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Following the Herd or Not?

Patterns of Renewal in the Netherlands and the UK

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How do large firms conduct their strategic renewal journeys in an increasingly turbulent environment? Are there generic industry patterns, or are these renewal journeys country- or firm-specific? To answer these questions, we examine the relative incidence of external versus internal and explorative versus exploitative renewal actions, and their speed, in leading Dutch and UK financial service companies using longitudinal data. The context, content and process dimensions of strategic renewal are distinguished, and research questions about these attributes are formulated and investigated using new metrics. Findings show that while exploration/exploitation ratios are fairly similar for firms across the entire industry, systematic differences are evident between the external/internal renewal ratios of Dutch and UK firms, and that speed of renewal is largely determined at the firm level. Thus we find that industry-, country- and firm-specific factors all influence journeys of strategic renewal in distinctive and complementary ways.

Introduction

This exploratory article investigates the strategic renewal journeys of large financial services firms in the Netherlands and the UK in terms of four research questions pertaining to attributes of strategic renewal, based on an analysis of such actions[1] undertaken during the period 1990 to 1997.

The selection of the financial services sector as the focal point of our analysis is motivated by two main considerations. Firstly, the financial services sector is profoundly important to the economies of many Western European economies. Indeed, financial

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services firms currently account for seventy-two of the *Financial Times'* top three hundred quoted European companies[2] and their importance in market capitalisation is even greater.

Secondly, the financial services sector in Europe has recently been confronted with several environmental jolts which have challenged top management to think of strategic renewal as an ongoing journey instead of a destination. The past decade has witnessed the introduction, in 1992, of a single European market permitting cross-border mergers and alliances and the breaking down of barriers between banking and insurance sectors.[3] At the same time, firms have had to adapt to important new European directives and rules of corporate governance such as the introduction of new rules of compliance (for instance, the Basle Agreement), and the deregulation of capital markets. More recently, in 1999, companies were faced with the introduction of the Euro. In 2002, these same companies must manage the abolition of national currencies. In the midst of these structural changes, established banks and insurance companies have had to learn to embrace new information and communication technologies and electronic commerce.[3] These developments have given rise to an emerging online financial services complex[4] and created another major challenge for financial services providers.

In this turbulent environment, both researchers and practitioners need theories to inform and metrics to measure how and why firms take actions to renew themselves. The theoretical approach employed here is geared towards providing insights about pressing and largely unanswered questions. Consequently, our theoretical approach is eclectic, and is aimed at describing and analysing how strategic renewal trajectories are developed over time by top management teams, rather than on developing an all-encompassing theory of strategic renewal. Our empirical approach focuses on developing and measuring new metrics to reveal insights into key attributes of strategic renewal, facilitating the analysis and comparison of strategic renewal processes within and between firms over time and across different nations.[5] As managers tend to better remember their successes than their failures, we have designed our metrics to capture a firm's *realised* actions rather than *perceived* actions, allowing us to study the *actual behaviour* of firms and preventing ex post sense-making. Our metrics incorporate actions reported as *confirmed* in annual reports and the *Financial Times* over the period 1990–97, to log only those actions known to have materialised rather than proposed actions and speculative reports.

This article proceeds as follows. The next section distinguishes between three dimensions of strategic renewal, presenting an attribute for each dimension. The second section presents the four research questions that guide this article, and is followed by a description of our research methodology. Next, we present evidence from our data pertaining to our research questions. The fifth section discusses industry-, country- and firm-level influences on journeys of strategic renewal and offers our conclusions.

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Dimensions of strategic renewal

During their strategic renewal journeys, firms go through a series of multi-level changes. We have chosen to reduce this complexity by focusing on the most important renewal actions undertaken by these firms. We do this by investigating the report of the management board in the annual report, and relevant reports in the *Financial Times*. We consider the strategic renewal construct, like strategy, as a *three-dimensional* phenomenon, consisting of the *context*, *content* and *process* of strategic renewal.[6]

The context dimension refers to the 'where' question of strategy—that is, the environments in which firms operate—and reflects the fact that strategies do not arise from an organisational vacuum. The content dimension concentrates on the 'what' of strategy, while the process dimension looks at the 'how', 'who' and 'when' of strategy. We measure the three dimensions by tracking the number and rate of strategic renewal actions. Actions are divided into mergers and alliances versus new business ventures and new product launches to study the renewal context.[7] To assess the content of renewal actions, we divide renewal actions into exploration versus exploitation-type actions. Exploration actions are aimed at entering new markets and innovation, whereas exploitation actions increase efficiency and rationalise activities. The process dimension is captured by the speed of renewal actions in terms of the number of actions per time period.

The context dimension refers to the 'where' question of strategy and reflects the fact that strategies do not arise from an organisational vacuum

Research questions

Our research questions are rooted in the literature. Penrose[8] was one of the first scholars to analyse the growth processes of firms by introducing discussion of the influences of managerial resources on the choices managers should make regarding internal growth versus external growth through acquisitions. Other scholars have further elaborated on the context dimension by studying internal growth trajectories, often in terms of new business development.[9] We formulate the following question: 'How do firms combine external and internal actions during their strategic renewal journeys?' (This query links to the debate on the merits of internal (hierarchy) versus external (market) development trajectories.)[10]

We measure the content dimension of strategic renewal by analysing whether actions of strategic renewal are of an explorative or exploitative nature.[11] While exploitation is primarily related to refinement and improvement in efficiency of existing activities, exploration is related to search and innovation activities. Firms that simply exploit their capabilities and resources to the full, avoiding upgrading and innovation, fall into a competence trap.[12] March[13] has used simulations to suggest that the optimal path is one of balanced exploration and exploitation, yet this has not been tested with real data.

This leads us to our second question: 'How does the balance of exploration and exploitation actions evolve during strategic renewal journeys?'

