Why Do Goliaths Fall?: Performance Referents in Successful Organizations

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ABSTRACT

Referents are standards of comparison that managers use to interpret organizational performance. In this paper, it is argued that managers holding identities of their firms as successful are subject to psychological processes influencing the content and stability of such comparators. While a number of different referents are implicit in many organizational perspectives, social comparison theory and temporal comparison theory are two cognitive viewpoints that provide insights into why some referents are preferred over others by executives of successful organizations. It is argued that the selective use of a small number of referents, and their associated effects on learning, is one factor promoting organizational decline. Implications for practicing managers and suggestions for future theory building are discussed.

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INTRODUCTION

A familiar Bible story tells the saga of a seemingly invincible warrior, Goliath. Goliath stood head and shoulders above his competition, and defied the army of Israel to find a sufficient champion to engage him in mortal combat. As the account continues, an unobtrusive shepherd boy, David, summarily defeats Goliath. At the time, David was much smaller than Goliath, younger, and had no experience in the combat arena. Like most soldiers of the day, Goliath viewed physical size and strength as the defining characteristics of a champion. Consequently, Goliath did not consider David to be a serious threat. However, a more careful analysis of David's boyhood achievements would have revealed his skill in using a slingshot to kill both lions and bears in the hill country of his youth. Goliath did not adequately interpret David's true athletic prowess and therefore underestimated David's combat potential.

Like the infamous Goliath, many successful organizations have fallen prey to the hands of apparently inconsequential competitors. Although both the business press and organizational research are replete with examples of such occurrences (eg, Fiegenbaum, 1992; Fingleton, 1995; Tushman and O'Reilly, 1996), scholars have yet to refine theory about why these episodes occur. We believe that an understanding about why successful institutions are in danger of falling into decline can be gained by exploring the performance referents used by their chief executives.

Understanding which benchmarks managers use is important because these cognitive elements play a central role in the process of organizational transformation. Gaps between performance and standards stimulate organizational learning (Cyert and March, 1963; Milliken and Lant, 1991). Before learning can occur and corrective actions taken, however, managers must recognize *and* correctly interpret 'bad news.' We believe that managers must overcome certain cognitive biases before they are able to identify sub-optimal performance.

In sum, the goal of this paper is to examine an element of managerial cognition that we believe helps explain why successful firms lose their dominance. Our perspective is that it is overly simplistic to say these firms were blindsided, or that 'management missed the boat.' Chief executives of leading organizations are bright people possessing intricate knowledge of their competitive landscapes. But clearly, something gets missed. In all likelihood, a complex array of determinants is responsible for organizational decline. Our aim is to highlight one area that we think is a piece of that puzzle. Subsequently, this paper draws on research in social cognition to (a) explain how psychological processes influence what performance referents are used by management of successful firms, (b) describe the effects of those referents on strategic actions and outcomes, and (c) suggest propositions that can be used to guide future empirical research.

THE ROLE OF REFERENTS IN COGNITIVE RESEARCH

Making decisions about strategic issues is perhaps the key duty of chief executive officers. Strategic issues are events and trends that impact the organization as a whole (Egelhoff, 1982; Thomas and McDaniel, 1990). Strategic issues are often ill-defined (Lyles, 1981), thus once an issue is recognized, it needs to be diagnosed before a response is taken (Dutton *et al.*, 1983). Accordingly, Thomas *et al.* (1993) demonstrate that addressing a strategic issue can be modeled as a process of scanning (ie, problem sensing), interpreting (ie, assigning meaning), and acting (ie, making a strategic decision). These processes in turn impact performance. By their own admission, however, these authors' contributions fell short of accounting for the cyclical nature of the process; undoubtedly, performance outcomes influence subsequent sense-making activities.

