

## Activity 26. Modify Tactics and Strategies

It's not the strongest of the species that survive, nor the most intelligent, but those most adaptive to change". Charles Darwin

### Introduction

For organizational decision makers, modifying strategies is one of the most difficult and challenging responsibilities to perform. "You can look out in the technology industry and see companies that failed to adapt or saw it too late and now won't survive ... when a company stops adapting it starts to lose." Carly Fiorina quoted by Keith Damsell, "CEO Fiorina touts HP's ability to adapt", *The Globe and Mail*, October 29, 2003, B3. Adaptive decisions are often the most crucial ones to make, even more so than choosing strategies (Activity 20). For various reasons, notably cost and risk, modifying and adapting plans, programs, processes, activities and expenditures is difficult. At this juncture, the organization, its management and other personnel have made major commitments of and expended resources, expertise, authority, reputation and other tangible and intangible assets. Planned programs have been put into action. People have been deployed. Resources are being spent. The organization has momentum. Stopping or changing directions is difficult and costly in financial as well as human and organizational resources. Despite the complexities and expenses, empirical evidence shows that the success of strategic planning is influenced, if not determined, by the effectiveness of adaptation. In a study of hospitals and nursing care facilities, performance was found to be related to the range of adaptations available to modify strategic plans. Howard L. Smith, Neill F. Pilander and Michael J. Funk, "Strategic Planning in Rural Health Care Organizations", *Health Care Management Review*, 1992, Vol. 17, issue 3, p. 63. In effect, modifications and adaptations are needed for strategic plans to be implemented optimally.

Strategic adaptation emphasizes the roles that managers have in monitoring changes and modifying organizational strategies and tactics to better meet (or beat) environmental challenges. Warren Boeker, "Strategic change: the influence of managerial characteristics and organizational growth", *Academy of Management Journal*, February, 1997, volume 40, issue 1, p. 152. Because of the many forms of inertia in organizations, managers are constrained in their capabilities to adapt. The overall effect of organizational inertia is a tendency for strategy to be preserved or modified incrementally rather than changed radically. Managers typically modify tactics and strategies in evolutionary ways rather than change or even try to change them radically. However, the TSMP provides for radical changes being made at any stage in the process, including the utilization of contingency plans (Activity Z following) when drastic action is necessary.

The challenges to modifying strategies and, to a lesser extent, tactics are several. Human tendencies pose some of the most complicated and intangible challenges. Almost instinctively, egos of decision makers are involved, offended and defended. Fault finding and recriminations are directed, overtly and/or covertly, at people involved in the strategic and tactical decision making. "Territories", usually meaning resources, are protected against others seeking modifications in programs, activities and budgets. Individuals and groups take positions and form political alliances. Consensus and team work suffer. New issues are raised and old ones are revisited and debated. Decision are delayed, positive actions are postponed or become lost opportunities. Frustrations, acrimony and stresses exert pressures on management and key personnel to make decisions which will optimize the plans, activities and spending of the organization. Environmental volatility and anachronistic organization structures pose additional challenges to management. The need for adaptability is well recognized.

As the adoption of a new strategy may add new types of personnel and facilities, and alter the business horizon of the men responsible for the enterprise, it can have a profound effect on the form of the organization.

... structure follows strategy and ... the most complex type of structure is the result of the concatenation of several basic strategies. Chandler, *Strategy and Structure, op. cit.*, pp. 13 -14.

In his classic book, Mr. Chandler provides four case examples of leading corporations, i.e., Du Pont, General Motors, Sears, Roebuck and Standard Oil (New Jersey), their changes in strategies and structures. These studies resulted from extensive research of patterns of adaptation made by American companies as they coped with the effects of economic growth, technological innovations and other forces of change in their environment. More recently and in a similar, albeit more advanced vein, a study of 10 “leading edge” corporations showed that strategic management practice can be improved by extending knowledge of design and management structures and processes that facilitates strategic adaptation. R. T. Lenz and Jack L. Engledow, “Environmental Analysis Units and Strategic Decision-Making: A Field Study of Selected ‘Leading Edge’ Corporations”, *Strategic Management Journal*, January-February, 1986, Vol. 7, issue 1, p. 69. The study also reported that experimentation with alternative administrative structures was continuing and is necessary for organizations to adapt to the volatility of their environments.