Much research in strategic management is devoted to issues pertaining to comparative statics. However, taking speed seriously in strategy research is still a major challenge.[14] To investigate the process dimension of strategic renewal, we have investigated the speed of renewal actions. D'Aveni, in his discussion of hyper-competition,[15] emphasises that success is often tied to speed, although Dumaine[16] and Stalk[17] argue persuasively that too short a reaction time can lead to overreaction and excessive information searches, and even result in chaos. However, in reality, many managers act prudently and wait until the impact of external turbulence reaches a certain level before responding, a tactic which often results in organisational inertia[18] and causes longer delays and more muted actions.[19] Our third question thus reads: 'Do firms differ in the speed of their renewal actions? Is the financial awareness of a firm related to the speed with which it undertakes renewal actions?'

Is the financial awareness of a firm related to the speed with which it undertakes renewal actions?

Are trajectories of strategic renewal idiosyncratic and driven by firm-specific factors, or do mimetic forces lead firms to follow similar trajectories? If firms follow similar trajectories, what is the basis of this similarity? Institutional theory suggests that organisations are converging on organisational archetypes as a result of population isomorphism.[20] Another strand of theories argues for national cultural differences as reasons why organisations collect and process information differently.[21] Newman and Nollen state, "managerial attitudes, values, and efficacy differ across national cultures."[22] Organisations may have differing strategic orientations depending on their national culture.

Strategic choice theories endow organisations with the capacity to reshape their environment. Thompson[23] rejects environmental determinism by presenting a contingency approach in which an organisation's decision makers take both the environment and technology into account. Child[24] stresses the dynamic interchange between an organisation and its environment, arguing

Exhibit 1. Renewal: four research questions

1. How do firms combine external and internal strategic actions during their strategic renewal journeys?

2. How does the balance of exploration and exploitation actions evolve during strategic renewal journeys?

3. Do firms differ in the speed of their renewal actions? Is the financial awareness of a firm related to the speed with which it undertakes renewal actions?

4. Are trajectories of strategic renewal idiosyncratic, or do they reveal mimetic behaviour in terms of country or industry influences?

that decision makers have much more freedom than environmental determinism would allot them. Baden-Fuller and Stopford[25] stress the importance of managerial choice by arguing that it is not industry- or country-specific advantages, but managerial action that is the most important determinant of firm performance. The issue of whether firms mimic the actions of others within their industrial or national context, or undertake initiatives independently of other organisations, leads to our final question: 'Are trajectories of strategic renewal idiosyncratic, or do they reveal mimetic behaviour in terms of country or industry influences?' Exhibit 1 summarises these four questions.

Methods

Sample

The Netherlands and the UK offer interesting national contexts in which to investigate the renewal actions of financial corporations.[3] In the Netherlands, we chose the five largest financial services companies: ABN AMRO, Aegon, ING, Rabobank and Fortis. Four are publicly quoted; only Rabobank is not. We also examine three of the largest financial services firms in the UK: Barclays, Lloyds TSB and Prudential. Table 1 provides some key data about these firms. We examine the 1990 to 1997 period, which spans a phase of increasing turbulence in the financial services industry.

Sources of data

Our data collection strategy was geared towards examining publicly available contemporaneous data to track renewal trajectories, counteracting the tendency of interviews to create retrospective sense-making.[26] Our data enables comparisons within a single firm over time, between firms within the same period and between firms over time and across nations, and is derived from

Table 1. Business and market capitalisation of the Dutch and UK companies. Adapted from *Worldscope*; market capitalisation as of May 4, 2000

Company	Business	Market Capitalisation (€ billions)
The Netherlands		
ABN AMRO	Banking	39.6
Aegon	Insurance	57.1
Fortis	Banking–insurance	40.0
ING	Banking–insurance	69.3
Rabobank	Banking–insurance	– (cooperative)
UK		
Barclays	Banking	38.1
Lloyds TSB	Banking	54.9
Prudential	Insurance	29.7

the annual report of the management board (for Dutch firms) and the letter to the shareholders (for UK firms), and articles in the *Financial Times* (for both Dutch and UK firms). We employed various experts to check our classifications, data and findings, and applied 'NUD∗IST'[27] software to analyse the data.[28] The attributes of strategic renewal are explained in Exhibit 2.

Herd behaviour at industry, country and firm level

We start by presenting aggregated data at the industry and country level to answer the first research question—how firms combine external and internal actions. Figure 1 shows country-level data over time and averages for each firm are presented in Table 2. In the Netherlands, our data show a stable preference for external over internal moves over the time period (63 per cent versus 37 per cent). UK firms, however, show a different pattern, with most of their renewal actions being executed internally (24 per cent versus 76 per cent), especially in the 1990–94 period.

Exhibit 2. The attributes of renewal actions

- Internal actions include starting up new businesses, closing offices, reorganising activities, and launching new products.

- External actions include mergers, acquisitions, joint ventures and alliances.

- The external/internal ratio relates the number of external renewal actions to the total number of internal plus external actions.

- Exploitation actions are defined as renewal actions that elaborate on the current range of activities and fall within the current geographic scope, or that rationalise activities. These include cost savings, the dissolution of product ranges, sale of activities and increasing scale by merger or acquisition.

- Exploration actions are defined as renewal actions that add new activities to the current repertoire of the organisation, or that increase the geographic scope of the firm. Examples are Internet banking, or a bank entering insurance.

- The exploration/exploitation ratio relates the number of exploration actions to the total number of exploration and exploitation actions.

- Speed is measured by the number of strategic renewal actions in a time period.