Performance does not come tidily packaged and labeled for executives to act upon. Instead, it must be interpreted through referents before actions are chosen. In addition to performance interpretation, referents are central to many aspects of organizational decision making. For example, executives considering strategy reformulation are purported to contrast their firm's strategy with that of rivals (Fiegenbaum *et al.*, 1996; Fiegenbaum and Thomas, 1995; Huff, 1982). Other key contrasts involve an organization's actions relative to its reputation (Fombrun, 1996) identity (Dutton and Dukerich, 1991; Gioia and Thomas, 1996), or the identity of similar firms in their industry (Peteraf and Shanley, 1997). Our focus is the performance referent, those benchmarks used by management to make judgments about organizational outcomes (Fiegenbaum *et al.*, 1996).

Despite limited research exploring which referents managers actually use, scholars routinely make assumptions about what referents managers should, or do, use. Some have advocated comparisons of an organization's returns relative to the stock market whereby success is gauged by investigating the firm's 'abnormal' returns (ie, those that exceed changes in the market) (Hill and Hansen, 1991; Woo *et al.*, 1992). The most common benchmark found in the literature, however, is industry average performance. In investigations of the effects of performance on strategic action, researchers routinely operationalize the referent construct as average return on assets (ROA) or equity (ROE). The assumption is that industry averages of these ratios are used by managers to determine whether their firm's performance is satisfactory (above the mean) or unsatisfactory (below the mean) (eg Bromiley, 1991; Fiegenbaum and Thomas, 1988; Milliken and Lant, 1991).

When scholars incorporate averages into their research designs, they presume the practice is reasonably descriptive of cognitive mechanisms at work among chief executives. This decision is an important one because it provides insights into how organizations learn from their actions. We address the relation between performance referents and learning in the following section.

ORGANIZATIONAL LEARNING

Referents influence strategic actions and performance through their role in the organizational learning process. Researchers who study organizational learning have long distinguished between low and high levels of learning (Fiol and Lyles, 1985). Through low-level learning, described as 'exploitation of the known,' organizations learn through trial and error and other experiences to refine existing processes and procedures (March, 1991). Higher level learning, described as 'exploration of the new,' is the process by which firms develop totally new practices or enter new environmental domains (March, 1991). All firms must 'exploit the known' in order to develop competitive advantage, but given that industry environments are constantly in flux, firms must also 'explore the new' so that they are not blindsided by new competitors, new technologies, and other changes in their competitive arenas. In fact, decline is most likely to occur when firms fail to emphasize the exploration of the new (Barr *et al.*, 1992; Hall, 1984; Kiesler and Sproull, 1982).

How organizations understand their competitive environments and judge their performance strongly influences which type of learning is pursued. Because performance interpretations are framed by referents, any particular referent has the power to either subvert or trigger the learning process. Managers of firms achieving favorable levels of performance, relative to their referents, are likely to persist with the status quo because they employ exploitation of the known, or low-level learning. On the other hand, performance levels which are deemed unsatisfactory relative to their chosen referents are more likely to instigate a problemistic search (Cyert and March, 1963) and exploration of the new, resulting in altered strategies.

In sum, deployment of higher versus lower level learning is reputed to have an important influence on a firm's ability to address change associated with today's competitive landscape. We believe that the type of learning management utilizes is a function of performance referents and their associated comparison processes. Next, we discuss two prevailing theories of comparison associated with performance referents.

THEORIES OF COMPARISON: A COGNITIVE APPROACH

A variety of theoretical frameworks might be used to explain managerial performance referents. For example, stakeholder groups play close attention to how performance is framed and measured. The firm's owners are likely to follow stock performance relative to the market and creditors will be interested in liquidity relative to industry averages. Thus, management must always be cognizant of assessments undertaken by vested stakeholders. Even while remaining vigilant to stakeholder expectations, however, managers have considerable discretion when framing organizational phenomena. Despite facing similar types of stakeholders and their demands, airline executives rely on different referents when depicting their 'on time' performance in 1999 annual reports. United reports their best performance in 13 years (internal referent), Delta and Southwest boast their reliability relative to the 'major' air carriers and Northwest relates its performance compared with 'major network' airlines (external referents). Hence, while stakeholders might influence which referents are utilized, it seems clear that other processes are also at work.