Organizational cultures are obstacles to strategic adaptations and tactical modifications. Organizational values, beliefs and behavior patterns become institutionalized, preventing managers from seeking or utilizing alternative strategies and modifying plans, processes, activities and resource allocations. Firms overcome such “strategic myopia” by conducting cultural audits to make the beliefs and behavior of top management more visible. Jay W. Lorsch, “Managing Culture: The Invisible Barrier to Strategic Change”, *California Management Review*, Winter 1986, Vol. 28, Issue 2, p. 95. Such visibility increases the transparency and accountability being advocated and practiced by progressive organizations, in accordance with principles of effective governance. In the same vein, Professor Lorsch claims that companies should bring in objective, outside directors, infuse new blood into top management and encourage flexible thinking within the ranks of middle management. *Ibid.* While such advice may have become conventional wisdom, it merits repeating for the purpose of guiding managers in overcoming outdated organizational beliefs and other inertial tendencies.

In addition to the human impediments and dynamics, other organizational and environmental forces and conditions shape the changing situations and the main streams of strategic and tactical plans and activities. In this Activity, considerable attention is focussed on macro or environmental and the micro or organizational challenges and the issues and demands they create for management. The challenges necessitate optimal efforts by management. In part, such efforts are optimized by integrating the tactical with the strategic capabilities of the organization. In the TSMP, the two main, complimentary and synergistic streams of Activities are brought together for concerted efforts to modify the organization’s strategic and tactical endeavors. While the overriding, major resource allocations and organizational commitments are concentrated in strategic programs, processes and activities, the critical execution is manifested in the tactical activities of the organization and its operative personnel. “The devil is in the detail” is a phrase that carries wisdom in legal contracts, heart surgery, production systems as well as management tactics and strategies.

#### Mindsets for modifying strategies and tactics

Maintaining the status quo is one, albeit risky, strategic mindset. In a large scale, multi-national study of the commitment to the strategic status quo (CSQ), various determinants were

examined. Marta A. Geletkanycz, "Bound by the past? Experience-based effects on commitment to the strategic status quo", *Journal of Management*, 2001, Vo. 27, Issue 1, p. 3. The survey of 1,385 executives representing 20 nationalities showed that experience in traditionally dominant career paths, i.e., finance, marketing, law and general management is positively related to CSQ. In effect, traditional functional business orientations led to status quo tendencies in strategic management. The research further suggested that functional diversity was negatively related to commitments to existing policies and strategies. Graduate education was found to be unrelated to CSQ and does not significantly reduce the limiting effects of functional specialization. To create a climate for change, organizations need diversity.

In adapting to changing forces and conditions, the TSMP has two *levels* of adaptation: modifying (Activity 26), i.e., minor or partial; and utilizing contingency plans (Activity 27), i.e., radically altering the course of the organization, its aims, plans, programs, processes, activities and resource allocations. The level of urgency, including the threats, risks, costs and other impacts on the organization or its components, commonly determines which Activity is used by management. Such levels can be placed on a *continuum* which differentiates the *degrees* of urgency and adaptive action required. Exhibit 26A depicts a continuum of five conditions of urgency in organizations and some adaptive tendencies. Each set of conditions provides management with an *iteration* in which decisions can be made about the nature, degree and form of modification to take with the organization's strategies and tactics.