- Financial awareness is proxied by using financial reporting in the external disclosure of company information.[29]

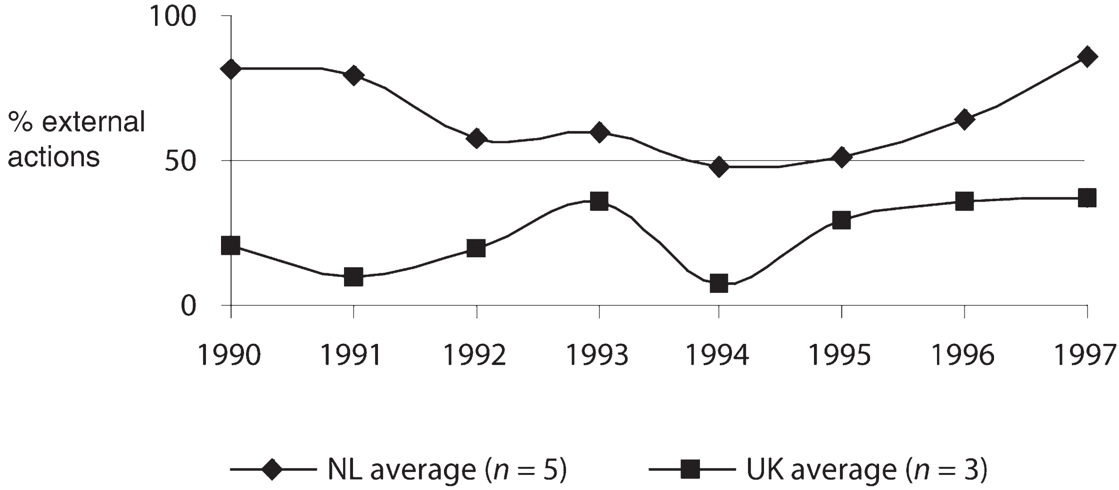

Figure 1. Aggregated data of the external/(external+internal) actions ratio. Source: *Erasmus Strategic Renewal Centre*

From Table 2 it appears that ABN AMRO has the highest ratio of external to internal actions. Its ratio exceeds 0.5 for all years, except for 1993 during which all its actions were internally oriented. ING had the lowest ratio of external to internal actions of the Dutch firms investigated. In the first two and the final year of investigation, ING employed predominantly external actions, but for most of the years in the investigation period its pattern of actions was biased towards internal actions.

In the UK, Barclays shows a consistent bias towards internal actions over the entire time period. As appears from Figure 2, the first and the last three years show a slightly higher ratio. Lloyds shows a different pattern, starting out with predominantly internally-driven actions in 1990 and 1991, changing to a relatively high ratio of external actions in 1992 and 1993, and reverting to internal actions in the last four years. Prudential is

Table 2. Average external/internal actions ratio and average exploration/exploitation ratio (1990–97). Source: *Erasmus Strategic Renewal Centre*

Company	External/Internal Ratio[i]	Exploration/Exploitation Ratio[ii]
ABN AMRO	0.68	0.21
Aegon	0.58	0.21
Fortis	0.74	0.10
ING	0.48	0.42
Rabobank	0.66	0.07
Barclays	0.28	0.23
Lloyds TSB	0.29	0.14
Prudential	0.16	0.24

[i] External actions related to total number of actions.

[ii] Exploration actions related to total number of actions.

consistently biased towards internal actions: only in the last three years of the time period does its ratio of external actions increase slightly.

We use country level (Figure 3) and firm level (Table 2) data to shed light on the second question: how does the balance of exploration and exploitation evolve? Surprisingly, our data (Figure 3) show a consistent pattern across all firms and both countries. The data in Figure 3 show that, in the beginning of the 1990s, the ratio of exploration to exploitation remained stable at about 20 per cent, despite noticeable changes in the Dutch financial sector in 1990.

The aggregate data for the UK firms show that, as in The Netherlands, the 1990–93 time period was characterised by relatively low ratios of exploration to exploitation, at about 20 per cent. In this period, the UK economy was in a slump, and the three companies reacted to this by cutting (overseas) operations, closing branches and shedding thousands of jobs. In 1994, the sector had caught its breath and started to expand, as is shown in a substantial increase in exploratory relative to exploitative actions within the three firms. The next year saw a drop in the exploration/exploitation ratio, a wave pattern that is repeated in 1996 and 1997.

Figure 4 and Table 2 provide an overview of the ratio of exploration to the total number of actions. Clearly, ING is the most explorative firm in either country, while Rabobank and Fortis

