By embracing an integrative approach, Berry and Kaul (2021) build a conceptual bridge between two foundational streams of strategy research, thus helping to mitigate recent concerns about the growing fragmentation of this field (Leiblein and Reuer, 2020).

Corredor and Mahoney (2021) analyze divestiture as a prominent means of achieving corporate renewal, starting from the observation that not much is known about the choice between two alternative governance modes for divestitures: corporate spinoffs and equity carve-outs. Based on a thorough review of extant research, the essay identifies five goals that firms may pursue in implementing corporate renewal *via* divestiture: addressing business unit under-performance; recovering from a corporate parent funding deficit; reducing liability risk; refocusing the parent company's management; and responding to third parties' interactions. The authors develop eight propositions centered on the idea that these five goals, together with two boundary conditions (potential economic holdup problems between the parent company and the divested business unit, and uncertainty in divested business unit performance), collectively determine the choice between corporate spinoffs and equity carve-outs as the mode of divestiture governance. These new theoretical predictions make an important contribution to the literature on corporate governance and divestiture strategy.

Furr and Eggers (2021) consider how the interaction between human nature and the inherently uncertain aspects of innovation might constitute a significant impediment to corporate

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renewal. Accordingly, Furr and Eggers (2021) advocate a more integrated view of corporate renewal that accounts for behavioral aspects of the innovation process. In particular, the authors propose a more elaborate model of the innovation process that unifies previous process-based insights and identifies the key behavioral bottlenecks to corporate renewal, thereby modifying a popular existing model of innovation, variation-selection-retention (Burgelman and Rosenbloom, 1989). The essay reviews key findings in the existing literature and offers several directions for future research that are based on the authors' proposed model. An additional ramification of this essay is its focus on remedies to the behavioral impediments to corporate renewal.

Miller (2021) examines how internal innovation achieved via bricolage can contribute to corporate renewal. He defines bricolage as the creation of innovative solutions based only on resources currently available to a firm. The essay enumerates four phases through which bricolage unfolds (*i.e.*, "Four '**R**'s of Corporate Bricolage"): the audit of a firm's existing resources through architectural and historical analysis (*i.e.*, "**R**esources"); the stimulation of the firm's employees to alter routines by changing how people interact within the firm (*i.e.*, "**R**outines"); the recognition of new market opportunities by asking employees, customers, and others stakeholders to engage in analogical thinking (*i.e.*, "**R**ecognition"); and the realization of the identified possibilities using enabling, decentralized structures (*i.e.*, "**R**elaxation"). By advancing the idea of organizational bricolage, Miller (2021) provides a complement to theory on how environmental conditions affect corporate renewal, and elaborates on the probability and the process of resource redeployment within the firm. Finally, the essay outlines boundary conditions for the theory of organizational bricolage and offers directions for its use in future research.

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Harrigan and Wing (2021) contrast the turnaround of distressed firms by private equity owners with the use of transactions like divestitures or resource redeployment by corporate managers. The basis for this comparison is the differences in the objectives of private equity owners and corporate managers. Specifically, while corporate managers concentrate on long-term sources of operating synergy among their firms' businesses, private equity owners instead focus purely on financial objectives. Based on this difference, Harrigan and Wing (2021) conclude that financial owners can revitalize firms' performance more effectively than corporate managers. The essay also discusses the possible shortcomings of turnarounds that are led by outsiders, calling for a balanced comparative evaluation of the pros and cons of corporate renewal that is internally- versus externally-led. The insights offered by the authors have practical implications for managers who are faced with corporate renewal challenges in their firms, as well as for private equity investors and consultants.

Sohl and Folta (2021) study how resource redeployment can be used to achieve corporate renewal. Their essay builds off of the distinction between the firm-specificity and the usage-specificity of resources that was advanced in prior research (Ghemawat and del Sol, 1998), as well as the relatedness among a firm's businesses and market transaction costs. The authors develop propositions about how these four considerations affect the likelihood of resource redeployment, thereby contributing to an improved understanding of resource redeployment decisions and laying the groundwork for future empirical tests thereof. Accordingly, this work clarifies the extent to which multi-business firms can renew their business by means of resource redeployment. In addition to the aforementioned research implications, the essay also provides managers with a framework to assess which resources in their firms are potential candidates for internal redeployment during the process of corporate renewal.

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Last but not least, Vidal (2021) explores divestitures as a tool for corporate renewal. This essay suggests that corporate managers can use divestitures to generate slack in managerial resources and can subsequently use this slack for corporate renewal, consistent with existing studies such as Feldman (2016), Bennett and Feldman (2017), and Eklund and Feldman (2020). To develop this argument, Vidal (2021) casts divestitures as part of a portfolio of governance modes that are available to a firm. The argument that divestitures are used to create slack that can be used in subsequent corporate renewal is illustrated with data from SDC Platinum on the concurrent divestitures and acquisitions pursued by pharmaceutical firms between 1985 and 2017. The study shows that the joint use of divestitures and acquisitions grows during this period of time, thereby reemphasizing the positive side of divestiture as a mode of corporate development (Feldman, 2020).

Discussion

Given the above-described contributions of this volume, what lies ahead for research on corporate renewal? We offer a few thoughts in the conclusion to this introductory essay, which link back to the organizing framework that we depicted in Figure 1.