In the *miniscule* state of urgency, the organization continues on as it has in the past, maintaining the status quo and its stable equilibrium (*homeostasis*). Since conditions are stable and performance is acceptable, threatening forces may not be apparent and little impetus exists for developing new or innovative processes, products, services or other initiatives. Such homeostatic organizations are highly vulnerable to environmental changes, especially from major technological developments, aggressive competition and radical politics. If major forces impact on its position, the status quo organization may be forced to move across the continuum, often to an emergency situation, mainly because it is complacent, under-resourced and not prepared for attacks or major challenges to its position.

Exhibit 26A

**Continuum of Organizational Urgency and Adaptation**

State of Urgency	Miniscule	Warning Signals	"Normal"	Pending Crisis	Disaster
Adaptation Tendencies	Stay the course - "fine tune"; - limited or no development; maintain status quo	Wariness - - alert to signs of threats/prospects; some reactive/proactive efforts	Balanced - strengthen advantages, defend vulnerabilities	Major action - add great advantages; minimize weaknesses	Emergency - highly reactive; increasingly proactive
Examples	Milk production	Automotive engines	Sports equipment	WalMart dominance	Red Cross programs

By contrast, the four other states have varying degrees of urgency that precipitate adaptive decisions and actions. In the *warning signals* situation, the organization and its management is at least aware of threats or opportunities. For various reasons, e.g., limited competition, satisfactory rewards and high costs of change, top management finds other ways to survive and grow the organization. For decades, makers of automotive engines have seen signs of technical advances and competition for their markets. In the past, these manufacturers bought out competitors, innovative mechanisms and/or “absorbed” the competitive engines. Currently, they are collaborating and endeavoring to adapt evolving technology, e.g., fuel cells and “hybrid” fuels, to their standard combustion engine. In the *normal* state, organizations receive intelligence and information that is both positive and negative. They adapt to changing situations with incremental initiatives, most of which are reactive. Management is expected to make rational, incremental progress in adapting to changing sets of internal and external circumstances. Sports equipment provides an example of an industry’s incremental progress, some of which is product obsolescence, either functional or fashion. *Pending crisis* are situations that pose serious challenges to organizations and their managements. Major threats and/or opportunities are looming. Crucial decisions have to be made and significant courses of action are necessary. Otherwise great costs will be suffered and/or vital opportunities will be missed. The increasing global size of WalMart, its huge buying power and unequalled leverage on suppliers led Proctor and Gamble to acquire the Gillette Company in early 2005. The growing trend of *crises*, both natural and “manmade”, has amplified the need for organizations and their managements to prepare for a range of potential disasters. Their preparedness tends to be for immediate and large scale courses of action which range in time from short-term, i.e., tactical, to long term, i.e., strategic. The lack of preparedness and the defensive, reactionary efforts made by Exxon following the break-up of its oil tanker, the Valdez, is a classic case of how not to be progressive and proactive in adapting to crisis situations. In contrast, Johnson and Johnson, McDonalds, major insurance companies as well as NGOs such as the Red Cross, Oxfam and UNICEF have adapted efficiently and effectively, both tactically and strategically, to major crises. The vignette, entitled “Bombardier executive jet crash” illustrates the tactical and strategic efforts made by one executive to counter the adverse consequences he encountered on February 2, 2005.

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#### Vignette – Bombardier Executive Jet Crash

John Paul Macdonald was watching television during the morning of February 2, 2005. As the senior spokesman for Bombardier Inc. part of his responsibilities was to monitor the organization and its environment, especially in regard to any situations that might have adverse effects on the corporation. On that cold winter morning in Washington, D.C., he was preparing to return home to Montreal. Local channels were broadcasting live coverage of a Bombardier Challenger corporate jet that had crashed about 7:20 am into a warehouse in Teteboro, New Jersey, a short distance from Manhattan. According to the news reports, the jet had skidded off the runway during takeoff, tore through a perimeter fence, hurtled across a six lane highway (Route 46) during rush hour before stopping part way into a warehouse. Although no one was killed, several people, including executive passengers, were injured. At this stage, what was Mr. Macdonald doing? Effectively, he was searching for information and intelligence about the situation that he could analyze and use in modifying Bombardier’s public relations tactics and strategies.