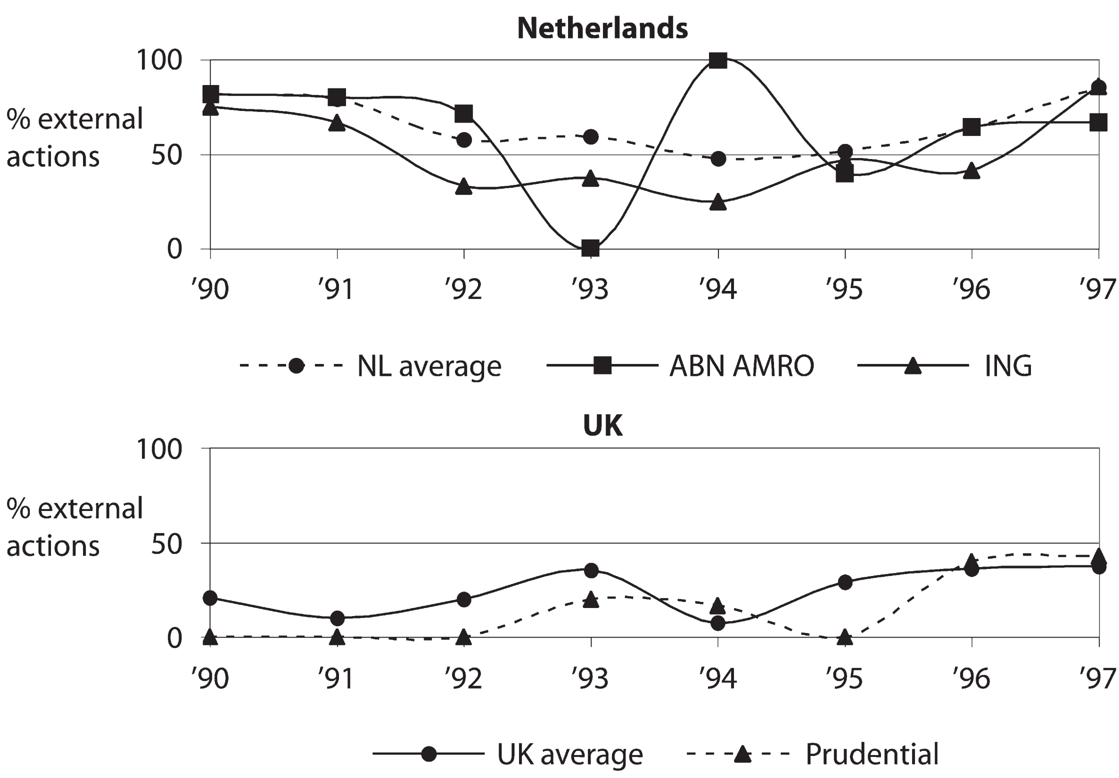

Figure 2. The external/(external+internal) ratio sample average of the Dutch and UK companies to the representative firms. Source: *Erasmus Strategic Renewal Centre*

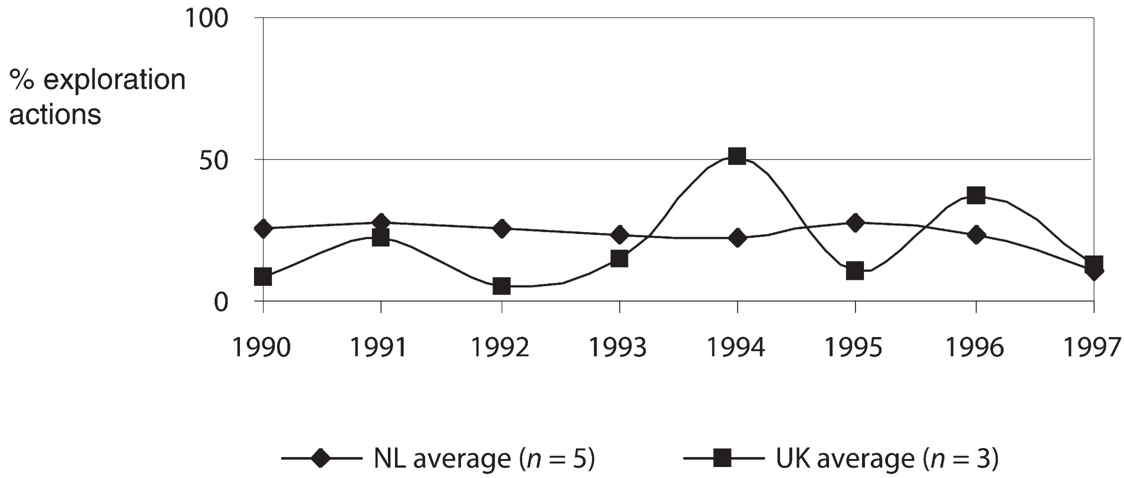

Figure 3. Aggregated data of the exploration/(exploration+exploitation) actions ratio. Source: *Erasmus Strategic Renewal Centre*

are the most exploitation-oriented. Contrary to the findings with respect to external and internal actions, Dutch and UK firms show a high degree of similarity in their cumulative patterns of exploitation versus exploration (see Figure 3 and Table 2). The first four years (1990–93) show high degrees of exploitation, followed by an increase in exploration in the second half of the period.

Of the three UK companies, Barclays has the most stable pattern of exploration/exploitation, remaining close to 0.2 over the eight-year period. Lloyds was highly oriented towards exploitation during the first half of the time period, after which its pattern starts fluctuating between exploration (peaking at 0.5 in 1994) and exploitation. As is the case with Lloyds, Prudential starts out inclined towards exploitation in its first four years, after which it shows a wave pattern.

Our third research question asks whether firms that are more financially aware react faster than others in undertaking renewal patterns. Table 3 shows a clear country-based difference in the relationship between financial awareness indicators and annual numbers of renewal actions, which suggests that country influences affect the propensity to report financial information. We have therefore chosen to report findings per country, where our longitudinal data analysis indicates a clear relationship between financial awareness and speed of renewal. ABN AMRO appears to be the most financially aware of the Dutch firms, and also ranks first in the average number of actions. Of the UK firms, Barclays and Lloyds have similar scores on the financial awareness indicator. Barclays ranks first in the average number of actions undertaken, and Lloyds second. Prudential ranks third in both measures.

ABN AMRO's financial awareness was above average for all but two years, and the number of renewal actions undertaken by the firm was also above average, most noticeably in 1991 and 1996. ING's number of renewal actions was below average in