Different organizational perspectives have the potential to add breadth to understandings of performance referent use. In this paper, we draw on widely supported research about the referents used by individuals when making personal decisions. Although organizations as entities do not think, individuals comprising top management teams influence organizations through their concerted actions and leadership abilities (Kets de Vries and Miller, 1986). Consequently, the application of cognitive phenomenon to the study of organizations can be quite valuable (Gioia and Sims, 1986; Staw, 1991).

Social comparison theory offers one cognitive theoretical basis with direct application to executives' performance referents. Originally developed by Festinger (1954), social comparison theory asserts that individuals have an inherent need to evaluate their opinions and abilities. To accomplish this task, they seek 'relevant others' against which to base appraisals. The more salient the contrast, the greater the informative value provided to the decision maker. For example, management of a rural hospital might have data at hand to compare their performance with that of a large urban research facility. Such a contrast, however, would provide limited information because it lacks salience. Instead, they might find it more valuable to seek data on other rural hospitals who, they perceive, face similar types of challenges.

Individuals have considerable latitude when choosing among referents that are perceived to be salient. The airline example previously cited provides evidence that such occurrences happen in organizations as well. Festinger warns, however, about the danger of using inappropriate referents because unchallenging comparisons of one's abilities can lead to detrimental outcomes. For example, if individuals base their abilities against others who are markedly inferior, performance is unlikely to improve. The effects of inferior contrasts could also have daunting implications for organizations. Managers who frame their performance relative to that of lesser firms run the risk of having their positions stagnate, if not erode. In contrast, comparisons against superior individuals are likely to initiate problemistic search and change through higher level learning.

Temporal comparison theory provides a second cognitive basis relevant to managerial referents. Whereas social comparison theory focuses on the need of individuals to obtain accurate self-definitions at a particular time, temporal comparison theory concentrates on the need to establish an identity that endures over time through evaluations that turn the mirror inward. Without temporal comparisons, individuals 'would have no sense of who they are from moment to moment, no sense of memorial continuity' (Albert, 1977). Albert conceptualized temporal comparison as a *complement* to social comparison theory and sought to understand the decision contexts which promote temporal comparisons over self-evaluation through social contrasts.

The focus of attention highlighted by these two viewpoints suggests two primary referent sources that are drawn upon during interpretation and judgment of organizational decisions. Social comparison theory highlights the need to compare abilities externally to others, while the focus of temporal comparison theory is on internally based standards of comparison. Which referent source do managers of successful companies use? Consistent with research in social cognition, we propose that managers contrast their performance against the referents that are perceived to be most salient (Kulik and Ambrose, 1992; Levine and

Moreland, 1987). In the following sections we discuss the role of identity in elevating the salience of these contrasting sources of referents, internal versus external, to managers of successful organizations.

PERFORMANCE REFERENTS IN SUCCESSFUL ORGANIZATIONS

The thesis of our research is that managers of successful organizations hold strong identities of their organizations that activate unique judgmental biases. Organizational identity has been purported to have a profound influence on elements of decision making because its content acts as a perceptual lens (Dutton and Dukerich, 1991; Gioia and Thomas, 1996). Defined as features of the organization that members perceive as central, enduring, and distinctive, identity answers the question: 'What kind of organization is this (Albert and Whetten, 1985)?' Idiosyncratic characteristics embodied in identity act as a filter through which management understands their contexts (Gioia and Thomas, 1996) and has been shown to influence both attitudes and behavior within the organization (Dutton and Dukerich, 1991; Martin *et al.*, 1983). For example, organizations for which geography is an important dimension of identity are likely to rely on referents that are geographically salient. These might include hotels in Manhattan (Baum and Mezias, 1992) or regional banks (Reger and Huff, 1993). With respect to the identity dimension of success, management at McDonald's is likely to believe they are distinct given their unparalleled size, scope, and history. Indeed, McDonald's boasts they 'have created a uniquely successful company' (McDonald's annual report, 1999).

In sum, we believe that organizational identity should influence the array of referents management uses to interpret performance, and subsequently the strategic choices that are made. Stated formally:

Proposition 1: There is a positive association between key dimensions of an organization's identity and key dimensions of the referents used by management to interpret performance.