Shortly thereafter, Mr. Macdonald turned to CNN for another “live” report and set of perspectives about the crash. He assessed the circumstances quickly, decided to cancel his flight home and go to the crash site but not before watching a CNBC report. In that report, concerns were raised about possible flaws in the Challenger, noting that a crash during the previous November involved a similar Bombardier plane. That crash had resulted in two deaths, one of whom was the son of an NBC executive. Mr. Macdonald knew that CNBC was watched closely by senior business people and that its reports would be received by corporations which were or might be prospective customers of Bombardier. At this stage, what was Mr. Macdonald doing? He was expanding his scope of information and intelligence to include observations and opinions expressed by media reporters about the expanding consequences and implications for the company. He was formulating tactics to use for limiting, if not controlling, the adverse consequences.

Upon his arrival at the crash site, he answered question from reporters about the Challenger and its safety record. He was mindful of three other crashes of Bombardier-made plans in the previous four months. In October, a CRJ-200 regional jet went down near Jefferson City, Missouri, killing both pilots. No passengers were aboard that flight. Later that month, another CRJ-200 crashed in Mongolia, killing 54 people. In November, a Challenger 601-1A fell to the earth near Montrose, Colorado, killing two people and injuring three others. The situation was compounded by the high profile that the company’s private jets had in the business community of North America. In his responses to the media people, Mr. Macdonald emphasized the fact that the Challenger had a record of one accident for every million hours of flight compared with the 4.8 accidents per million hours averaged by other business jets. What was Mr. Macdonald doing during the third phase of tactical efforts to handle a serious situation that threatened Bombardier, not only immediately but in the longer term future? Succinctly stated, he was attempting to modify the perceptions of the public, especially the corporate sector, about the safety record of the Challenger, notably in relation to its competition. In effect, he was “spinning” the message to favor his company and to detract from its competitors.

During the afternoon, Mr. Macdonald conferred with officials of the U.S. National Transportation Safety Board (NTSB) at the crash site. He sought and exchanged views and information about the situation as well as kept directly involved in developments at the earliest stages of the NTSB’s investigation. He continued his tactical monitoring, evaluating numerous factors and modifying the public relations program and activities of Bombardier, Inc. At the time, NTSB investigators said it was too early to speculate on the cause of the crash. In addition, the NTSB planned to conduct “a comprehensive investigation of all aspects” of the incident, from weather conditions to aircraft maintenance. Meanwhile, Bombardier sent three company investigators to assist the NTSB with their investigation. What was Mr. Macdonald continuing to do? He was monitoring the expanding and deepening situation, personally and directing and contemplating the growing tactical and strategic implications of the accident.

John Macdonald was concerned about the immediate tactical consequences as well as how the incident would impact and shape the company’s broader, long term image, business relations and sales. Media reporters were contacting industry officials and experts for their opinions and assessments. The chairman of a wing design company said that although he did not know the cause of the crash, the Challenger was a highly regarded aircraft with a “finely tuned” wing that is susceptible to problems if there is the slightest ice build-up on them. An aviation safety professor

said that “it was unlikely that icing would be a factor if the temperature was 22 degrees F as it was at the time. What was Mr. Macdonald to do about such mixed messages from industry observers? He had to draw on his technical knowledge and personnel in the organization to counter any negative impressions, either explicitly or inferentially, that were being conveyed about the Challenger airplane and its components.

One public relations expert advised Bombardier to “get letters out to customers as soon as possible”. (One wonders why email or website messages were not suggested.) The P.R. executive went on to state “I’ve got clients who have [Challengers]. They will be looking at this from all kinds of angles.” A spokesman for Bombardier’s business jet division said that letters had already been sent to Challenger jet owners and operators. Had Bombardier’s contingency plan “kicked in” to counter the challenges posed by the plane crash? If not countering the challenges, Mr. Macdonald and his staff were facing them and acknowledging the tactical and strategic issues resulting from the incident. Source: Bertrand Marotte, “A publicity challenge of the highest order”, *The Globe and Mail*, February 3, 2005, A3.