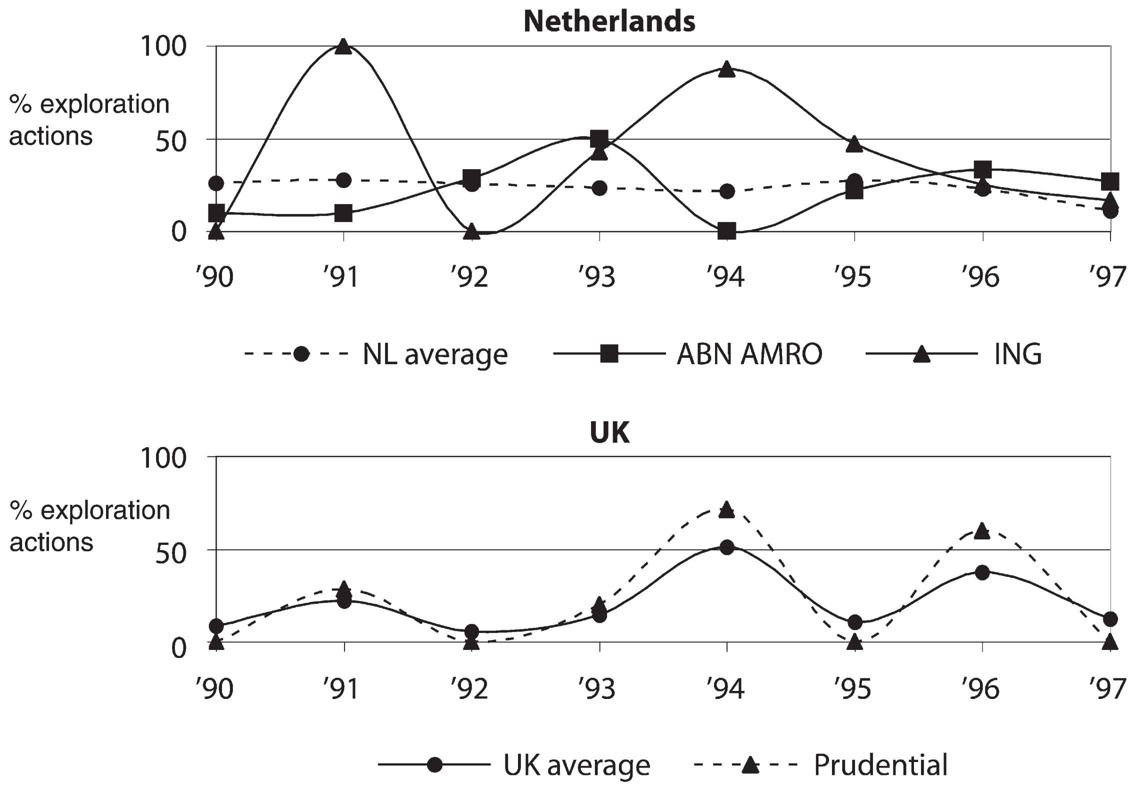

Figure 4. The exploration/(exploration+exploitation) ratio sample average of the Dutch and UK companies to the representative firms. Source: *Erasmus Strategic Renewal Centre*

the first three years but increased sharply later. ING's financial awareness is about average, declining in the last two years. Barclays' score on the financial awareness indicator is above average for five years. Prudential scores below average for six years (and slightly above the average for the other two years), while its number of renewal actions remains below average for the entire period.

To answer the fourth question, whether strategic renewal trajectories differ between firms or are similar on the country or industry level, we use the findings from the previous three questions. We can make three observations regarding differences and similarities in the strategic renewal process.

- The average ratio of external to internal actions in the strategic renewal journeys of large financial service firms is fairly constant *within* countries. Dutch financials are much more externally oriented than their UK counterparts, clearly suggesting the influence of *country effects*. In the Netherlands, ING deviates from the average.

- The average ratio of exploration versus exploitation actions in the strategic renewal journeys of large financial services firms is remarkably similar, both across the Netherlands and the UK. This similarity is probably caused by *industry influences*.

Table 3. Financial awareness indicator[i] and average number of actions (1990–97). Source: *Strategic Renewal Centre*

Company	Financial Awareness Indicator	Average Annual Renewal Actions
ABN AMRO	44.0 (1)[ii]	9.5 (1)[ii]
Aegon	18.4 (4)	3.3 (5)
Fortis	38.6 (2)	3.9 (4)
ING	28.6 (3)	7.8 (2)
Rabobank	15.9 (5)	4.4 (3)
Netherlands average	29.1	5.8
Barclays	18.0 (1)[ii]	17.1 (1)[ii]
Lloyds TSB	18.0 (1)	10.4 (2)
Prudential	13.6 (3)	5.6 (3)
UK average	16.5	11.0

[i] Measured by the relative number of text units regarding financial statements in the *Report* of the Board.
[ii] Rank within country.

Again, ING is the exception, being much more explorative than the other firms.

- Large financial service firms seem to differ in terms of the speed of their strategic renewal actions; more financially aware firms engage in a greater number of renewal actions.

To illustrate these findings, Figure 5 positions the Dutch and UK companies according to two strategic renewal dimensions, the horizontal axis showing the average external/internal ratio over the eight-year research period while the vertical axis depicts the average exploration/exploitation ratio. (Thus a position in the lower left corner of the plot would indicate a strategic renewal journey that is completely internally driven and exploitation-oriented, whereas a journey recorded in the upper right corner would be totally external and focused on exploration.)

Figure 5 illustrates that the strategic renewal journeys of the firms investigated in the Netherlands and the UK show strong similarities, but also interesting differences. All the Dutch firms were more externally oriented than the UK firms, which have concentrated their renewal efforts more on internal actions. Table 4 presents the division of banking versus insurance revenues of the eight firms, illustrating the comparative scope of the firms studied. Surprisingly, however, in spite of these differences in orientation and home markets, Figure 5 clearly reveals their common inclination towards exploitation—as opposed to exploration-based renewal.

