Change In The Presence Of Fit:
The Rise, The Fall, And The Renascence Of Liz Claiborne

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Abstract:
This paper proposes a new framework for studying the consequences of tight fit within a firm’s activity system on the firm’s ability to react to environmental change. A new classification scheme for environmental changes based upon their impact on internal and external fit is outlined. It is argued that fit-conserving change, which leaves the internal fit among activities intact yet decreases the appropriateness of the activity system as a whole (i.e., reduces external fit), poses a particularly difficult challenge for managers. To illustrate the framework, we conduct a longitudinal case study on Liz Claiborne, the largest manufacturer of women’s fashion-apparel in the U.S., from its inception in 1976 to early 1997.
The last years have seen a remarkable upsurge of interest in the concepts of interaction and fit. Within the management and organization literatures, the notion of fit has a long-standing tradition. In particular, the internal fit between the strategy and the structure of the firm (e.g., Chandler, 1962; Learned et al., 1965; Miles & Snow, 1984; Miller & Friesen, 1984) and the external fit between the structure and the environment of the firm (e.g., Lawrence & Lorsch, 1967; Pennings, 1987; Prescott, 1986; Thompson, 1967) have received much attention. During the late 1980s and 1990s, spurred by analyses of Japanese manufacturing methods, the topic of fit was revived. The emphasis shifted to study internal fit at a very fine-grained, detailed level of analysis. The importance of replicating entire systems of practices, including production, supply, and human resource policies, rather than single elements, was recognized (e.g., Hayes & Jaikumar, 1988; Jaikumar, 1986, 1989; MacDuffie & Krafcik, 1992; Nemetz & Fry, 1988; Parthasarthy & Sethi, 1992; Womack, Jones, & Roos, 1990). Expanding the concept of fit beyond manufacturing, and ascribing to it a central role in strategy formulation, Porter (1996) stressed the importance of mutually reinforcing activities in creating and sustaining a competitive advantage.

Over the same time period, economists, as well, have become interested in the issues of fit and interdependence among firm choices and have started to create mathematical frameworks which allow rigorous modeling of at least certain types of mutually reinforcing interactions (e.g., Milgrom & Channon, 1994; Milgrom, Qian, & Roberts, 1991; Milgrom & Roberts, 1990).

The common theme of these approaches is that to understand the performance of a firm, the firm must be analyzed as a system of interconnected choices: choices with respect to activities, policies and organizational structures, capabilities, and resources. Even though each individual part of a firm’s system might have an intrinsic value, it is only in the interaction with the other elements that we can understand the full benefits of each part. In other words, to understand the value of a system we cannot study each individual part in isolation and then try to “add” up.

While internal fit among choices can lead to a sustainable competitive advantage because it makes imitation difficult (Porter & Rivkin, 1998; Rivkin, 1998), the implications of tight fit on the sustainability of a competitive advantage in the presence of environmental change are ambiguous. On one hand, “firms
may have difficulty navigating a changing environment not only because the changes in the environment negate the value of the organization’s assets, but also because a tightly coupled organization may have difficulty adapting to such changes” (Levinthal, 1997: 936). Tight coupling requires a firm to modify many choices simultaneously, an inherently difficult task (Nadler, Shaw, & Walton, 1994). On the other hand, tight fit raises the incentive for management to optimally configure and adjust all of its choices. Since each choice influences the payoff of many other choices, the marginal payoff to adjusting each choice in response to some external change is increased in the presence of tighter fit (Porter, 1995). Moreover, tight fit can make a firm more sensitive to environmental change (Weick, 1976). Changes are quickly detected, since the repercussions are felt at multiple areas in the firm.

This paper presents a new framework for thinking about the relationship between fit and organizational inertia and throws empirical light onto the consequences of fit when a firm is confronted with environmental change. In line with the more recent literature on fit, we study fit at a very low-level of analysis—at the level of individual activities and resources. Recent studies analyzing firms at this level have employed a static, “snapshot-in-time” approach (e.g., Milgrom & Roberts, 1995; Porter, 1996). This static approach, however, cannot help us with the dynamic question of change. Moreover, this approach is problematic because it creates the misperception that firms which strive to create mutually reinforcing systems of choices appear to be engaged in a static optimization problem. In other words, it appears as if firms could devise their “optimal” and tightly-fit systems in toto and then remain at that status-quo—a highly unrealistic scenario.

To illustrate the framework presented below, this paper studies longitudinally how a firm has been able to construct a system of choices which displays a high degree of interconnectedness, and how the firm responded (or failed to respond) to environmental changes. In particular, we study the developmental journey of Liz Claiborne, the largest U.S. manufacturer of women fashion apparel, from its inception in 1976 to late 1997. We analyze the initial success of Liz Claiborne, the environmental changes it faced in the early 1990s, its first responses, and its subsequent actions in the late 1990s.
To study how a firm’s interconnected system of choices affects that firm’s ability (or behavior) when faced with environmental change requires a very detailed analysis of the firm’s activity system. As a result, to serve as a starting point for an inquiry into this issue, we chose to engage in an in-depth, longitudinal case study (Eisenhardt, 1989; Yin, 1984). This methodology has served well for gaining insight into complex and longitudinal issues such as strategy formation (Mintzberg & McHugh, 1985; Mintzberg & Waters, 1982), decision making within organizations (Eisenhardt & Bourgeois, 1988; Pettigrew, 1973), the resource allocation process (Bower, 1970), and the management of organizational and strategic changes (Child & Smith, 1987; Kimberly, 1979; Miles & Cameron, 1982; Pettigrew, 1985; Pettigrew, Ferlie, & McKee, 1992; Pettigrew & Whipp, 1991).

LITERATURE REVIEW AND CHANGE FRAMEWORK

Before we embark on the historical journey of Liz Claiborne, it will be helpful to review briefly the literature on organizational change that is concerned with changes of systems of interrelated parts. Following the review, we propose a new framework for thinking about the relationship between fit and organizational inertia given different types of environmental changes.

Logically prior to any theory about changes of systems of interrelated parts, is the notion that internal fit should not be thought of as pairwise associations between variables, but of gestalts or configurations describing sets of elements and their interrelationships (Drazin & Van de Ven, 1985; Hambrick, 1984; Khandwalla, 1973; Miller 1981, 1986; Miller & Friesen, 1978; Mintzberg, 1979; Nadler & Tushman, 1992). As Van de Ven & Drazin (1985) point out: “By focusing on fit in the overall system itself, rather than the specific forms of fit among individual pairs of variables, we may be able to capture and model fit more adequately” (p. 347).

While the literature on configurations has used the term “fit” to describe the internal relationship among activities, the contingency literature has used the term to describe the relationship between a firm’s choices and its environment. Both types of fit will become important in the change framework presented below. To avoid confusion, we will be careful in the following to distinguish between internal fit among
activities, i.e., whether a firm has a coherent configuration of activities, and external fit, i.e., the appropriateness of the configuration to the environmental situation of the firm.

Building on the idea that firms consist of systems of interrelated parts, Miller & Friesen (1982) analyze the change processes of these systems. They hypothesize and empirically find that quantum changes (changes in many attributes over a short period of time) yield better performance than piecemeal incremental approaches. Following a similar line of thinking, Tushman & Romanelli (1985) propose that firms follow a developmental path best described by a punctuated equilibrium model of organizational evolution. Firms engage in incremental changes during most of their history, yet sporadically undergo relatively rapid and fundamental transformations (Gersick, 1991). Empirical support of this developmental pattern has been provided by Tushman, Newman, & Romanelli (1986), Pettigrew (1987), and Romanelli & Tushman (1994).

Intimately tied to the process of change is the issue of inertia that firms display towards change. For the purpose of our discussion, we will focus on factors that may cause senior management not to respond to environmental changes.¹ Hambrick & Mason (1984) propose a helpful framework for understanding management inertia. In short, managers are thought of as having mental models which influence both the information that is perceived and the way information is processed. As a consequence, managers, especially those with long tenure, may be unable to “unlearn” outdated views of the world (Nystrom & Starbuck, 1984) and are caught in a competency trap (Levitt & March, 1988). We will briefly elaborate on the main concepts of this framework.