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### Incrementalism

The Continuum and the Vignette manifest incrementalism, i.e., the process or activities of gradually changing. Improving personal, group or organizational performance typically requires making minor changes or modifying tactics and strategies on an on-going basis over time. As an early exponent of incrementalism has written: "... managers *consciously* and *proactively* move forward *incrementally*. James Brian Quinn, *Strategies for Change - Logical Incrementalism*, Homewood: Richard D. Irwin, Inc., 1980, p. x. While Professor Quinn's notion that managers move forward consciously and proactively could be challenged by the intuitive, reactive ways of entrepreneurs, many small business managers and others, nonetheless he does present cogent reasons for applying the incremental approach to modifying tactics and strategies, notably:

1. To deal with the personal resistance and political pressures any important strategic change encounters;
2. To decrease the uncertainty surrounding such decisions by allowing for interactive learning between the enterprise and its various impinging environments; and
3. To improve the quality of the strategic decisions themselves by systematically involving those with most specific knowledge, by obtaining the participation of those who must carry out the decisions and by avoiding premature ... closure which could lead the decisions in improper directions. *Ibid.*

Despite being decades old, the theory of incrementalism is prevalent in the 21<sup>st</sup> century. What is significantly different about the theory and practices of incrementalism are the range in sizes of the increments involved. In regard to time, with advanced technology the increments have grown extremely short, often instantaneous. In regard to the increments of resources involved, many thousands of employees and millions or billions of units of exchange, i.e., money, shares or other mediums, are extremely large. In February, 2005, Proctor and Gamble’s takeover of Gillette was reported to be U.S.\$57,000,000,000, larger than many national economies in the world. Four months earlier, a more modest restructuring of Stelco Inc. was estimated to cost in the range of \$360,000,000 to \$465,000,000.

## Matrix for Modifying Strategies and Tactics

While the continuum provides a linear, incremental way of modifying strategies and tactics, matrices provide a bi-linear framework and a more interactive, dynamic way of making such adaptations. In Exhibit 26B, management has two basic mindsets for making changes to the strategies and tactics of the organization. Ideally, management will be *proactive*, i.e., anticipatory, progressive, well prepared and so forth, in their approach. In reality, most managers tend to be *reactionary*. They respond to changing forces and conditions, often on an as-needed basis, thus averting undue risk, costs, efforts and more readily able to maintain a stable equilibrium for the organization. Reactive managers tend to adapt to changing situations as part of an *evolution*, thus making modifications in increments. Such managers are the most risk-adverse and least progressive in making decisions and adapting their organizations to the changing environment in which they function. The least common approach to adapting strategies and tactics is *revolutionary*. Such radical modifications are rare and occur typically in very challenging situations. Some industries, e.g., biochemistry, genetic engineering, space science and other fields based on advanced technology, are most likely to experience radical modifications to organizational strategies and tactics.

### Exhibit 26B

#### Matrix for Modifying Strategies and Tactics

	<u>proactive</u>	<u>reactive</u>
<u>evolutionary</u>	- anticipatory, progressive, on-going well-managed, strategic organization; leaders in business and other sectors, e.g., Proctor and Gamble, Microsoft	- normal in most organizations which experience repercussions from dynamic environments and mistakes made by managers and other personnel; traditional bureaucracies in government, business and not-for-profit sectors
<u>revolutionary</u>	- exceptional situation in which radical action is necessitated; e.g., heart transplants, stem cell research	- crisis situations in which management, including directors and CEOs may be actively involved, e.g., the Chrysler Corporation, circa 1978-80