Discussion

In this explorative article, we have investigated the journeys of strategic renewal of eight financial services firms in the Nether-

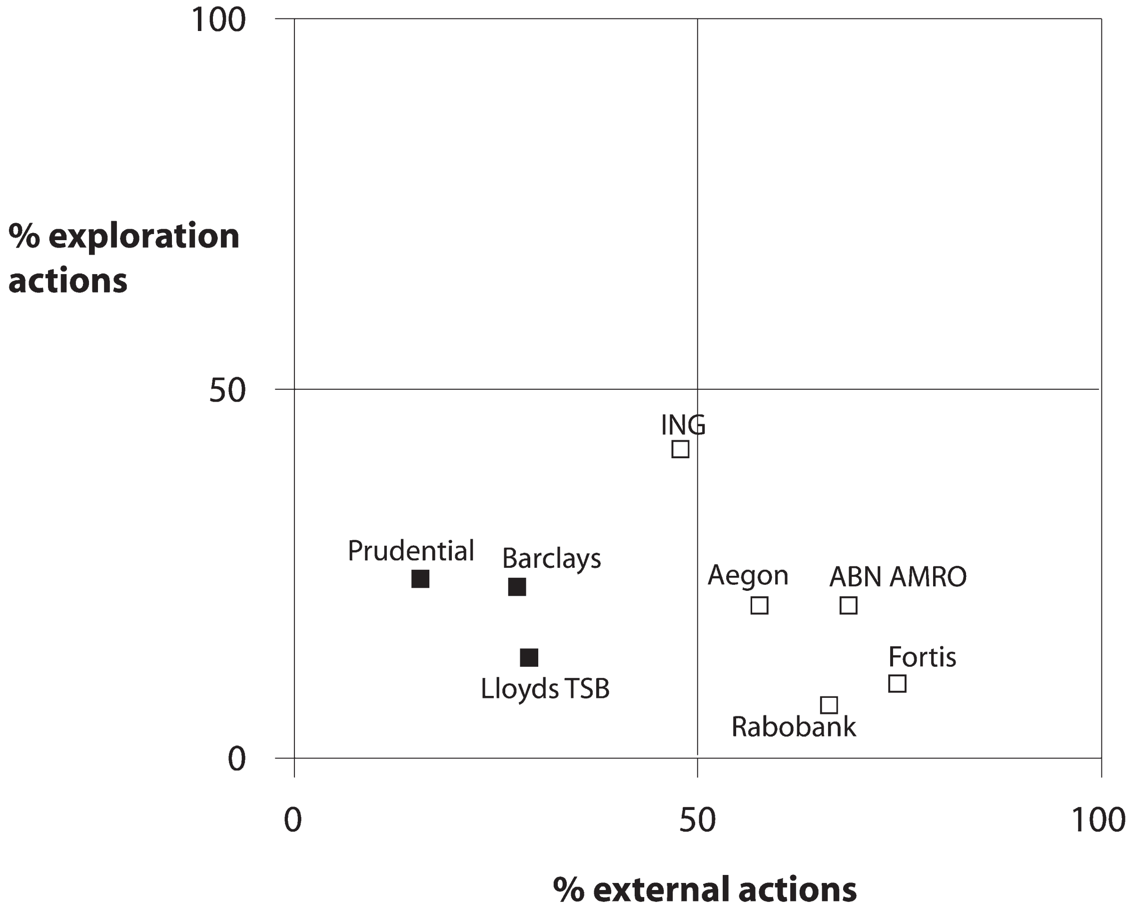

Figure 5. Average external/(external+internal) ratios vs. exploration/(exploration+exploitation) ratios (1990–97). Source: ***Erasmus Strategic Renewal Centre***

lands and the UK. The previous section showed similarities at both country and industry level ('herd behaviour'), but also some interesting differences that are suggestive of managerial choice.

Herd behaviour at industry level: similar exploration/exploitation ratios

From all our observations, two features stand out (see Figure 5 and Table 4). The first remarkable feature is that of the eight firms investigated, seven firms show on average rather similar exploration/exploitation ratios, suggesting an *industry specific* common mindset or shared managerial schema,[30] at least regarding the content of strategic renewal. Such convergence within the financial services industry and across two countries is largely unexpected since our sample includes insurance companies and banks from different sectors of the financial services industry, with different regulatory environments and different path dependencies. Moreover, the firms in our study differ in another important respect: one firm (Rabobank) is a cooperative whereas the others are joint stock companies. Yet despite these differences, seven out of eight firms have experienced a common pat-

Table 4. Division of revenues (banking versus insurance). Source: *Worldscope* (1997)

Company	Banking (%)	Insurance (%)
ABN AMRO	100	–
Aegon	5	95
Fortis	59	41
ING	21	79
Rabobank	92	8
Barclays	100	–
Lloyds TSB	92	8
Prudential	–	100

tern regarding the exploration/exploitation attributes of renewal actions.

Weick[31] suggests that we can infer beliefs from actions, and if this is so, our firms may share a common industry recipe,[32] dominant logic,[33] or top management mindset regarding exploration/exploitation renewal actions.[34] We did not evaluate whether the causes of similarity lay in features commonly ascribed to strategic groups[35] (such as an emphasis on exploitation), but we can say that they share a common industrial context, the financial services industry. This suggests that the impact of country effects on the prevailing management logics regarding exploration versus exploitation in the financial services sector may be limited.[30] It appears that 'herd' behaviour may play an important role in shaping patterns of renewal in the financial services industry: the fact that seven firms in our study preferred exploitation actions suggests such institutionalised behaviour.

The similarity of the actions in terms of balancing exploration and exploitation of the firms investigated sheds light on how managers try to cope with organisational inertia[36] and their historical legacy.[24] In terms of the resource-based view of the firm,[37] they appear to prefer leveraging their routines and resources over changing the routines and developing new resources and competencies.

Herd behaviour at country level: similar external/internal ratios within countries

A second significant finding is that four of the five Dutch firms (ABN AMRO, Aegon, Fortis and Rabobank) show a preference for using external over internal actions, while UK firms show the opposite predilection. The preference of external over internal actions among the Dutch companies is marked, with twice as many external actions as internal ones. In contrast, UK firms used twice as many internal actions as external ones. Although it is not surprising to find that firms differ in their use of internal versus external renewal actions, it is remarkable that discernible country effects contribute to the explanation of this phenomenon.