External Referents

It is widely believed that most managers find considerable salience in external referents, such as the performance of peer organizations in the industry (eg, Milliken and Lant, 1991). Contrasts of performance against industry-based benchmarks can be beneficial to young and/or struggling firms because their evaluations of success are gauged relative to the performance of established rivals. One may hope to increase skill level (Berger, 1977), or simply be inspired by the example of others (Brickman and Bulman, 1977). Ostensibly, executives of non-industry leading firms hope to emulate their superior rivals (Huff, 1982).

We expect that industry averages will be especially salient to managers of successful organizations. The process of comparison fills several goals, one of which is self-enhancement (Wood and Taylor, 1991). Comparisons with benchmarks at lower levels are done to build self-esteem (Affleck *et al.*, 1987). While contrasts against superior organizations might provide greater insights, comparisons against industry averages provides credibility to management's decisions and provides objective validation that the organization is a successful performer. Thus, contrasts can be chosen that are 'self-serving' because they put the firm's performance in as good a light as possible. Such bias has been widely discussed among social cognition theorists (eg, Streufert and Streufert, 1969; Wortman *et al.*, 1973) and research has found evidence of its use by top management as well (Clapham and Schwenk, 1991; Gooding and Kinicki, 1995).

In sum, we expect that firms for whom

the dimension of success is central and enduring, but not particularly distinct (ie, they are above average along with other successful firms), are biased to draw on social contrasts that include the industry average. Such benchmarks depict the organization successfully to stakeholder groups and reinforce the legitimacy of top management. Stated formally:

> ***Proposition 2:*** The less a firm believes their successful performance is unparalleled, the more likely they are to draw on performance referents comprised of industry averages.

Implications on learning and performance

Management might find industry contrasts appealing because they add credence to the centrality of 'successful' in identity. Downward contrasts, however, are by definition against inferior organizations. Because such contrasts result in a positive frame ('we're doing better than average') risk taking is avoided (Kahneman and Tversky, 1979). The processes of problemistic search and higher level learning are subverted in favor of exploitation of the known.

In rapidly changing environments, such contrasts can have deleterious consequences. For example, as recently as 1998, Compaq Computer's Eckhard Pfeiffer appeared to define his firm's performance relative to the computer industry. In that year's shareholders' letter, he boasted that 'in 1994 we achieved worldwide PC market leadership ... and in 1998 became one of the top three computer companies in the world.' That very year, however, would prove disastrous for Compaq. The firm's sales slumped as it struggled to survive with an outdated business model against innovative rivals including Dell and Gateway. Pfeiffer found himself replaced by Michael Capellas, who, in 1999's annual report, redefined Compaq as a struggling competitor in the Internet economy. Against that standard, Compaq's performance is clearly inadequate and widespread change is required.

In sum, we believe a firm's identity as 'successful' provides a lens that influences the process of performance interpretation. Management at successful companies is biased to rely on industry averages when judging their performance because such indicators bolster self-worth and validate past strategies. Unfortunately, if unchecked, the practice can trigger the onset of organizational decline.

Internal Contrasts

How might management's comparison processes change when a firm moves beyond an identity of successful and instead casts itself as an industry leader? That is, when the distinctive component of identity becomes especially strong. It is believed that externally oriented social comparisons *decrease* when identity strengthens because other people or organizations do not provide salient sources of information (Albert, 1977). We contend this is also the case for extremely successful firms, the 'Goliaths' of their respective industries.

Influenced by their strong sense of history and success, managers of industry leading firms are likely to believe their context is highly unique, making contrasts against average industry competitors not particularly salient. Firms who have successfully acquired a unique bundle of resources and capabilities that position them favorably in the market should correspondingly evidence a preference for internal referents (ie, past performance, previously determined goals based on past performance). Internal contrasts are cognitively appealing because the data are both available and relevant.

An exemplar of a Goliath firm who is inclined to rely on internal performance referents is McDonald's. Given its size and geographic scope, it would be difficult for McDonald's to judge performance relative to average competitors in the fast food industry. Instead, their identity as the industry leader has resulted in self-perceptions that their performance is distinctly unique among fast food purveyors. In evidence, a variety of internal referents are used to frame performance in Jack M. Greenberg's 1999 shareholders' letter, as highlighted in the following passage.