First, one common theme that runs through almost all of the essays in this special issue is the need for a comprehensive assessment of the various modes of corporate renewal. Whereas some modes of corporate renewal are natural substitutes to each other (*e.g.*, resource redeployment *versus* divestiture, corporate spinoffs *versus* equity carve-outs, internal innovation *versus* external modes of corporate development), various modes of corporate development can equally complement each other (*e.g.*, divestitures and acquisitions). While existing research on corporate strategy already emphasizes this exact point (Feldman, 2020; Bennett and Feldman, 2017; Villalonga and McGahan 2005), we believe that future research on corporate renewal can

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equally benefit from embracing this comprehensive approach. Given the interdependences between renewal modes that the essays in this volume have highlighted, we believe that firms would be better served by choosing among the modes of corporate renewal that are available to them than by simply selecting or not selecting any particular mode. Accordingly, research that restricts itself to a single mode of corporate renewal may interpret the lack of use of that mode as a reluctance of a firm to renew itself, when in fact that firm may actually be relying on another mode of corporate renewal. This point is similar to one of the key insights in Feldman and Sakhartov (2020). Thus, future research should carefully conceptualize and incorporate the various modes of corporate renewal that are available to firms.

Another important theme raised in this special issue is that external parties, especially financial investors, can sometimes be more effective than corporate managers in implementing corporate renewal. A large and growing body of research has begun to examine how different types of large shareholders (Connelly et al., 2010), including blockholders (Bethel and Liebeskind, 1993), founding families (Feldman et al., 2016, 2019), institutional investors (Tihanyi et al., 2003; David et al., 1998; David et al., 2001; Connelly et al., 2019), short sellers (Shi et al., 2018; Shi et al., 2020) and activist investors (Chen and Feldman, 2018; Ahn and Wiersema, 2019; DesJardine and Durand, 2020), exert a significant influence on various corporate strategy decisions and outcomes. By contrast, much of the extant research on corporate renewal focuses on corporate managers as the key strategic actor (Ghoshal and Bartlett, 1996; Hailey, 2001; McGrath et al., 2006; Mezias and Glynn, 1993). This suggests that a promising direction for future research might be to integrate these two bodies of research more closely, and analyze the role that financial investors can play in corporate renewal, as well as the implications thereof.

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Finally, multiple essays in this volume draw attention to the processes involved in corporate renewal. For example, Miller (2021) emphasizes that corporate renewal is a stepwise entrepreneurial process that unfolds over time through the phases of enumerating the existing resources of a firm, changing the routines with which people interact in that firm; recognizing new market opportunities for the firm, and facilitating the implementation of opportunities in the firm's organizational structure. Furr and Eggers (2021) elaborate the process of innovation that unfolds over time through the phases of variation, selection, and retention, with the additional feedback loops and bottlenecks that this involves. Although these papers initiate this discussion at the broader conceptual level, this appeal to the organizational processes through which corporate renewal unfolds over time would be valuably integrated into future empirical research. For example, scholars could consider examining how the timing of various steps in corporate renewal and their sequencing affect the outcomes of renewal. Also, more attention could be paid to the routines, organizational structures, and incentives that are involved in corporate renewal, and to the process by which firms choose one particular mode of corporate renewal over another.

In summary, the seven essays in this volume offer new conceptual ideas and outline directions for future research about the multi-faceted phenomenon of corporate renewal. We hope that this special issue integrates some of the many rich streams of research on this topic and that it inspires ongoing and future debates about this important and highly relevant field of study.

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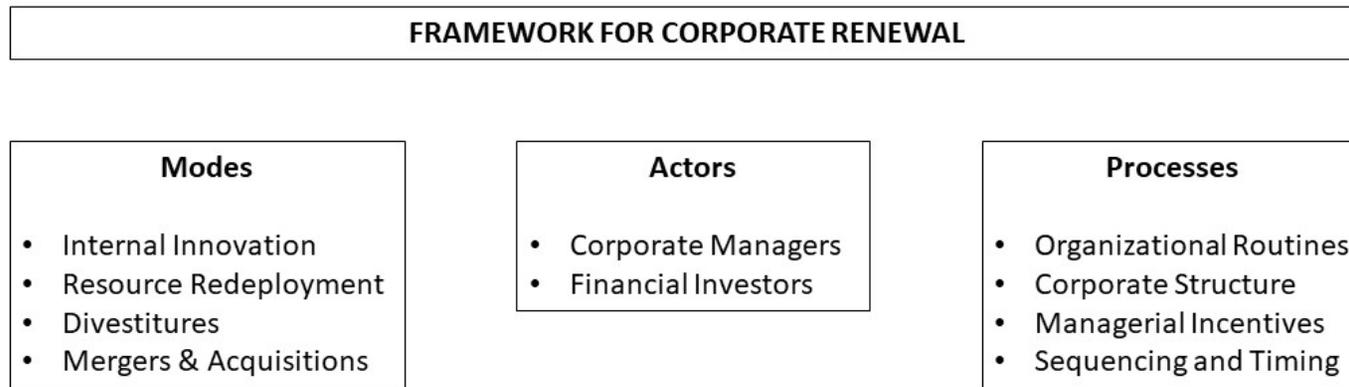


Figure 1. Framework for corporate renewal