In considering this finding, we cannot be certain about the underlying mechanism of association as there are multiple potential explanations. Firstly, these differences may be a manifestation of differences in managerial attitudes and values stemming from cultural differences.[21, 22] A second explanation is that differences regarding the external/internal ratio are due to the national context. In the language of Porac, Thomas and Baden-Fuller,[38] the firms are 'co-located' in a national context and it appears that contextual variation[31] due to different national contexts might have a modifying impact on prevailing management logics.

it is remarkable that discernible country effects contribute to the explanation of this phenomenon

Finally, these differences may be the result of the distinct structure of the financial services sector in these countries, and their domestic economic cycles. In this regard, the Dutch sector is much more concentrated than the British sector. If Dutch companies want to grow, they need to go abroad; establishing a new branch network is not an attractive option because of the overbranched nature of many countries and because of considerations related to timing. Dutch firms often have no option other than acquiring or merging with another firm. While the same principles apply to the British financial players, they had to overcome a troublesome period in the early 1990s when economic downturn forced them to restructure their operations, which are typically internal actions.

Managerial choice: outlier behaviour and differences regarding speed

In terms of 'following the herd', a notable exception in our sample of companies is ING. This firm has a significantly higher than average exploration/exploitation ratio. A comparison of the development of the absorptive capacity (the capacity to absorb new external knowledge) of ING with the other four firms might be fruitful. Such a comparison might reveal that in the co-evolution of the firms' absorptive capacity and the knowledge environment of the financial services sector, ING is a special case.[39] It might be that ING's absorptive capacity is relatively higher than the other firms studied here, resulting in a higher exploration/exploitation ratio and more proactive strategic behaviour.

The firms considered here differ markedly in terms of their speed of renewal. Among the Dutch firms, Aegon averaged about 3 renewal actions per year as compared to about 10 per year for ABN AMRO, while similar differences also appear amongst the UK firms: Barclays has an average of about 17 actions a year, while Prudential's average is about 6. As described above, these differences were to some extent related to issues of financial awareness, but further research is required to evaluate longitudinally the relationship between speed and financial awareness.

Future research

In future research, we will extend our data analysis to several other European countries, in particular France, Italy, Norway and Sweden,[40] to investigate the proposition emerging from this article that the exploration/exploitation ratio is to a large extent determined by the industry context while the external/internal ratio is determined by the national context. If these propositions could be illustrated in empirical research in other European countries and across different industries, we will gain deeper insights into the determinants of herd behaviour.

Another issue for future research is the impact of distinct journeys of strategic renewal on performance. For instance, do explorative firms perform better than exploitative firms? What is the difference in performance between internally and externally renewing firms?

interesting patterns emerge that suggest influences at the industry, country and firm levels

Conclusion

All firms investigated have a large number of turning points in the use of external and internal actions and exploitative and explorative actions, although it is difficult to identify similar journeys of renewal. When averaged behaviour across time is investigated, however, interesting patterns emerge that suggest influences at the industry, country and firm levels.

- We found that exploration/exploitation ratios are fairly similar for firms across the industry, reflecting an industry-level 'herd behaviour' with respect to the content dimension of strategic renewal.
- At the same time, however, the external/internal ratios of Dutch and UK firms appear to be different, illustrating 'herd behaviour' at country level regarding the context dimension of strategic renewal.
- The process dimension of strategic renewal, measured as the speed of renewal, appears to be largely determined at firm level.

Consequently, our analysis suggests that industry-, country- and firm-specific factors influence strategic renewal in distinctive and complementary ways.[41]

These findings raise the important managerial question of whether there is one best path of renewal or, alternatively, whether there are many paths that reach the same goal. The results from our study show that firms can and do take multiple trajectories of renewal, although the direction might be quite similar. (Smith and Zeithaml[42] and Volberda[43] even showed multiple effective trajectories of strategic renewal within the same firm.) On the basis of our empirical data, therefore, we conjecture that firms have not found a single 'one best path' for achieving strategic renewal.

We are grateful to the firms investigated for providing annual reports and for the expert opinion that executives have been willing to share with us. Furthermore, we appreciate the research assistance of MSc/BA students Martijn Bax and Marten Stienstra. This research was funded by a special (IMPULS) endowment of the Board of Erasmus University Rotterdam to the Erasmus Strategic Renewal Centre.

We hope our research questions and preliminary answers have increased understanding about whether it pays to follow the herd, and if not, how and when firms might escape the herd and explore the world on their own.

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11. Nelson and Winter (1982) describe firms as repositories of

routines, which endow them with a capacity to search. Yet the same routines suppress attention span and the capacity to absorb new information by specifying behaviour which limits the search for new ideas to only those that are reasonable and consistent with prior learning. In a similar way, in the resource-based theory, the firm is seen as a bundle of tangible and intangible resources and tacit know-how that must be identified, selected, developed and deployed to generate superior performance (Learned et al. (1969); Wernerfelt (1984)). Teece (1984) has argued that a limited repertoire of available routines severely constrains a firm's available strategic choices. The suppression of choice is a condition for the exploitation of a core competence and many studies show that in highly competitive environments a core competence can become a core rigidity (Leonard-Barton (1992); Burgelman (1994); Barnett, Greve and Park (1994)) or competence trap (Levitt and March (1988); Levinthal and March (1993)). Firms develop core rigidities together with highly specialised resources in order to enhance profits at the price of reduced flexibility (Volberda (1996)). Consequently, Teece, Pisano and Shuen (1997) have suggested that organisational resources cannot be taken for granted and that therefore the firm must remain in a dynamic capability-building mode. See R. Nelson and S. Winter, *An Evolutionary Theory of Economic Change*, Harvard University Press, Cambridge, MA (1982); E. Learned, C. Christensen, K. Andrews and W. Guth, *Business Policy: Text and Cases*, Irwin, Homewood, IL (1969); B. Wernerfelt, A resource-based view of the firm, *Strategic Management Journal* **5**, 171–180 (1984); D. Teece, Economic analysis and strategic management, *California Management Review* Spring, 87–110 (1984); D. Leonard-Barton, Core capabilities and core rigidities: a paradox in managing new product development, *Strategic Management Journal* **13**, 111–125 (1992); R. Burgelman, Fading memories: a process theory of strategic business exit in dynamic environments, *Administrative Science Quarterly* **39**, 24–56 (1994); W. Barnett, H. Greve and D. Park, An evolutionary model of organizational performance, *Strategic Management Journal* **15**, 11–28 (1994); B. Levitt and J. March, Organizational learning, in W. Scott (ed.), *Annual Review of Sociology*, **14**, pp. 319–340, Annual Reviews, Palo Alto, CA (1988); D. Levinthal and J. March, The myopia of learning, *Strategic Management Journal* **14**, 95–112 (1993); H. Volberda, Toward the flexible form: how to remain vital in hyper-competitive environments, *Organization Science* **7**(4), 359–374 (1996); D. Teece, G. Pisano and A. Shuen, Dynamic capabilities and strategic management, *Strategic Management Journal* **18**, 509–533 (1997).