The idea of a mental map, or a cognitive base (Hambrick and Mason, 1984), which influences decision making, can be traced back to March & Simon (1958) who argue that each decision maker brings his or her own set of personal “givens” to a managerial or administrative situation. These givens define the decision problem as it appears to the manager and influence the decision process. Similarly, Kiesler & Sproull (1982) define the pre-existing knowledge system that a manager brings to a situation as a “schema.” Kiesler & Sproull (1982) suggest that only schema-relevant new information is perceived and
processed. Moreover, information about environmental changes that would indicate inadequacy of the schema is heavily discounted.

Past success, in particular, reinforces and eventually ossifies mental maps leading to increased inertia (Murmann & Tushman, 1997; Nadler & Shaw, 1994). Studies have found that past success leads to a reduction in information processing (Miller, 1993) and an increased belief that environmental changes are not going to affect the organization negatively (Milliken, 1990). Moreover, past success can lead to the accumulation of slack resources which reduce the perceived need to change (Milliken & Lant, 1991) and to the creation of a strong organizational identity or culture which has been found to increase the belief in the organization’s relative invulnerability to environmental changes (Milliken, 1990; Miller, 1994).

A similar (and often correlated) set of problems can arise from long tenure of senior management (Hambrick & Fukutomi, 1991; Miller, 1991). Empirical studies have shown that long tenure leads to increased commitment to the status quo (Hambrick, Geletkanycz, & Frederickson, 1993; Stevens, Beyer, & Trice, 1978), a greater likelihood of persistent strategies (Finkelstein & Hambrick, 1990), and executive teams whose members become very homogeneous with respect to experiences and interpreting environmental changes (Keck & Tushman, 1993; Weick, 1987).

In sum, a variety of psychological reasons has been described in the literature that lead to firm inertia. In this paper, we develop a link between the work on inertia and the previously described literature on fit. As described by Tushman & Romanelli (1985), inertial forces lead firms along a process of convergence to a specific configuration of strategic position and organizational form. The value of this process has been previously analyzed with respect to two different environmental conditions: stability and turbulence (Miller, Lant, Milliken, & Korn, 1996; Tushman & Romanelli, 1985; Tushman & Rosenkopf, 1996). As long as the environment is relatively stable, convergence, and hence inertial forces, are found to be beneficial. However, in turbulent environments inertial forces pose a liability (Tushman, Newman, & Nadler, 1988).

Rather than making the distinction between stable and turbulent environments, the framework we propose characterizes changes in the environment by their impact on internal and external fit. We believe
that this characterization scheme can offer some new insights into the (mediating) role that fit plays in the complex relationship between environmental changes and ensuing changes (or non-changes) at the firm level. In particular, the framework stresses the difficulty to perceive and to react to environmental change which *leaves intact the internal fit among elements within a firm’s activity system, yet decreases the value of the activity system as a whole, i.e., destroys external fit.*

For the following discussion, the notion of a “performance landscape” will be useful. The concept of a performance or fitness landscape was first developed in the realm of evolutionary biology by Sewell Wright (1932). The concept has been further developed and formalized by Kauffman (1993) and has found application in the study of organizational adaptation (Levinthal, 1997), technological evolution (Kauffman & Macready, 1995), organizational variety (Westhoff, Yarbrough, & Yarbrough, 1996), and the difficulty of imitating complex strategies (Rivkin, 1998). In our context, the performance landscape is a multi-dimensional space in which each dimension represents the values of a particular choice that a firm can take, and a final dimension that indicates the performance value. For illustration, consider a simple example in which a firm can make only two choices: the breadth of product variety and the flexibility of the production set-up. Imagine the breadth of product variety on the x-axis, the degree of flexibility on the y-axis, and the ensuing performance on the vertical z-axis. The performance landscape maps each pair of variety and flexibility onto a performance value (see Figure 1A). Similarly, for *N* choices, the performance landscape would attach a performance value to each set of *N* choices in a *N+1* dimensional space.

![INSERT FIGURE 1 ABOUT HERE]

Performance landscapes provide a suggestive way to illustrate the concepts of internal and external fit. External fit, i.e., the appropriateness of a set of choices to the environmental situation, is represented by the height of a particular point on the landscape. As shown in Figure 1A, certain combinations of flexibility and product variety lead to higher performance than other combinations. The “environmental
situation” encompasses all factors that affect the firm’s profitability (i.e., that influence a configuration’s value), e.g., competitors’ actions, customer preferences, and available technologies.

Consistency among choices, i.e., internal fit, is represented by a peak in the landscape. Internal fit corresponds to peaks, because changing any single element (and not changing any other element) within a consistent set of choices would lead to a decline in performance. For instance, the Ford mass-production system and the Japanese lean manufacturing system are two consistent sets of choices (Milgrom & Roberts, 1990). In our simple two-dimensional example, the mass production system is represented by low variety and low flexibility, while the lean production system is represented by high variety and high flexibility (see Figure 1B).

The shape of each peak contains further information: The stronger the degree of interaction among a particular set of choices, the steeper the associated peak. This feature results from the fact that in systems with tight internal fit, performance penalties of misalignments are particularly high because the value of many other choices is affected.²

The impact of time, i.e., environmental changes, can be thought of as changing the landscape: the height, shape, or location of peaks change, new peaks arise, etc. For instance, in the early 1900s, with the information and production technologies available at the time, the choice “low variety-low flexibility” could be implemented very efficiently: the Ford production system represented a high peak in the performance landscape, while the “high variety-high flexibility” choice was technologically very difficult (or even infeasible) to implement for mass production, i.e., represented a very low point on the performance landscape (Figure 1A). By the 1980s, the high variety-high flexibility choice had become technologically feasible; moreover, it provided substantial advantages in the marketplace. The landscape had changed: the value of the Ford production system had declined, while a new peak, the Japanese production system, had arisen and formed a higher performing set of choices (Figure 1B).

For a firm that occupies a peak, environmental change can affect both external and internal fit. Logically, we can distinguish four cases depending on whether external and/or internal fit is affected (see Figure 2).
1) **No change**: If neither external nor internal fit is affected, the environmental change has no relevance to the firm in question.

2) **Detrimental fit-destroying change**: If both external and internal fit are affected, the firm finds itself at a lower elevation (lower external fit) and located away from a peak (lower internal fit).

3) **Benign fit-destroying change**: In this potentially rare instance, the firm’s performance has not decreased, yet internal fit has been compromised by the environmental change. Graphically, the peak on which the firm was located moved slightly and increased in height (i.e., a nearby new opportunity arose). Thus, while the firm is not on the peak anymore, its location is still at the same height. The firm could, however, increase its performance by incrementally changing its system of choices and regaining internal fit.

4) **Fit-conserving change**: While internal fit has not been affected, external fit has decreased. In other words, the environmental change has left the internal logic of its system of choices intact while decreasing the appropriateness of the system.

<INSERT FIGURE 2 ABOUT HERE>

In sum, with **fit-destroying** change the firm no longer occupies a peak; with **fit-conserving** change, the firm still occupies a peak whose height has declined, however. The distinction between these two types of changes is important, since firms’ reactions to these two types of changes can differ significantly. After fit-destroying change, a firm will attempt either through local, incremental search, or through long-range search to change its activities in order to climb onto a new peak. A firm might react quickly in such a situation, since both its financial performance has deteriorated (in the case of detrimental fit-destroying change), and internal mis-fits can be identified. In other words, it is clear that something should be done, and there might exist at least some clues as to what should be done since various elements are misaligned. Moreover, for changes that only nudge a firm away from a peak, one can hypothesize that firms with a high degree of internal fit react faster than firms with loosely coupled systems. Since peaks are steeper for
firms with high internal fit, their incentive to find realignment is large. On a smaller scale, the lean production line is a good example of tight fit leading to fast response. The absence of inventory (or work-in-process) between individual work-stations creates a tightly coupled system. A problem at any work-station is detected very quickly, as the entire line comes to a halt. Moreover, incentives to improve each individual production step are high, since the cost of stopping the entire line is large (Womack, Jones, & Roos, 1990).

