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Strategic Change

# Guest editorial

# Strategic adaptation: A uni or multi dimensional concept?

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## *Introduction*

The concept of strategic fit is a basic tenet of many perspectives of strategic management. Strategic fit recognises that organisations are not independent, self-sufficient entities existing in a vacuum. They are subsets of society, reflecting the cultural norms of the communities in which they operate. To function, they require both resource inputs and a place in which to dispose of their outputs. Both the sources of supply for the required inputs and the markets and communities that take up outputs, typically lie beyond the boundary of the organisation and make up what is known as the *external environment.* Strategic fit infers that the most effective and efficient operations arise when external stakeholders readily provide required inputs and willingly take up outputs. This requires an alignment between the strategies pursued and the activities undertaken by internal stakeholders and the needs, wants and aspirations of influential external stakeholders (see Johnson and Scholes, 2002 for a good summary of the extensive literature).

Many of the influences that affect managerial decision-making, strategy formulation and organisational performance also lie beyond the organisation's boundary, however that might be defined. It is equally difficult to define precisely what constitutes an organisation's external environment. Strategic leaders and managers need to know which stakeholders and what forces are particularly influential for their organisation. Consequently, when trying to define an organisation's environment it is helpful to differentiate between directly influential, indirectly influential and residual elements. The effects of these influences however, can only be detected and/or experienced through interactions between

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internal and external stakeholders. The members of the organisation occupy their unique position of being members of the organisation, living and working within the boundary for part of their lives, but also living the rest of their lives outside the boundary as an 'external' stakeholder. On a daily basis, individuals cross such a boundary both physically and psychologically, taking information about the organisation out into the environment and bringing information about the environment back into the organisation.

Variations in stakeholder perspectives, attitudes and positions may make it very difficult to generalise and conclude whether an organisation has achieved strategic fit. For example, some external stakeholders may welcome the relatively cheap and constant supply of electricity generated by nuclear power stations, but others may consider the potential risks and damage to the environment too great. To maintain strategic fit, management must be able to analyse what activities will be welcomed and supported by which stakeholders and why, taking into account the probability that what is and what is not supported will inevitably change over time. The question remains however, does the organisation simply respond reactively and uniformly to change in the environment, or are there ways in which those changes can be influenced to create the type of environment that organisation members would prefer?

## *Alternative perspectives*

Almost without exception linear models of strategic management assume the external environment to be a given factor influencing the organisation, but not being malleable since it lies beyond the influence of organisation members (see for example, Chaffee, 1985). The chief architect of strategy must understand the environment and may apply selected analytical tools and techniques before deciding how the organisation should deal with the issues and factors identified, through the chosen strategy. However, the principal difficulty is that analytical tools tend to simplify environmental influences to a highly abstract notion, whilst internal stakeholders experience factors in tangible form through their interaction with external stakeholders. For example, *'economic factors'* are universally accepted as one of the principal set of influences on business organisations, but what does this really mean? Is it inflation, interest rates, exchange rates, levels of unemployment, business rates? The list is a long one and in fact it is all of those things, and more. Similarly, some influences experienced by internal stakeholders arise from a combination of environmental forces, not a single source. For example, is taxation classed as a financial, political, legal or economic influence? All four have a part to play in impacting upon organisations.

Some internal stakeholders have boundary spanning responsibilities for interactions with particular external stakeholders, for example, with customers, competitors, suppliers, joint venture or partner companies and so on in the unique task or specific environment of the focal organisation (see for example, Emery and Trist, 1965). A customer may trade with Lloyds Bank and HSBC and/or both Halifax and Nationwide Building Society, which means that the customer could feature as a stakeholder in the task environment of four very similar organisations. Yet, comparing their respective task environments would undoubtedly show that there are customers of one who do not trade with the others — hence, each organisation has a unique complexion.

External stakeholders may however, interact indirectly with internal stakeholders. The macro or remote environment usually has more or less equal influence upon all organisations within a specific industry sector, and any given external stakeholder in the general environment may have more or less identical impact on virtually all organisations operating within their sphere, irrespective of industry sector. For example, Government do not normally pass legislation that affects only one organization. New laws normally apply either to whole industries (e.g. transportation of hazardous materials) or more likely, to the whole economy (e.g. levels of minimum wage). The growing interconnectedness of the global economy means that management must also be increasingly aware of international and comparative national influences. It is widely accepted that for example, in marine industries operators register vessels under certain national flags because the standard of safety legislation, protection, wages and conditions of service for the crew are much lower than those that would apply if registering under their own national flag. Similarly, entrepreneurs are increasingly registering businesses in 'off-shore' states to take advantage of reduced capital gains and transfer taxation.