> '... setting ambitious goals, then achieving them, is a McDonald's hallmark — as our accomplishments in 1999 underscore. And what a year it was! In August, we proudly opened the world's 25,000th McDonald's here in Chicago — fittingly, just a few miles from where Ray Kroc opened our first restaurant. Our two largest geographic segments, the United States and Europe, generated constant currency operating income increases of 11 percent and 13 percent, respectively. Also, your Company generated more than $1.1 billion of free cash flow in 1999, a 29 percent increase over 1998.'

Greenberg acknowledges rivals by stating that McDonald's grows 'at a pace that leaves our competition trailing behind' but clearly dismisses them in the context of that statement. Indeed, he makes no reference to the leading competitors throughout the entire shareholders' letter, let alone the industry average, when describing McDonald's 1999 performance.

The McDonald's evidence is representative of how we believe firms holding industry leading identities frame their performance. Such firms are expected to be biased toward temporal, rather than social, contrasts because the propensity to rely on comparisons against others decreases as identity strength increases (Albert, 1977). In part, this may be because individuals having a strong identity believe that contrasts against others lack of salience. Past research has argued that managers viewing their situations as highly 'idiosyncratic' find it difficult to describe their firms in terms of key dimensions used to define the competitive positions of others (Reger and Huff, 1993). Consequently, the tendency to have a strong internal focus is especially strong in leading organizations (Levinson, 1994). Among these firms, success as a dimension of identity is not just central and enduring, it is perceived as highly distinct. Stated formally:

> ***Proposition 3:*** The more a firm believes their successful performance is unparalleled, the more likely they are to draw on temporal contrasts.

Implications on learning and performance

How might internal contrasts result in the fall of industry Goliaths? We previously described self-serving biases that influence performance judgments among successful firms. Such biases also influence sensemaking among industry leaders. For example, Elsbach and Kramer (1996) studied organizational members' response to *Business Week's* survey rankings of 'top-20' business schools. When threatened by dissonance between the *Business Week* ranking and the organization's elite identity, organizational members made sense of threats by changing referents to reaffirm their leading position, or denying the validity of the ranking altogether. Thus, organizations holding identities as industry leaders will reaffirm their identity by disregarding information that does not validate their lofty identity, and seek referents that confirm their elite self-perceptions.

Heightened self-efficacy among industry leaders can also be problematic. A history of successful evaluations creates overconfidence during strategic decision making

(Lindsley *et al.*, 1995). High self-efficacy promotes complacency and stability in decision processes (Silver *et al.*, 1995) in part because problemistic search is not conducted (Sitken, 1992). A spiral effect in self-efficacy is created, which may result in a feeling of invulnerability (Lindsley *et al.*, 1995). Hence, perceptions of success filter the interpretation of new information in such a way as to confirm previous success and thwart the beneficial effects of learning.

Finally, the theory of narcissism points to the jeopardy faced by industry leading firms. Based on the Greek myth of Narcissus, who fell in love with himself after seeing his reflection in a spring, narcissistic influences are evident at the individual, group, and organizational levels (Brown, 1997). Narcissistic traits include a tendency to overestimate abilities and accomplishments, claims of uniqueness, and a sense of invulnerability (Brown, 1997). These traits have been evidenced in overconfident CEOs (Hayward and Hambrick, 1997). McDonald's, for example, shrugged off the need for change through the mid-1990s because of their narcissistic tendencies. Asked if McDonald's would change in response to modifications in the fast food industry, CEO Quinlan responded, 'Do we have to change? No, we don't have to change. We have the most successful brand in the world.' (Leonhardt, 1998).

Another firm who has been accused of narcissistic decision making based on its leading status is General Motors. GM struggled in the 1980s because it presumed that its position allowed it to ignore not only rivals' actions but also consumer demands. Such actions led to its label as a 'dinosaur' and many questioned its ability to survive. Current management, however, recognizes the danger of such a narcissistic identity. Newly named CEO, G. Richard Wagoner, Jr. has commented that GM needs to 'keep an open mind to the outside world.' This has proven difficult because 'with our long term success, we're kind of inwardly focused.'