The situation is different, however, in the case of fit-conserving change: even though the firm’s financial performance has declined, no obvious misfits can be detected since the internal logic of the old system still remains intact. In this situation, a firm can react in three ways:

a) *Play the old game*: The firm does not change anything. It retains its old activity system, which still displays fit, yet continues to perform suboptimally. Graphically, the firm stays on its old and lower peak.

b) *Play an incomplete game*: The firm changes single elements in its activity system with the consequence of an even further performance decline, i.e., the firm moves incrementally away and down from its peak.

c) *Play the new game*: The firm changes a whole range of its elements in the attempt to find a new and higher peak.

The first two reactions, though being destructive, are easily defensible as managers continue to rely on their old mental maps. Within the landscape metaphor, the term mental “map” is particularly apt: the mental map can be thought of as the manager’s map of the landscape. Due to past experience, this map will be most precise around the current position and along past trajectories through the landscape. In *Play the old game*, managers continue to rely on and trust previously successful practices and choices. Moreover, managers may rightly point out that any incremental change would lead to a performance decline. This is the result of their systems already being fully aligned. In a sense, firms are held captive
by their existing systems—they have fallen into a competency trap (Levinthal, 1992; Levitt & March, 1988).

Managers who *Play an incomplete game* feel compelled to act, since performance has declined. Yet in this case, incremental changes lead only to further performance declines. For instance, the American automobile industry recognized that the height of the peak associated with their production system had decreased, even though the internal logic of the mass-production system was still intact. Yet, by copying only single elements of the Japanese production system, the American automobile industry played an incomplete game for many years which did not generated the hoped-for benefits (Hayes & Jaikumar, 1988).

Only through the third reaction, *Play the new game*, i.e., a comprehensive rearrangement of a potentially large part of its system of choices, can a firm achieve a significant performance improvement. Graphically, the firm locates itself on a new peak. Such an approach is, however, very difficult to undertake. It requires that managers perceive the systemic nature of the needed changes—the managers must have an idea of the location of the new peak. Moreover, they need to be willing to act on a broad scale, potentially contradicting some of their past actions. Thus, they have to overcome both their own behavioral “blind spots” (Zajac & Bazerman, 1991) and establish internal legitimacy of their actions (Romanelli & Tushman, 1988; Suchman, 1995). In addition, this broad set of changes has to be implemented successfully—a difficult undertaking as discussed in the organizational ecology literature on “core changes” (Hannan & Freeman, 1984; Singh, House, & Tucker, 1986). Lastly, these changes have to take place over a short period of time for the firm not to experience large performance deficits caused by misfits during the transition period (Miller & Friesen, 1982, 1984). As a result, managers of firms with tightly-coupled activity systems face a formidable task, both structurally and psychologically, to respond successfully to fit-conserving environmental change.³

The following case study illustrates the change framework. After providing a methodological note on the case research, we present a brief sketch of Liz Claiborne’s history followed by an analysis of Liz Claiborne’s success. We describe Liz Claiborne’s choices within five important stages along its value
chain: design, production and distribution, the selling process to retailers, the presentation of its
merchandise, and marketing. The section concludes with a description of the internal fit within Liz
Claiborne’s set of choices and a map displaying the interaction among the choices. To use the
terminology of the framework, we establish that Liz Claiborne was located on a peak. Moreover, we show
that the system of choices had high external fit given the environmental conditions at the time, i.e., Liz
Claiborne’s chosen peak was high. The environmental factors considered are customer taste and demand,
retailers’ requirements, and the available technology.

In the second section, we describe how these three environmental factors changed in the early 1990s.
In other words, Liz Claiborne’s performance landscape was shifting. More specifically, Liz Claiborne
faced fit-conserving change. The internal logic of its system remained intact, yet the external fit of its
system decreased. Moreover, a new peak, which involved a host of different choices with respect to
distribution and production, had arisen. Liz Claiborne’s management responded to the fit-conserving
change by playing an incomplete game: Liz Claiborne attempted to change partially its set of choices with
the consequence of a further performance decline.

In the third main section, we use the same five categories of choices (i.e., design, production and
distribution, the selling process to retailers, the presentation of its merchandise, and marketing) to
systematically describe the actions of Liz Claiborne’s new leadership team beginning in 1994 which
eventually moved Liz Claiborne to a new peak. This section concludes with another map, displaying the
particular choices and the interactions among them. In the final section, we provide further discussion of
the framework and outline future research opportunities.

Methodological Note

The data for the case study were obtained from several primary and secondary sources. Over a period
of 1½ years, between 1996-97, personal interviews, ranging from one hour to several hours, and shorter
telephone follow-up interviews were conducted with members of Liz Claiborne’s management team.
Interviewees included the CEO, the CFO, the Vice President for corporate planning, and several division
presidents. The tenure at Liz Claiborne of the interviewees ranged from 1 year to 10 years. After completing the fact-gathering from secondary sources (about 900 articles about Liz Claiborne in trade journals and magazines in addition to security analysts’ reports) and company documents (annual reports, 10Ks, and documents provided by management), a several-hour interview was conducted with one of the founders of the company (Chazen). Early drafts of the case study were circulated among Liz Claiborne’s management in addition to Chazen, all of whom provided additions and corrections on factual data in the case. Subsequent discussions with industry experts were used to confirm the outlined changes, in particular at the industry level.

**BRIEF HISTORICAL OVERVIEW**

Founded in 1976 with a starting capital of $250,000, Liz Claiborne reached revenues of $116 million in 1981, the year it went public. Five years later, Liz Claiborne became part of the Fortune 500 list, as the first company started by a woman. In 1989, *Fortune* Magazine reported that Liz Claiborne had achieved the highest return on year-end equity during the 1980s among all Fortune 500 industrial companies: its average return on equity had been 40.3%. In 1991, Liz Claiborne’s sales surpassed the $2 billion mark for the first time and its stock price reached record heights: in May of that year, an investment of $10,000 in shares bought at the initial offering had a market value of over $610,000 (see Table 1 for financial data).

Beginning in 1992, however, problems in Liz Claiborne’s performance surfaced. Its sales stagnated and its net income declined. Over the next three years, Liz Claiborne’s market capitalization dropped from $3.5 billion at the end of 1992 to $1.3 billion at the end of 1994. In 1994, Paul Charron, the former Executive Vice President of VF Corporation, was hired and became the new CEO at Liz Claiborne one year later. The implementation of a series of operational and marketing changes led to a marked increase in net income and to a renascence of Liz Claiborne’s stock. By May 1997, Liz Claiborne was trading close to a record high, giving it a market capitalization of $3.2 billion.
LIZ CLAIBORNE’S RISE

How had Liz Claiborne been able to achieve its remarkable success in its early years? In short, in the late 1970s, Liz Claiborne had identified a growing customer group (professional women) and had created a new market segment (a value segment between moderate and designer sportswear). Unlike the designers of many fashion houses, Ms. Claiborne designed apparel to fit the actual shapes of her customers. She had made a mark on the apparel industry with the pronouncement that “the American woman is pear-shaped” (Hass, 1992). Moreover, Liz Claiborne pioneered overseas-production for fashion items, thereby allowing it to offer its apparel at lower prices. Lastly, by presenting the lines of apparel as entire collections and enabling customers to mix and match within its collection, shopping for career clothes was greatly facilitated. As a result, Ms. Claiborne garnered the loyalty of her customers who considered Ms. Claiborne to be their personal friend, whose taste they could trust when it came to purchasing career clothes (Belkin, 1986). In the words of Liz Claiborne’s current CEO, for an entire generation of professional women, Ms. Claiborne provided the “imprimatur” on clothes acceptable to wear in the workplace.  

In the following sub-sections, we will describe in detail Liz Claiborne’s positioning and the choices its management took with respect to five stages of Liz Claiborne’s value chain: design, presentation of its merchandise, the selling process to retailers, marketing, and production/distribution choices. In the concluding paragraph of this section, we will illustrate the internal and external fit of these choices.