Porter's seminal Five Forces Model and Generic Competitive Strategies typify the analyses, which are said to support strategic decision-making within the positioning perspective of strategic management that is wholly grounded in the concept of strategic fit. Whilst the organisation can in the short term, employ a number of competitive tactics that can briefly influence company profits, these types of analyses are founded on the assumption that in the long term, it is the environment that determines (competitive) strategy in a direct and deterministic mode. Organisations are assumed to be passive, simply responding to environmental change and surviving by optimising the relationship with external stakeholders to maintain strategic fit. These analytical techniques portray the external environment as the *only* influence upon the organisation and the strategy pursued, although different dimensions of the environment impact upon different elements of the organisation in different ways and hence, the environment determines not just the strategy but also structure, design, processes, leadership and so on. Strategic adaptation and strategic fit are then presented as single unitary decisions that endure, changing only with the rhythm of the changing planning cycle.

 

Adaptive models of strategic management share many of the same assumptions as linear models, but are grounded in an open systems perspective. This perspective emphasises that organisational operations and activities take place through the constant operation of a whole host of systems (organisational sub-systems) that require and enable stakeholders, both internal and external, to interact with one another across a permeable, open boundary that facilitates interactions and exchange. The output of one system becomes the input for another system and certain systems must operate in collaboration and so on. In effect, each sub-system has its own *environment* in which other sub-systems act as 'external stakeholders'. Many of the systems exist and depend upon interactions that span the boundary of the organisation, for example, marketing sub-systems. Different sub-systems can function quite happily as separate, independent systems, really only taking notice of other systems in the organisation if survival is threatened. An organisation that remains stable for too long a period may atrophy and be unable to overcome the inertia that harmony creates, preventing effective change. The recent history of Marks and Spencer is just such an example (Beaver, 1999 and Johnson and Scholes, 2002).

Open systems are the foundation stone for the contingency approach to strategy and organisation design. This does not deny the importance of strategic fit and maintains the dominance of the environment, but accepts that there is no one single universal solution to the adaptation problem — the principle of equa-finality applies. Given environmental dynamism, there must be organisational flexibility and change to maintain strategic fit over an extended period of time. The organisation environment relationship is in dynamic equilibrium, but the direction of causality flows only from the environment to the organisation.

Different approaches to management may be necessary to perform different tasks within the same organisation. Different activity systems function best in different conditions. For example, manufacturing sub-systems tend to be most efficient when dealing with long production runs of standard items, yet sales sub-systems tend to be most effective when having the freedom and flexibility to respond to individual consumer needs and wants. Management must strike a balance to create harmony between these competing demands. The usual compromise is to produce 'standard' products based on median consumer characteristics and choices. For example, off-the-peg ladies clothing may be manufactured to seasonal fashion trends in standard sizes 8, through to 22, which are based on aggregated measurements of a large sample of women. This gives manufacturing the chance to concentrate on large batches of standard sized products, but also gives sales some flexibility in meeting consumer demand. Strategic adaptation and strategic fit are still regarded as single unitary decisions, but now in a constant state of revision to remain in tune with environmental dynamism.

 

Contingency theory can be criticised for presenting an oversimplified vision of organisation-environment relationships. The environment is multi-faceted and not every facet varies or develops at an identical rate or in similar ways. Therefore, an organisation must respond with multiple strategies and by adopting the principal of requisite variety. Dis-aggregation of strategic response may be much more effective than the aggregated response that contingency theory tries to induce. Contingency theory also suggests that organisations need to have a level of flexibility and a capability to embrace change that matches the degree of dynamism in the environment. In highly volatile environments organisations are expected to be in a more or less continuous state of flux, keeping pace with change as and when it occurs. No one type of organisation should endure, unless the environment is virtually static.

This attributes a deterministic but passive role to the environment and ignores the possibility that the environment may in fact, be active in dictating the type of organisations that can survive. The concept of the environment determining which organisations survive or fail, irrespective of any action undertaken, presents an emasculatory perspective of management. This population ecology perspective explains why, despite environmental dynamism, certain types of organisation dominate particular types of environment. The characteristics of the environment dictate exactly how many and what sort of organisations can be supported. In high growth new industries, the environment will normally support the initial entrants fairly comfortably. However, growing markets and plentiful resources are very attractive characteristics and many new entrants may try to find a place in the industry. Eventually, too many players are present and the environment cannot support them all. There is then fierce competition for the increasingly scarce resources and not everyone will be a winner. In many ways this parallels the Darwinian concept of the survival of the fittest.