In sum, Goliath organizations that have performed exceedingly well in the past feel little incentive to 'rethink' their decision processes. Among other disadvantages, one outcome is that such firms demonstrate considerable stability, or inertia, in the array of performance referents they draw from. Subliminal decisions to ignore challenging external referents, coupled with a profound belief in their superiority limits the firm's ability to learn.

SUMMARY AND IMPLICATIONS

It is often said that 'nothing fails like success.' The story of David and Goliath was presented in the introduction of this paper as a metaphor to explain how leading firms might become eclipsed by their competitors. Goliath did not view David as a formidable opponent because his past successes led him to surmise that David's performance was not salient. Goliath viewed himself as a leader in his field, having few or no equals. Had he been less impressed with his own virtuoso, he might have been in a better position to evaluate his competition more accurately — and altered his fighting strategy appropriately. It is interesting to speculate where the world would be today had there been no King David.

Similar to Goliath, we suggested that degenerative cognitive processes can negatively influence managers' performance interpretations. Executives who have adopted successful identities for their firms may become overconfident through their habituated performance judgments. Like the fate that awaited Goliath, such managers run the risk of leading their organizations into competitive decline, or even demise. In this section, we describe implications of our assertions for theory building and for practicing managers.

Implications for Future Research and Organizational Decision Makers

One criticism of previous studies that can be drawn from this paper is that researchers have been too quick to operationalize industry averages when examining the linkage between frame of reference and strategic action (eg, Fiegenbaum and Thomas, 1988; Greve, 1998; Jegers, 1991). Conventional wisdom is that social comparisons using industry averages in performance judgments have both descriptive and prescriptive appeal. That is, not only do top managers routinely use industry averages, but that their objectivity renders them beneficial and enhances future performance.

What referents do managers actually use? Rather than rely on prevailing practice and academics' beliefs about what referents managers should use, the insights of top managers can provide an invaluable source of information concerning the referents that actually are used (Reger and Palmer, 1996). Other sources might include content analysis of annual reports (eg, Barr *et al.*, 1992; Fiol, 1995), in-depth case approaches similar to that employed by Dutton and Dukerich (1991) as well as panel data collected over a period of time from a small number of firms. Regardless of the research design, greater insights into managers' referents-in-use are called for.

We recognize that we have painted a grim picture describing decision-making pitfalls by managers at successful firms. The point we have tried to make, however, is not that internal or external referents are inherently troublesome. But, habituated use of either can cripple firms because their use is motivated by subliminal self-serving biases. Managers of leading firms work hard to maintain their current level of achievement and they may become myopic in the examination of their environment. Thus, it is important for chief executives to regularly evaluate whether the referents that validated previous success remain viable. Although mental models derived from past successes are clearly of value (Senge, 1990), firms can become vulnerable to their rivals if these referents become obsolete (Zajac and Bazerman, 1991).

Our focus has been on understanding why some firms stagnate because of their referent use. Not all successful firms, however, become incapacitated by the degenerative cognitive biases we have described. A number of factors might explain why managers of some leading firms are able to conscientiously discard the frames imposed by their habituated performance sensemaking efforts. First, social network theory would suggest that CEOs have the *opportunity* to learn from other executives through their business interactions. The bonds between executives of industry leading companies have been well documented (eg, Galaskiewicz, 1985). Managers of established organizations frequently sit on the same corporate, as well as civic, boards (Lauman and Knoke, 1989). Hence, mere regular interaction with other executives might provide keen insights about performance judgments.

A second factor influencing managers to broaden their referent horizon is one that also led to restrictions described throughout the paper: opportunism. Evidence suggests that executives rely on extensive social comparisons with other top performing firms when 'bidding-up' their salaries (Ezzamel and Watson, 1998). Hence, it appears that managers are capable of mentally crossing boundaries when self-interests motivate them to do so (Porac *et al.*, 1999). Thus, compensation systems can be used that foster vigilance by the top management team when engaging in performance interpretations.