Liz Claiborne’s Positioning in a Growing Niche

Liz Claiborne took full advantage of the change in the demographics of the American workforce. In 1960, only 21.9 million American women were employed. By 1990, there were 53.5 million American women working, making up 45% of the workforce in the U.S. In the mid-1970s, as this process was unfolding, the professional woman had, however, not much choice with respect to career clothing. There was a large void between the classic dark-blue suit (e.g., Evan-Picone) and the haute couture of, for instance, Carol Horn. Ms. Claiborne, who had spent 16 years as a women’s sportswear designer at Youth
Guild, a division of Jonathan Logan, was aware of this increasingly expanding niche (Bratman, 1983). In 1976, after Youth Guild closed, Ms. Claiborne decided to pursue this opportunity together with her husband Arthur Ortenberg, a former consultant in the apparel industry. Within the first months they recruited Leonard Boxer, who had apparel production expertise and connections to overseas suppliers from running production at Susan Thomas Inc., and Jerome Chazen who knew the marketing side of the women’s sportswear industry. With this team of industry experts, Liz Claiborne enjoyed some up-front trust in the industry. Department stores knew Ms. Claiborne’s design skills and were willing to give her coveted floor space (Bratman, 1983). In its first year, Liz Claiborne was already generating $2.2 million in sales and operating with a profit.

**Design Choices**

In 1980, Ms. Claiborne described her offerings as “classic enough that a woman can wear them for several years. They aren’t moderate in price, but aren’t exorbitant, either” (Ettorre, 1980). In her first collections, no item sold for more than $100. While the clothes did not fit the formal “Dress for Success” mold, they were not too far-out to be worn to the office. At the same time, customers perceived the moderately priced Liz Claiborne label as a competing name against top designers whose clothes cost more than twice as much (Byrne, 1982).

Ms. Claiborne had two goals in mind. She wanted to provide high value to her customers, and she wanted to make shopping easier (Bratman, 1983; Hyde, 1985). It turned out that both could be achieved by an innovative kind of “color-by-the-numbers fashion” that saved the customers both time and anxiety (Traub & Newman, 1985). Ms. Claiborne designed clusters of skirts, shirts, blouses and sweaters that could be mixed and matched. More precisely, each season’s line comprised four to seven concept groups, each of which consisted of a balance of items such as blouses, shirts, skirts and pants. Within each concept group, the mix-and-match design was practiced—i.e., each group told a different “color story.” Customers could put together an outfit not only in terms of the total look but also sizewise, by choosing different sizes for tops and bottoms, thereby avoiding the need for alterations. Moreover, sizes were the
same across styles, and colors never changed: navy blue remained always navy blue, so that a jacket bought in one year still matched a skirt or blouse bought two years before.

**Presentation Choices**

From the beginning, Liz Claiborne focused on selling its merchandise in better department stores (Rudnitsky, 1984). In 1994, Liz Claiborne’s products were offered in more than 9,500 locations in the U.S. and Canada, yet its four largest customers (Dillard’s, May, Macy’s, and Federated Department Stores) accounted for 44% of its sales. For the end-customer to reap the benefits of Liz Claiborne’s mix-and-match design, it was important that the collection was presented together and not split up. Hence, Liz Claiborne pushed for a new presentation format at its retailers (Blueweiss, 1987). While department stores were traditionally organized around classifications, such as blouses and pants, Liz Claiborne required a dedicated space to present its entire collection. Liz Claiborne was actually not the first company that tried to convince retailers to present an entire collection. Chazen had learned that Evan-Picone had put together a small collection of very classic merchandise and had received small dedicated areas from department stores. By and large, however, “retailers were not sure what to do with these collections and were looking for a complementary resource which would allow them to enlarge the floor space dedicated to collection presentation.” Consequently, retailers were willing to listen to Chazen as he tried to convince them to present Liz Claiborne’s merchandise as a collection.

To help retailers with the presentation of the collections, Liz Claiborne distributed “Claiboards” or “Lizmap diagrams” which included sketches, photos and printed explanations showing how merchandise should be displayed in groups (Daria, 1984). Other innovations included simple measures such as naming the groups and attaching these names to hangers, thus allowing customers to quickly see which pieces of apparel belonged to each group. Moreover, a dedicated staff supported the retailers: Over 20 consultants traveled throughout the country to ensure that clothes and displays were arranged in department stores correctly. These consultants were also engaged in product information seminars for the department stores’ sales personnel. In addition, 150 retail specialists, who were employed by the stores in which they
worked, yet who received training from Liz Claiborne, helped with merchandise presentation, provided instruction for sales help and relayed customer feedback to Liz Claiborne’s headquarters (Better, 1992).

Creating dedicated areas for Liz Claiborne merchandise was a first step towards gaining control over product presentation. Beginning in 1987, Liz Claiborne took its efforts towards product presentation one step further. In the Boston flagship of Jordan Marsh, Liz Claiborne opened its first store-within-a-store. The 7,200 square foot “LizWorld” shop housed Liz Claiborne’s full range of merchandise: Liz Collection, LizSport, LizWear, dresses, accessories, shoes, hosiery, eyewear and fragrance. Within the next years, Liz Claiborne set up over 200 concept shops within department stores. Moreover, since these shops increased business for retailers, Liz Claiborne had successfully argued that the department stores cover the costs for these concept shops. Liz Claiborne’s Accessories division copied the presentation format and introduced its first concept shop within a department store in 1990. The shop featured a full range of handbags and small leather goods, while Liz Claiborne’s latest fashion looks—fully accessorized—decorated the walls.

Selling Process

Since Liz Claiborne believed its merchandise had the greatest impact if presented as a collection, it rejected department store orders when the department stores were not willing to present the Claiborne line the way Liz Claiborne saw fit. For instance, department stores always had to buy a proper ratio of tops to match its order of bottoms (Belkin, 1986). Moreover, buyers were required to purchase an entire group, i.e., they could not pick and choose among the garments shown (Sales & Marketing Management, 1987).

Along with its emphasis on large, up-scale department stores, Liz Claiborne never had a road sales force, making it the only leading garment house in the country that functioned without one (Birmingham, 1985). Retailers who wanted to look at the new Liz Claiborne line had to come to the showrooms in New York, where they were welcomed by a 80–90 person sales force who won in 1987 the title of “America’s Best Sales Force” from Sales & Marketing Management magazine. Its centralized selling location enabled Liz Claiborne to establish relationships at a higher level than otherwise possible. Chazen explained: “On the road a salesman is lucky if he sees the buyer. But when retailers come to New York, top management
often comes to see the market” (Skolnik, 1985). As a result, while store buyers still placed the orders, every major store president in the country visited Liz Claiborne several times a year and met with Liz Claiborne’s management.

Liz Claiborne not only demanded the purchase of entire groups, but it had also a rigid non-cancellation policy: if spring merchandise did not sell well in stores, retailers could not cut previous orders for the summer line (Better, 1992). Liz Claiborne created further leverage by pursuing a strict production policy of manufacturing about 5% less merchandise than there was demand (orders) for (Hass, 1992). This policy had two effects. First, it increased Liz Claiborne’s sell-through (percentage of clothes that were sold at full price), which some industry observers pegged at 75% as compared to an industry average of 50% (Deveny, 1989). Second, the policy created a climate of fear among its customers, giving Liz Claiborne a credible weapon to ensure that its desires, e.g., with respect to retail-presentation, were met.

**Customer Contact and Marketing**

Despite being a company that had no direct retailing contact with its end-customers, Liz Claiborne sought feedback from its customers. While its consultants and retail specialists talked to customers on a daily basis, they also arranged, during so-called “LizWeeks,” in-store events for the career woman, such as full-blown fashion shows in which 25–30 outfits were shown, or “breakfast clinics” during which women had the chance to see the newest collection and to shop before they went to work. In total, Claiborne sponsored over 100 in-store events each month across the country (Bizer, 1987).

In addition, Liz Claiborne established a Point-of-Sales data collection system in 1985. Its Systematic Updated Retail Feedback (SURF) system provided management with details on clothes sold in 16 representative stores around the country (Skolnik, 1985).