Strategic adaptation is now a much more creative process recognising that reactive flexibility is a necessary, but not sufficient condition. Only those organisations with visionary leadership able to both conceive and enact strategic fit will be able to survive. Survival does not depend upon achieving optimal outcomes, merely on being in sufficient mutually beneficial exchange relationships with external stakeholders in ways that other competitor organisations cannot emulate. Thus, population ecology differs from contingency theory by examining populations of organisations and the interactions between organisations within their environment. For example, this perspective may help to explain why self-service, supermarket style retail shopping has taken over from traditional counter-served retailing and how and why those traditional retailers that have survived have repositioned their product or service offering to nestle into a specific, secure environmental niche. Those favouring the population ecology perspective suggest that the principal characteristics of an organisation are fixed very early in its life, subsequent change being largely insignificant. Organisational activity naturally creates inertia, particularly with increasing scale of operations because the organisation acquires resources and commitments that are difficult to abandon. A focus upon resource scarcity and inter-organisational competition ignores the possibility that resources may be plentiful, that organisations may act collaboratively rather than competitively and that management may drive an organisation into a secure resource niche as a result of innovation and creativity. Exercising intellectual property rights is a classic method for securing a resource-stable niche in a new industry.

If all organisations in a given population were identical then there would be no basis for differentiating between those capable of survival and those who must change or die. Variations between organisations arise because of organisational learning and managerial decision-making leading to different outcomes. Hence, some organisation types adapt better than others to changing circumstances. Change also provides opportunities for new organisational forms to enter and dominate niches previously occupied by organisational types adapted to the old conditions. Since all organisations in a grouping tend to have very similar strengths and weaknesses, it tends to be the whole class that either survives or dies, although individual management decisions can sometimes save an apparently doomed organisation, if internal change can be induced in sufficient time (the ultimate challenge to the strategic adaptionist — a classic turnaround situation). New forms replacing old styles leads to change in the overall population structure and may subtly alter the isomorphic requirements for survival. Consider the supreme confidence of e-business supporters during the dot.com boom of the late 20th and early 21st centuries that predicted the demise of traditional retailing. Even now, such a short time later, many dot.coms have become dot.gones whilst the traditional retailer endures.

### *Organisational survival and success*

Debate often focuses largely on what characteristics increase or decrease an organisation's probability of survival and success. Size is seen to be important since the larger the organisation, the more extensive the use of formalised processes and techniques to aid strategy formulation and the greater the assumed organisational capacity and power to acquire and hold vital resources. Smaller firms often appear to be largely informal but highly flexible, able to adapt reactively with speed and ease (see for example, Beaver and Jennings, 2000). New organisations are said to be more vulnerable, since they have not yet established the necessary long-term agreements and collaborations to acquire and hold essential resources. Further, mature organisations are thought to be vulnerable too because organisational inertia obstructs necessary change.

Maturing organisations may also be vulnerable, since the organisation has not yet completed the transition from youth to adulthood. At inception, an organisation may be driven by innovative ideas and entrepreneurial energy, and in maturity an organisation may possess excess resource and power, but in between entrepreneurial energy may be waning, whilst power is not yet sufficient to ensure survival.

Both the contingency and population ecology perspectives have been criticised for regarding the organisation and the environment as two distinct, separate entities. Both present the organisation-environment relationship as combative and in a state of dynamic equilibrium. However, it is becoming increasingly common to consider the organisation and the environment to be different elements within a common ecosystem. Morgan (1997) suggests that an organisation can be regarded as though it were a living organism. This is not to anthropomorphise the organisation (an irritating trend that is sadly and erroneously, becoming increasingly common), merely to apply the metaphor. The organism lives within a wider environment and is dependent upon that environment for its survival and the satisfaction of needs and wants. As in nature, it is possible to identify different types of environment and to observe that in each type, different forms of organisms, and different forms of organisations, survive and prosper better than others. This perspective suggests that it is the ecosystem that evolves and develops through changing patterns of relationships between the elements of the overall system. For any given organisation, its environment comprises many other stakeholders, some individuals, some groups and some other organisations. By engaging in inter-organisational politics and working in collaboration, organisations are able to influence the nature of their environment. For example, professional associations dominate service industries with many organisations being required to employ staff who are members of the professional body, which may also insist upon independently verified, continuous professional development for continued membership. Price fixing cartels are common in certain markets and industries, even though they are subject to competition laws and technically illegal in many circumstances. Even where no formal agreement exists, there is usually a 'price fixing' organisation/leader whom others follow to establish a market-based pricing system. Consider as an example, the inability of the EU to equalise retail car prices across the community as manufacturers purposefully follow the established pricing levels that consumers in each member state have shown themselves willing to accept.