A third explanation for a firm's ability to break traditional performance frames lies in qualities of the CEO. Research has suggested that managers with lengthy tenures tend to acquire a more internal perspective, making it difficult to consider alternative views (Hambrick *et al.*, 1993). In contrast, top decision makers who are new to a firm bring with them backgrounds, skills and understandings of organizational problems that differ from longer tenured managers (Barker and Patterson, 1996). When Sir Colin Marshall became CEO of British Airways, he believed he could transform the hapless company into the 'world's favorite airline.' This declaration was predicated on his realization that air travel is evaluated by consumers relative to other service providers, not transporters. Likewise, leading hospitals such as Johns Hopkins continue to flourish because they benchmark service relative to fine hotels, not other hospitals — let alone their past performance on that dimension. Finally, Häagen-Dazs' ascendancy in Europe was based on the realization that their product was about pleasure, not ice cream. Thus, it is clear to us that management at some firms have engaged in 'framebreaking' efforts to more accurately evaluate success and failure (Mitroff *et al.*, 1994).

What does framebreaking entail in the context of performance assessments? In essence, it leads managers to challenge mental models and look at their organization's performance in unique ways (Senge, 1990). Pragmatically, it requires executives purposely to avoid automated, habituated referents in favor of alternative, often atypical, performance standards that have the potential to cast organizational performance in a new light. Unfortunately, such behavior is uncommon. Strategic decisions, including performance judgments, are made under stress and include time constraints. Hence, despite sophisticated planning and decision support systems aimed at coercing executives into controlled processing (Louis and Sutton, 1991; Mason and Mitroff, 1981), automatic cognitive processing appears to be the dominant mode in strategic sense-making (Dutton, 1993).

There is little doubt that shifts from automatic to controlled processing can be highly beneficial. Managers using controlled processing reach quite different conclusions than decisions generated using old assumptions underlying automatic processing (Louis and Sutton, 1991; Reger and Palmer, 1996). During controlled processing, there is greater opportunity to revise judgments on the basis of pertinent environmental data (Fiol and Lyles, 1985). In contrast, habitually relying on familiar and over-learned automated scripts can lead to devastating circumstances for organizations and their stakeholders (Weick, 1990). The use of outdated performance referents during a period of drastic change is evidenced by the experience of Adidas who was blindsided by competitors in the 1970s. The market had shifted toward non-traditional buyers of athletic shoes. Had Adidas recognized that their impressive market share among professional sporting teams was irrelevant to future success, they might not have underestimated the power of smaller and newer firms such as Nike and Reebok (Hartly, 1986).

It is not our intent to suggest that automatic information processing is inherently 'bad.' Habituated mental maps ease decision making by guiding managerial action in familiar environments where little or no controlled processing is necessary (Dutton, 1993; Louis and Sutton, 1991). Managers with previous experience are likely to have well-calibrated estimates of their performance (Feldman, 1986). During periods of stability, familiar contexts do not necessitate frequent reinterpretation (Dutton, 1993; Louis and Sutton, 1991). In these situations, relying on habituated referents that have been gleaned from years of experience may result in highly accurate and efficient interpretations of performance that enhance subsequent strategic decisions.

When environments change, however, habituated cognitions can result in erroneous action (Reger and Palmer, 1996). If one believes in the presence of a new competitive landscape, then surely managers will face a terrain that is unlike what has been experienced in the past. Continued success of industry leaders will require halting spirals that contribute to a firm's overconfidence and complacency. Herein lies the role of unorthodox performance contrasts. Redefining success and failure can be accomplished by using performance measures that are able to better gauge future competitive position (eg, technological prowess, global acceptance), as opposed to those that systematically confirm past successes (eg, increase in sales).

CONCLUSION

Examining the actions that lead to successful performance is central to strategy research. We relied on research in managerial cognition to develop the nature of performance referents associated with firms' identities. We argued that executives of successful organizations run the risk of being influenced by degenerative psychological processes that can influence both the content and stability of their performance referents. The reliance on taken-for-granted benchmarks may prevent managers from getting a clear picture of their firm's true position. Thus, researchers and practitioners alike stand to gain from understanding both the referents leading to success and when those targets should be abandoned to avoid decline.

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