Due to its high name recognition and extensive coverage in the editorial pages of many fashion magazines, Liz Claiborne was able to refrain from running expensive corporate advertising campaigns.
Moreover, the absence of splashy, “fantasy-driven” advertising campaigns fit well with Liz Claiborne’s image as a “trusted friend.” All its products were presented in co-op ads with local department stores.

**Production and Distribution Choices**

Since its inception, Liz Claiborne had contracted out the production of its merchandise. Moreover, it was one of the first big apparel makers in the 1980s to outsource production across the globe—mainly into Taiwan, Hong Kong and South Korea (Ferraro, 1991). In its first year of operation, Liz Claiborne had used exclusively domestic manufacturers, but encountered problems. The domestic suppliers were inflexible and unwilling to work with Liz Claiborne’s new designs. Since Leonard Boxer had experience in apparel assembly in the Far East, he started to move production overseas. While in 1982 Liz Claiborne was still sourcing about 50% of its merchandise domestically, by 1994 only 14% of its merchandise was produced in the U.S. Liz Claiborne had contracts with over 500 suppliers in 38 countries, with most of its suppliers being situated in China, South Korea, Sri Lanka, Hong Kong and Indonesia. Twenty-four percent of its purchases were manufactured by its ten largest suppliers, with none of its suppliers accounting for more than 5%.

Liz Claiborne’s direct engagement in production was limited. While it provided some support to contractors, it did not engage directly in production. In 1992, Liz Claiborne opened its first major production enterprise, a 270,000 square foot plant in Augusta, Ga., turning out annually 500,000 to one million pounds of cotton circular-knitted fabrics (jerseys, fleeces and other types). One advantage of local production lay in response time: while this factory was able to fill an order in 20 to 25 days, it took Liz Claiborne’s Asian suppliers often as long as 60 days plus shipping (Lee, 1994).

Liz Claiborne also differed from its competitors with respect to how often it offered its merchandise to its retailers. The apparel industry was used to a four-season buying cycle. Liz Claiborne, however, “invented” two more seasons, pre-spring and pre-fall to let stores buy six smaller inventory batches of fresh merchandise instead of four larger ones (Rudnitsky, 1984). While reducing inventory costs for the stores, this choice also helped Liz Claiborne’s suppliers, who operated more efficiently with two extra
cycles filling their slack periods. In addition to offering two more collections, Liz Claiborne offered the collections later than their competitors with the intent that clothes appropriate for the current season were available in the stores (Birmingham, 1985). Thus, instead of delivering fall goods in July, the company would ship them in late August and September. In other words, Liz Claiborne offered a new season every two months, with, for instance, the clothes delivered in January and February intended to be sold and worn during February and March.

**Internal and External Fit**

As described in the previous sub-sections, Liz Claiborne’s goal of dressing the professional woman with products that provided high value was implemented with a series of choices that particularly suited its strategy. To systematize the analysis, we grouped Liz Claiborne’s choices into five categories: design, presentation, selling, marketing, and production/distribution. Figure 3 summarizes the choices within each category and displays the interactions among the choices. The following discussion elaborates on several of the interconnections indicated in Figure 3, showing the high internal fit among Liz Claiborne’s choices. A discussion of external fit is provided in the second half of this section.

Liz Claiborne’s mix-and-match design could only be appreciated if the entire collection was presented together. Hence, it was important (and valuable) to push for a collection rather than a classification presentation. Also note, that once a collection presentation was in place, the returns to a mix-and-match design were increased. Thus, formally, collection presentation and mix-and-match design were complementary (Milgrom & Roberts, 1990). The collection-presentation format was supported by a host of other choices, such as concept shops, LizBoards, retail associates, sales consultants, and LizWeek department store presentations. Again, a complementarity existed: the value of these activities was increased by the presence of a collection presentation, while at the same time, the value of the
collection presentation was increased by the support activities. Similarly, the apparel could provide its “mix-and-match value” only if the department store carried the full collection.

In this light, one can understand Liz Claiborne’s strict policy of selling only complete groups to its customers. An incidental effect of this requirement was that end-customers always saw a full collection in the department store, which strengthened confidence in the brand and increased perceived value in the eyes of the consumers. A consequence of this vending policy with respect to Liz Claiborne’s sales organization was that Liz Claiborne had to focus on large buyers. In addition, success with such an inflexible order policy necessitated a high level of trust in its customers. Liz Claiborne’s decision to sell only in its New York show room addressed these concerns. On one hand, senior department store management would come to New York to establish the required trust. On the other hand, the lost customers, i.e., those that would not be willing to afford the trip to New York, were small customers who were not able to buy a full line anyhow. The trust level was further bolstered by an expert sales force and its SURF system, which provided a closer touch to end-customers than most other apparel designers could offer at the time. Lastly, Liz Claiborne’s decision to offer six collections a year alleviated the inflexibility of being required to buy full lines, since a larger number of lines was offered. The ability to choose from six lines also lessened the impact of Liz Claiborne’s no-cancellation policy. Due to the two extra lines, each order was smaller than would have been the case otherwise. The no-cancellation policy, in turn, made long-term planning possible, which was important for Liz Claiborne’s overseas sourcing strategy. Since its overseas supply had longer lead-times and was unable to react quickly to demand changes, a steady demand was beneficial. In return, Liz Claiborne could provide high value (and achieve high margins), due to the lower production costs of its overseas suppliers.

Since Liz Claiborne focused on large buyers, there was a potential risk of being squeezed by its customers. By following a strict underproduction policy, however, Liz Claiborne retained leverage over its customers. Moreover, this strategy had beneficial side-effects. By producing slightly below demand, the sell-through was increased, which meant that Liz Claiborne merchandise was less frequent (or in lower quantities) on sale. This, in return, fortified Liz Claiborne’s “every-day value” claim.
It is important to note that Liz Claiborne’s set of choices contained tradeoffs. Its decision to use mainly suppliers located in the Far East, and to invest little in design, distribution and information technology all helped to keep costs down, yet led to three disadvantages: a) it generated long lead times between the start of the design to the delivery of the finished product, b) retailers could not reorder, and c) no production could be made to order.

In evaluating the severity of these disadvantages, the external fit of Liz Claiborne’s set of choices becomes apparent. All disadvantages were alleviated by external factors: customer demand, retailers’ requirements, available technology, and competitors’ strengths. First, the impossibility of reordering was not crucial, since Liz Claiborne faced high customer demand mainly for fashion apparel that was not reordered anyway. Second, the health of Liz Claiborne’s primary retail channel, department stores, was relatively solid during the 1980s. As a consequence, department stores were not (yet) concerned with reducing inventory which would have put pressure on Liz Claiborne to offer reordering. Third, the information and design technology that would allow an efficient reordering system coupled with shortened design cycles was only in early stages of development. As a result, there did not exist a feasible alternative set-up (in other words, a different peak) with which competitors could attack Liz Claiborne’s position. Yet, imitating Liz Claiborne, i.e., trying to climb the same peak and competing on the same terms, was very difficult, because the entire system of choices would have to be duplicated (Porter & Rivkin, 1998; Rivkin, 1998). Consequently, Liz Claiborne enjoyed a strong competitive position which enabled it to easily sell the majority of its output. In turn, with “guaranteed demand,” long lead times and no production-to-order did not pose a problem.

In sum, Liz Claiborne’s choices showed high internal fit and—given the environmental conditions at the time—high external fit: In the 1980s, Liz Claiborne had positioned itself on a high peak in the performance landscape. However, during the late 1980s and early 1990s, changes in customer demand, retailers’ economic health, and technological advances reduced the external fit of this coherent system: the height of Liz Claiborne’s peak started to decrease while a new peak arose in the performance landscape.
LIZ CLAIBORNE’S FALL

Changes in Customer Demand and Product Portfolio

By the early 1990s, the trend towards “casualization” of the workplace had picked up momentum—a development which Liz Claiborne had first underestimated. More and more companies allowed their employees to dress casually, yet customers could not find an attractive assortment of Liz Claiborne apparel to fulfill this need. Liz Claiborne eventually responded to this shift in customer demand and increased its offerings in the casual and more basic categories. In addition, in May 1992, Liz Claiborne acquired for $31 million Russ Togs, Inc. which had filed for Chapter 11 protection the previous November. Russ Togs manufactured moderately priced women’s sportswear under the Russ Togs and The Villager labels. The acquisition was intended to take Liz Claiborne into national and regional chain department stores and the moderate areas of traditional department stores.