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19. Models of speed of response in strategic management come from reactions to crises (see Reference 18). Jensen (1989) argues that pressures from capital markets urge managers to undertake action. Generally, shareholder orientation is increasing as a result of globalisation pressures, but there is still significant variance across nations and firms (Gedajlovic and Shapiro, 2001). See M. Jensen, Eclipse of the public corporation, *Harvard Business Review* **89**, 67–74 (1989); E. Gedajlovic and D. Shapiro, National systems of corporate governance, business and the contemporary world, *Global Outlook* **13**(1), 1–17 (2001).
20. P. DiMaggio and W. Powell, Introduction, in W. Powell and P. DiMaggio (eds), *The New Institutionalism in Organisational Analysis*, pp. 1–38, University of Chicago Press, Chicago, IL (1991). DiMaggio and Powell (1983) focus on the influence of the institutional context on the organisational structure to explain organisational continuity and consistence. By elaborating insights of neo-institutional theory into a model to explain organisational changes, Greenwood and Hinings (1986) incorporate the role of human agency to illustrate the dynamic potential of institutional theories. To achieve long-term survival, they recommend a fast follower strategy, which prevents firms drifting away from the prevailing institutional template. See P. DiMaggio and W. Powell, The iron cage revisited: institutional isomorphism, and collective rationality in organization fields, *American Sociological Review* **48**(2), 147–160 (1983); R. Greenwood and C. Hinings, Understanding radical organisational change: bringing together the old and new institutionalism, *Academy of Management Review* **21**(4), 1022–1054 (1996).
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27. NUD*IST is the abbreviation of 'Non-numerical Unstructured Data Indexing, Searching, and Theorising'. It was developed by Sage to analyse qualitative, unstructured texts.
28. Our method allows us to categorise a large amount of information from various data sources, and to achieve a high consistency of coding reliability. We recognise that there are potential biases in our data. Firstly, we measure external and internal actions as well as instances of exploration and exploitation actions in terms of their number, and not their magnitude. This means that actions that have a large significance are weighted equivalently to those of lesser magnitude. While it may have been preferable to weight both external and internal actions as well as exploration and exploitation actions in terms of their magnitude, this was impossible as the *Financial Times* and the annual reports do not systematically report the present, let alone the expected future impact of these actions. On the other hand, since marginal activities are less likely to be reported than those of greater significance, any bias that does exist will result in the elimination of marginal projects rather than significant ones. Furthermore, since the marginal projects of all firms studied are subject to the same potential bias and since actions are evaluated in terms of their ratios rather than counts, interpretation problems caused by this potential bias are largely avoided. A second potential source of bias stems from the fact that the *Financial Times* became increasingly likely to report on the activities of Dutch financial institutions in the latter half of the sample period. As such, the actual numbers of actions are possibly under-reported for the early time period (1990 to 1994). Since this bias might pertain to all the firms studied, it is likely that cross-firm comparisons are less affected. On the other hand, this bias may have affected comparisons across time periods.
29. Financial reporting in the external disclosure of company information is a very important decision of the management team (Cools and Van Praag, 2000). Jensen and Meckling (1976) point out that it is a beneficial strategy for managers to decrease agency costs by committing themselves to pursuing the principal's interests. Managers can do this by communicating self-imposed (financial) targets to which they commit themselves. We thus chose to identify financial statements in the report of the board and determine the percentage of text units devoted to financial statements as a measure of financial awareness. See K. Cools and M. Van Praag, On the virtues of transparency and simplicity: an empirical

analysis of the value relevance of targets, paper presented at the *ASAC—IFSAM Conference*, Montreal, Canada (2000); M. Jensen and W. Meckling, Theory of the firm: managerial behaviour, agency costs and ownership structure, *Journal of Financial Economics* **3**, 305–360 (1976).

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37. See Nelson and Winter (1982) (see Reference 11).
38. J. Porac, H. Thomas and C. Baden-Fuller, Competitive groups as cognitive communities, in H. Daems and H. Thomas (eds), *Strategic Groups, Strategic Moves and Performance*, Elsevier Science, Oxford (1994).
39. F. Van den Bosch, H. Volberda and M. De Boer, Co-evolution of firm absorptive capacity and knowledge environment: organization forms and combinative capabilities, *Organization Science* **10**(5), 551–568 (1999); see also Lewin and Volberda (1999) (see Reference 1).
40. Case studies of European outlier firms regarding strategic renewal will be a collaborative effort co-ordinated by the Erasmus Strategic Renewal Centre. The principal investigators involved will be Bertrand Quélin (France), Carlo Carnevale (Italy), Mark Kriger (Norway) and Leif Melin (Sweden).
41. Our findings contrast markedly with extant theory regarding the balance of exploitation and exploration in long-run renewal journeys (see Reference 13).
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