The relationship between environmental turbulence and preferred strategic management style is an issue of organisational adaptation. This is not as straightforward an issue as direct and deterministic contingency models might suggest. Most large organisations really face multiple environments. This is well illustrated in the case of conglomerate organisations such as the Virgin Group who have strategic business units operating in a wide range of industries. Clearly, the principle of requisite variety has dominated Virgin Group's adaptation policy by influencing management to make structural adjustments by creating semi-autonomous strategic business units. Simultaneously, parallel process adjustment creates a clear distinction between overall corporate strategic management for the whole group, and business level strategic management for each strategic business unit. Obviously this is not a unique or original strategy, being a replication of many earlier successful large conglomerate firms and continuing to be by far the most common organisational form for the class. The point that seems to differentiate the very successful conglomerates is the ability to conceive and manage a multi-dimensional perspective of strategic adaptation and strategic fit, including the initiation of proactive strategic change.

Environments are not fixed but change their position, influence, texture and so on. For example, in the mobile communications industry the introduction of 3G systems (basically WAP systems giving mobile access to the Internet and systems to allow for picture messaging and video streaming), has significantly distorted the development of the industry. Now the major problem is consumer resistance to changing perfectly serviceable phones that provide all the services the customer really needs to acquire new technology that whilst clearly advanced, provides additional benefits that may be nice to have but are not really all that essential. Organisational adaptation can only occur when there is a shared mental model of the impact of the environment upon the organisation. Shared perception is necessarily socially constructed. No two managers and certainly no two management teams will share the same perceptions of the clusters and dimensions that are significant. Management will necessarily make decisions based upon those dimensions which they believe are significant, irrespective of whether or not they really are! The product of previous decisions and outcomes brings the organisation into contact with its current environment. In other words, the current environment is enacted by the actions and outcomes of past strategy and is not a random effect. A different decision in the past would have produced a different current environment.

Ansoff and McDonnell (1990), extend beyond deterministic contingency theory to consider the choices open to management. For each type of environment they suggest that management needs to devise a strategy with a different degree of aggressiveness, where aggressiveness is defined as the degree of discontinuity between each succeeding generation of products, technologies and marketing concepts. Therefore, in a simple, static environment an organisation might have a very stable strategy firmly based upon the precedents established by previously successful strategies. In a complex, dynamic environment the strategy should be novel, based upon the creativity of decision-makers. In parallel, the culture of the organisation should vary with differing degrees of openness to change. The culture would reject change, preferring stability and defending current positions in the former environment, but in the latter success cannot be achieved unless the culture is highly flexible with stakeholders embracing and welcoming novel change and creativity. Essentially, strategic adaptation moves from a unitary, reactive perspective toward a multiple, proactive perspective.

There seem to be close links between the messages emanating from their model and fundamental issues of strategic management. In simpler, stable environments it seems likely that the organisation's strategy will emphasise efficiency over effectiveness with an inward-looking culture and entirely reactive strategic adaptation based on understanding tomorrow by reference to the past. Moving more towards uncertain, surpriseful environments shifts the emphasis onto effectiveness more than efficiency and brings forward the prominence of managerial choice and free will, and a multi-dimensional partly proactive, partly reactive stance toward strategic adaptation. Nevertheless, the fundamental premise that there must be a close fit between internal activities and the external environment remains valid.

This is arguably the fundamental tenet of strategic management — the inseparability of the organisation from its environment. This concept has widespread acceptance and is commonly regarded as one of the key determinants of organisational performance. Whether the environment-organisation relationship is direct and deterministic, requiring only acquiescence from management, or open to influence through managerial decision-making by managers exerting their free will to create desired outcomes in line with external (and internal) stakeholder preferences, remains open to debate. However, the concept of strategic fit continues to pervade both the literature and practice of strategic management.

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