While these shifts in its product portfolio appeared to be natural responses to changes in customer demands, the shift in the product portfolio had far-reaching consequences: Liz Claiborne increased the number of apparel categories in which reordering had become a convenience offered by many competitors, yet Liz Claiborne was not set up to offer efficient reordering.

Changes in the Retail Channel

During the late 1980s and early 1990s, the industry of Liz Claiborne’s main distribution channel, i.e., traditional department stores, underwent wrenching change. Several hostile takeovers and leveraged buyouts stretched the liquidity of many department store chains often to the point of bankruptcy. The most prominent examples of this development included Federated Department Stores which filed for Chapter 11 protection in January 1990, R. H. Macy which declared bankruptcy in January 1991, and Carter Hawley Hale which filed for bankruptcy protection in February 1991. As a result, department stores tried to save cash wherever they could.

First, department stores cut down the retail support they provided to their vendors. For instance, much less attention was spent on the presentation and restocking of goods on the department store floor. Liz
Claiborne, being accustomed to having retailers pay for concept shops and presentation support, failed to compensate for this deficit. Since careful presentation of Liz Claiborne’s apparel as a collection was essential to its value proposition, the deterioration of shop-floor presentation was particularly detrimental for Liz Claiborne.

Secondly, department stores demanded larger discounts from their vendors. Similar to its unwillingness to pay for retailing support, Liz Claiborne refused to cut prices. Past success had created a belief of infallibility coupled with a tinge of hubris at Liz Claiborne, like at many other successful companies (Miller, 1994). In 1989, Jay Margolis, Liz Claiborne’s top executive next to the remaining founders of the company, had proudly proclaimed: “We like to think of ourselves as the IBM of the garment district” (Deveny, 1989). Liz Claiborne’s strong internal culture—the company directory still listed its employees alphabetically by first name—had created a belief in the organization’s relative invulnerability to environmental changes (Milliken, 1990). Moreover, negative performance was frequently attributed to external factors rather than to internal problems, another common pattern for firms responding to downturns (Bettman & Weitz 1983; Ford, 1985). A former Claiborne executive commented: “If the product didn’t sell, it was always someone else’s fault. The buyer didn’t show it right, or it wasn’t delivered the right way” (Caminiti, 1994). Yet with sagging sales and with lower margins compared to other vendors, Liz Claiborne’s apparel became less attractive to department stores and received even less attention and eventually less floorspace from retailers.

Third, to alleviate their liquidity problems, department stores aggressively pursued a decrease in their inventories. Increasingly, department stores demanded that manufacturers offer an option to reorder items, in order to avoid buying in bulk and having to store merchandise in their stock-rooms.
The Old Peak Declines and a New Peak Arises

In addition to the need to offer reordering that was now not only possible but also demanded by retailers, Liz Claiborne faced new competitors that employed a different production paradigm allowing them to offer reordering efficiently. Improvements in information, design, and production technology, as well as the spreading of standards in bar-coding and point-of-sales-terminals, had made short reordering cycles, shorter design cycles, and partial production-to-order economically feasible (Abernathy, Dunlop, Hammond, & Weil, 1995). In other words, technological changes had created a new peak in the performance landscape that required a different set of choices. For instance, Jones Apparel, one of Liz Claiborne’s strongest new competitors, sourced 55% of its products domestically, as compared to 14% for Liz Claiborne (D’Innocenzio, 1994). This sourcing strategy in addition to heavy investments in design technology allowed Jones to react quickly to new trends in the marketplace.

At the same time, with demands of retailers and customers shifting, Liz Claiborne’s set of choices, while still internally consistent, had become less appropriate to the environment. Liz Claiborne’s disadvantages, in particular long design cycles, no reordering, and no production-to-order had become more costly. While in the 1980s these disadvantages were small given Liz Claiborne’s product portfolio, the requirements of retailers, and the high costs of a leaner production model, the disadvantages had grown in the 1990s: the height of Liz Claiborne’s peak had declined.

Playing an Incomplete Game

In 1991, faced with increasing demands of retailers to offer reordering, Liz Claiborne initiated a reordering program for items in its casual division. Liz Claiborne’s management followed the path described in the change framework as playing an incomplete game: Liz Claiborne changed single elements in its activity system with the consequence of a further performance decline. The firm moved down from its local peak to even lower performance.

The only elements of “quick response”—as these reordering programs became known in the apparel industry—that Liz Claiborne duplicated were the ability of department stores’ buyers to submit their
orders electronically and the promise to fill orders within two weeks. On the production side, no changes were implemented. Liz Claiborne produced a warehouse full of merchandise and then sold off the inventory as orders came in. Since inventory costs did not enter Liz Claiborne’s profitability measurements, the inefficiency of this reordering process remained financially hidden. Moreover, past success had created a “buffer” of $300–$500 million in cash and securities on Liz Claiborne’s balance sheet (see Table 1). With this buffer, Liz Claiborne never experienced liquidity problems that could have resulted from having funds tied up in inventory. Slack resources had reduced the necessity for Liz Claiborne’s management to act upon this inefficiency—a common pitfall of past success as pointed out by Milliken and Lant (1991).

In addition, by allowing department store buyers to place orders (rather than having a vendor-driven continuous replenishment program), the volume of orders had large swings which caused Liz Claiborne to be either unable to fill an order, or to increase its inventory even further. Moreover, department store buyers whose allotted purchasing budget was exhausted, often would not reorder at all—even styles which had been sold out—thus leaving popular styles out of stock.

As Figure 3 illustrates, the choice of “no-reordering” was intimately tied to many other choices Liz Claiborne had made. Simply to offer re-ordering to retailers without further changes in the system as a whole was bound to create problems. As Hammond (1993) outlines, partial production-to-order and a shortened product development cycle are necessary to pursue a quick-response strategy efficiently. Otherwise, inventory at the manufacturer starts to accumulate. However, Liz Claiborne’s lead times were nine months, about three months longer than lead times of some of its competitors (D’Innocenzo, 1994). Figure 3 is also helpful in identifying the reasons for Liz Claiborne’s long design-to-market: a) the location of most of its suppliers in the Far East, b) the small size of its suppliers who did not invest in (information) technology which would have reduced cycle times, and c) its small investments in technology, e.g., in CAD systems that could reduce time-to-market (Henricks, 1995). As this example illustrates, incremental changes in a tightly-coupled system rarely lead to the desired result. Not until Liz...
Claiborne’s (new) management changed a whole series of choices in its design, distribution, and production set-up, i.e., moved Liz Claiborne to a new peak, did performance improve.

**LIZ CLAIBORNE’S RENASCENCE**

In 1994, with Liz Claiborne’s sales declining and net income plummeting by 35%, Paul Charron was hired as new Chief Operating Officer. Charron had previously worked for Procter & Gamble and General Foods, had been the COO of Brown & Bigelow, a specialty advertising agency, and had been most recently EVP at VF Corporation, the manufacturer of Wrangler and Lee jeans, Vanity Fair Lingerie, and Jantzen Swimwear. In 1995, Charron replaced Chazen as CEO, while Chazen remained chairman of the company. This position was also taken on by Charron in 1996, when Chazen retired.

Beginning with his tenure as CEO in 1995, Charron pursued three avenues of change within Liz Claiborne: First, a revitalization and modernization of choices within presentation and design that had become neglected over the previous years. Second, a shift in Liz Claiborne’s product portfolio. Third, a wide-ranging restructuring of its production and distribution set-up.

**Revitalization of Presentation and Design**

In 1995, Charron created under the name “LizEdge” a new in-store marketing department. One hundred twenty-five sales associates were hired, each being responsible for in-store presentation of better sportswear in four locations. At the same time, Liz Claiborne started to install new in-store fixtures (LizView) in department stores around the country. By April 1997, 200 LizView shops had been installed with plans to add another 400 by the end of 1997. Similar to the success in the mid-1980s with the LizWorld shops, sales increased an average 19% after shops had been installed (Rosenberg, 1997). In addition to the new fixtures, a training program (Liz & Learn) was initiated that provided sales support and incentives for department store salespeople.
To obtain a better understanding of the marketplace, Charron commissioned a study on the characteristics and shopping behavior of Liz Claiborne’s customers. One of the study’s findings was that customer confidence in picking outfits had risen considerably. While in the early 1980s Liz Claiborne’s function had been to show what apparel was suitable for the workplace, customers now asked to be presented with options. In the words of Charron, the customer “has gained confidence to ‘put it together’ by herself if she is provided with cues.” These insights were taken into account in designing the new LizView in-store display units.

Another finding of the consumer study was that a typical customer played a large number of “roles” during the day (professional woman, soccer-mom, etc.) without having much time to change clothes. Hence, versatility of apparel and the ability to dress up or down quickly (e.g., by adding some accessories or by changing a top) was valued very highly. As a result, Liz Claiborne strengthened its efforts to allow its customers to mix-and-match across divisions (e.g., between LizSport and LizWear).

To ensure that colors across collections and groups were held constant, designers of all units were required to use the same color card. Moreover, meetings among the company's designers from all its businesses were held on a regular monthly schedule; previously, they had met haphazardly.

**Changes in Product Portfolio**

For the long term, Charron was concerned that the current trend in retailing, i.e., the decline of the department stores and the rise of the discount stores such as Wal-Mart, would continue. Concurrent with the consolidation in the retail market, he expected a consolidation in the apparel supply market. Prior to Charron’s arrival, Liz Claiborne had acquired Russ Togs, Inc. which manufactured moderately priced women’s sportswear under the Russ Togs and The Villager labels. Sales of this division, the “Special Markets Unit,” increased to $112 million by the end of 1994 (partly inflated by sell-offs of excess inventory) and decreased to $77.3 million by the end of 1996. Charron decided to enlarge this unit. His vision was to have for every retail channel and every price point a different Liz Claiborne brand: the “Russ” label for the budget segment (to be sold, e.g., at Wal-Mart), “The Villager” and a new “First
Issue” brand for the moderate segment (to be sold, e.g., at Sears), a newly created brand “Emma James” for the upper moderate segment (to be sold, e.g., at Federated Department Stores), the traditional “Liz Claiborne Collection,” and the casual lines including “LizWear” for the better segment (to be sold, e.g., at Dillard’s), and its successful “Dana Buchman” line for the bridge segment (to be sold, e.g., at Saks Fifth Avenue).  

In order to increase general brand awareness, national brand advertising was increased substantially. Using supermodel Niki Taylor as the centerpiece of its advertising strategy, Liz Claiborne tried to rejuvenate its image which had grown stale, especially in the eyes of the new generation of professional women. Some of the newer brands also benefited from this marketing campaign, since they were attached to the Liz Claiborne name. For instance, the First Issue label was branded as “First Issue – A Liz Claiborne Company.” In addition to the public media campaign, at the end of 1994, Liz Claiborne made a statement within the fashion industry by opening a 19,000 square foot flagship store at 650 Fifth Avenue.

Production and Distribution Changes

While the new initiatives with respect to presentation consisted mainly of the modernization of previous choices, fundamental changes occurred in the way Liz Claiborne orchestrated its production and distribution. In 1995, Charron announced a comprehensive program, LizFirst, which was geared towards increasing Liz Claiborne’s efficiency. Its goals were to reduce excess inventories by 40%, cut cycle time by 25%, and reduce SG&A by $100 million over three years. Some of the ways in which Liz Claiborne sought to fulfill its goals was to reduce the number of suppliers by half and to shift 50% of its production to the Western hemisphere. By concentrating production with larger suppliers who could afford and were willing to invest in information and production technology, and by moving production closer to the region of retail, cycle times could be shortened.

Liz Claiborne also switched back to four instead of six production and design cycles. With six seasons, i.e., a two-month delivery period, none of the merchandise could be made to order. With four
seasons, the three-month delivery period allowed Liz Claiborne to produce—for at least some items—the third month to order. Liz Claiborne also started with some of its clients a vendor-based restocking system, or “retail inventory management” program (LizRim), in which Liz Claiborne automatically replenished basic merchandise (mainly jeans, slacks, and shorts) to prior negotiated inventory levels at department stores. This system dramatically lowered stock-outs and kept inventory levels at department stores small, without causing huge production and order swings for Liz Claiborne.

One of the pioneers of such a vendor-based system had been Procter & Gamble (in co-operation with Wal-Mart). Later VF Corporation and Haggar were among the first to adopt a similar system in the basic apparel industry. Charron’s prior work experience at Procter & Gamble and VF Corporation provided him with valuable knowledge about the necessary supporting activities for a successful implementation. At Liz Claiborne, the program was spearheaded by the casual wear division, whose new president had been recruited by Charron from Haggar in December 1994. Charron also brought further expertise in-house by hiring a new Chief Information Officer, who had previously been an Executive Vice President for Business Systems/Logistics at a leading apparel retailer, and a new Senior Vice President for manufacturing and sourcing who had a background in low-cost private label manufacturing.

By 1997, LizFirst showed good results: excess inventory had been cut by 47% from 1994 levels, its retail management program was in 1,200 doors, operating expenses had been reduced by $82 million, and cycle time in certain key processes had been cut by 40%. Moreover, the number of factories Liz Claiborne used had been cut by half.

Internal Fit on a New Peak

Similar to Figure 3, Figure 4 depicts Liz Claiborne’s choices as of 1997 in the five categories of design, presentation, selling, marketing, and production/distribution, and displays the interconnections between the choices. The locations of the five categories on the maps have been kept approximately constant to facilitate comparison of the choices between the two points in time.
We find a familiar cluster of reinforcing choices dealing with the strengthening of the retail presentation. As noted above, Liz Claiborne was rejuvenating its former successful formula: mix-and-match design coupled with a careful presentation strategy involving, among others, new displays and sales associates. The main changes within these categories were that mix-and-match was conducted across divisions and that Liz Claiborne, rather than the retailers, paid for the presentation support.

The largest number of new choices clustered around Liz Claiborne’s new reordering process (LizRim), and around the system to allow (partial) production-to-order. While the presentation support was mainly geared towards Liz Claiborne’s traditional better sportswear, LizRim was designed to fulfill the requirements of mass-merchants which would carry its budget brands. However, due to its large size, the Liz Casual division, which belonged to the better sportswear division, was actually accounting for the largest use of LizRim. By keeping out-of-stock positions at a low level, LizRim reinforced the efforts undertaken with respect to the renewed presentation format—the best trained sales people and most cleverly designed display units could not sell merchandise which was out of stock.

**DISCUSSION AND CONCLUSION**

Why had Liz Claiborne’s old management been unable to respond to the environmental changes, a common finding for declining organizations? (Cameron, Whetten, & Kim, 1987). In the analysis above, we suggested that a major contributing factor was that Liz Claiborne’s management faced fit-conserving change. Environmental changes had decreased the value of a part of Liz Claiborne’s set of choices (in particular with respect to production and distribution), which had to be changed. Small, incremental changes—exploring the local neighborhood of the current position—no longer sufficed. However, larger, revolutionary changes were not initiated by existing management.
Lant & Mezias (1992) introduce the concepts of first-order and second-order learning which are helpful to understand the executive development at Liz Claiborne (for the origin of the concepts see Watzlawick, Weakland, & Fisch, 1974). First-order learning is an incremental, conservative process that is geared towards sustaining the current condition. Second-order learning involves the unlearning of prior premises, and the developing of new frames and new interpretive schemes (Bartunek, 1984). In our terminology, first-order learning can be thought of as updating the mental map around the local neighborhood of the current position. In contrast, second-order learning is a broader scanning of the landscape resulting in a changed mental map which recognizes new peaks.

As described in the discussion of the literature on inertia, changing mental maps is, however, a very difficult undertaking, especially for executives with long, successful tenures. Consequently, firms often respond to the need for new mental maps through executive succession, i.e., by the “importing” rather than the development of new mental maps (Greiner & Bhambri, 1989; Lant, Milliken, & Batra 1992; Virany, Tushman, & Romanelli, 1992). New management is often necessary to facilitate the unlearning of old routines (Nystrom & Starbuck, 1984) and to create substantial second-order learning (Tushman & Rosenkopf, 1996). Consistent with this argument, it has been observed that new successors often bring in new skills and have characteristics which deviate from those of their predecessors, especially when top management changes were made in response to crises (Virany & Tushman, 1986; Wiersema & Bantel, 1992). Outsiders frequently fit this description better than internally groomed successors (Helmich & Brown, 1972; Reinganum, 1985).

The executive development at Liz Claiborne is well captured by the above description. By 1993, the year prior to Charron’s arrival, Liz Claiborne’s top management team consisted of Chazen and a group of eight executives who had been with the 17-year-old company on average 8½ years. In 1994, Charron, an outsider with experience in the new production paradigm who was not mentally tied to the old system, was hired. Moreover, Charron aggressively changed the composition of Liz Claiborne’s top management team by hiring further expertise from outside and promoting younger managers from within. At the end of 1995, the top six managers had an average tenure of four years (the median was 1½ years). Similarly,
from the extended top management group in 1993, which consisted of 25 managers (all managers from
the Vice President level up), only 8 were left among the top 28 managers in 1995 (Dun & Bradstreet,
various years; Liz Claiborne 10-K, various years). Together with this new management team, Charron
was able to execute a wide-ranging change of many activities, moving Liz Claiborne to a new peak on the
changed performance landscape.

The purpose of the framework developed in this paper is to explore how fit influences the link
between environmental changes and ensuing firm change. To this end, we suggested that a useful
distinction can be made between environmental changes that affect external and/or internal fit. While the
existing literature has made the distinction between stable and turbulent environments, i.e., how
frequently the performance landscape changes, we suggest to classify environmental changes with respect
to the impact they have on the landscape. We are thus offering an alternative and complementary
classification. With this classification, the effect of environmental change on firms can be described as fit-
destroying and fit-conserving—a useful distinction since managers react differently to these two types of
changes. As the literature on inertia suggests, managers will have a particularly difficult time reacting to
fit-conserving change, because the internal logic of the existing system of choices remains intact.

The argument outlined in this paper finds a parallel in the conceptual approach of Henderson & Clark
(1990) who study a particular type of environmental change (a technological innovation) and the effect of
this change on incumbent firms. They suggest that rather than distinguishing between incremental and
radical innovations (a measure of magnitude), it is useful to classify innovations with respect to their
impact on the existing product-system. Analogously, we argue for the classification of environmental
changes according to their impact on internal and external fit, rather than by their frequency. The new
distinction Henderson and Clark (1990) introduce is whether an innovation changes architectural
knowledge (how parts interact) or changes component knowledge (how parts work). This distinction
allowed Henderson (1993) to explain the inertia of incumbent firms to innovations in the
photolithographic alignment equipment industry. Similarly, it is hoped that the proposed framework in
this paper and the distinction between fit-conserving and fit-destroying change will provide a new lens
through which the impact of environmental changes on firms with high internal fit can be better understood.

In addition to the framework, we believe that the maps of choices and their interactions can provide a helpful tool for understanding the structural requirements of change in a system with tight internal fit. For instance, in the present case, Liz Claiborne wanted to offer re-ordering. As Figures 3 and 4 illustrate, the choice whether or not to offer re-ordering was tied to many other choices. We can use Figure 3 to predict the changes that were necessary to implement an efficient reordering process. Directly affected were the previous choices of low spending in information and distribution technology (which had to be increased to gather precise information about apparel sold), and the decision not to produce any apparel to order. One could call these “first-order” changes. However, to produce some merchandise to order, other choices had to be changed: part of the supplier base had to be shifted to the Western hemisphere, the number of collections had to be reduced to four (which had implications for the design process), the delivery dates had to be moved up in time to allow information gathering early in the season for production delivered late in the season, and lead times had to be reduced. In turn, to reduce lead time, increased investments in design technology, and a shift to larger, better capitalized suppliers who could invest in information and production technology had to follow. Thus, not only first-order, but also second- and third-order changes were necessary. The mapping of choices and their interactions as in Figures 3 and 4 make these ripple effects clearly visible. At the same time, these maps point out those choices that do not have to be changed. For instance, the presentation format, which was mainly connected to the design concept of mix-and-match, was not affected by changes in the production set-up.

The goal of this paper was to outline a new framework and to use an in-depth case analysis for illustration. Clearly, more empirical work waits to be done to illustrate the effects of fit-conserving versus fit-destroying change. For instance, the framework predicts that in the face of (moderate) fit-destroying change, firms with high fit react faster than firms with loosely coupled systems (for evidence couched in different terms, see Firestone, 1985). While further insights can be derived from additional case work, larger-sample analyses would add statistical power to conclusions. To this end, however, more
preliminary conceptual work needs to be done to identify conditions under which fit-conserving and fit-destroying change is likely to arise. A first hypothesis, suggested by our framework and our empirical observations, is that fit-conserving change can be observed if technological change allows rival firms to compete with new systems of activities. In landscape terminology, fit-conserving change appears likely if new (high) peaks are rising in the landscape. At the same time, (moderate) fit-destroying change is associated with environmental developments (e.g., technological improvements) that affect only individual activities.

On the analytical side, an interesting extension of the framework would be to incorporate a more explicit process of how managers create mental maps of the performance landscape. With faulty representations, new questions arise. For instance, what are the consequences of faulty maps given high internal fit? What types of misrepresentations are particularly costly? In current work, we are pursuing this line of research.
REFERENCES


## TABLE 1
Financial Data for Liz Claiborne, Inc.
(all figures in millions except EPS and share price)

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FIGURE 1
PERFORMANCE LANDSCAPES

A: Performance Landscape (early 1900s)
The Ford Production System (low flexibility, low variety) provides high performance

B: Performance Landscape (1980s)
The Japanese Production System (high flexibility, high variety) provides better performance, while the value of the Ford production system has decreased.

FIGURE 2
CHANGE FRAMEWORK

external fit

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FIGURE 3
Map of interactions among Liz Claiborne’s choices in the early 1990s
FIGURE 4
Map of interactions among Liz Claiborne’s choices in 1997
FOOTNOTES

1 Organizational ecologists further argue that organizational reliability and accountability, which are posited to be the central advantages of organizations over individuals, require stable organizational structures. In this view, inertia is a defining and necessary feature of firms and not only the result of managers’ (psychological) tendencies towards inertia (Hannan & Freeman, 1984).

2 For formal models of performance landscapes with these features see Kauffman (1993).

3 It is interesting to note that this discussion about the “dark side” of linkages is paralleled by the debate about the value of routines (Montgomery, 1995). On one hand, routines can be seen as sources for a competitive advantage (Nelson & Winter, 1982). On the other hand, routines can be seen as creating a liability due to their generating increased inertia (Hannan & Freeman, 1984).


5 personal communication with Jerome Chazen, October 7, 1997.

6 Until 1990, all of Liz Claiborne’s (domestic) sales were performed through its New York showroom. In order to reach smaller specialty stores, Liz Claiborne decided to open two small showrooms in Atlanta and Dallas in 1990 and 1992. However, in these showrooms only dresses, accessories, jewelry and Liz & Co. better casual knitwear was displayed. The traditional sportswear was not shown, since the minimum orders were too high for most specialty stores.

7 Two elements A and B are complementary if the marginal benefit of A increases in the level of B, and vice versa. This concept can be extended to non-continuous cases as long as A and B and their combinations can be ordered (Milgrom & Roberts, 1990).

8 For another example of an underproduction policy, see the discussion by Brandenburger and Nalebuff (1995) of Nintendo’s production strategy in the face of powerful buyers such as Wal-Mart and Toys “R” Us.

9 personal communication with James Lewis, President Liz Claiborne Casual, February 30, 1997.

10 personal communication with Jerome Chazen, October 7, 1997.


14 Fundamentally related are the concepts of single- and double-loop learning discussed by Argyris & Schön (1978).