When managed optimally, strategic management will be more proactive than reactive, more evolutionary than revolutionary. Few forces and conditions of significant impact, either internal or external to the organization, occur without warning signs or indicators. However, even when well-managed, strategists and tacticians will need to be reactive, especially in an age of uncontrollable, even unknowable, environmental dynamics and influences. Given such dynamics, managers are better able to adapt the organization to changing conditions by monitoring key factors, evaluating them adequately and then taking appropriate action logically and on a timely basis. "The strategic management concept requires managers to assume a creative and directive role in planning and guiding a firm's adaptation to a discontinuous and turbulent future." H. Igor Ansoff, "General Management in

Turbulent Environments", *The Practising Manager*, Summer, 1990, volume 11, issue 1, p. 6. Such responsiveness benefits greatly from strategic and tactical monitoring, diagnosis, prognosis and progressive action.

## Perspectives

Numerous ways are available for thinking about and approaching the modification of strategies and tactics. In this Activity, fundamental perspectives are presented: macro and micro. The TSMP has the same two main perspectives, macro and micro, that predominate organizations and their management. While not unique, these two categories provide useful groupings of strategic and, to a lesser extent, tactical actions. They provide definable boundaries for examining the adaptation of strategies and the modification of tactics to changing patterns of forces and conditions, be they globally, nationally, regionally or organizationally.

### Macro changes

Starting with the macro or environmental perspective is consistent with history and the global realities of modern day management and the basic orientation of the TSMP. Although this process of strategic management originates with the organization's purpose(s), the entire process depends on the environmental as well as the organizational search for intelligence and information. That dependence continues throughout the process.

The macro perspective provides the "big picture" for management. A comprehensive perspective is essential for identifying the current forces and conditions that influence and shape the modifications of strategies and tactics beyond the micro or organizational views of situations. Throughout history, politico-military coalitions have dominated the world's socio-economic conditions. With relatively few exceptions such coalitions shape, if not dominate, the present socio-economic systems of the world. Given the prevalence and powers of institutions such as the military and governing elites, including religions, management needs to look for and investigate thoroughly the vital influences that such macro forces have on the organizations for which they are responsible.

Many lessons can be learned from an understanding of history. An examination of politico-economic history reveals the predominance of autocracies and other forms of dictatorships, be the ruler an Emperor or Empress, a King or Queen, Czar or Czarina, General Secretary, President or of some other title. The ancient history of geo-political areas around the world shows the widespread existence of dynasties or hereditary forms of rule notably in China, Japan, Russia, Germany, Britain, France and other European nations, tribes throughout Africa and South America. From the reading of historical accounts of business and economics, management learns how natural resources and ways of surviving and creating assets shaped the culture, its values and social patterns of behavior. A particularly timely and relevant historical account describes the interactions of corporations with governments, various societies and their cultures. Daniel Litvin, *Empires of Profit – Commerce, Conquest and Corporate Responsibility*, London: TEXERE Publishing Limited, 2003. From this masterpiece of corporate history, several lessons have been derived. They include the needs for:

- well-researched knowledge and understanding of the cultures of nations and regions;
- well-defined, situational approaches by corporations and other forms of business;
- wholistic approaches or strategies that include socio-cultural, politico-governmental, military, economic and competitive forces;

- a sound host-orientation rather than one that is driven by corporate head office;
- organizations and managements that are capable of managing in complex environments;
- long term, analytical approaches; and
- organizations' structures and capabilities to be sensitive, flexible and adapt to vital changes and subtle nuances in the foreign countries, their societies, cultures and communities.

These basic lessons provide context and insights for the challenges faced by management in adapting and making modifications in the strategies and tactics of their organizations.

The importance of adaptive organizations is further emphasized by the classic research performed by Alfred Chandler. Based on his investigation of organizational innovation, he made several observations, among them being that changes in organizational structure were intimately related to the ways in which the enterprise had expanded and the growth of the American economy, circa 1920s. Chandler, *op. cit.* p. 3. Another factor in the reorganizations of American corporations after WWI was the advancement in the “state of the administrative art”, notably in corporations and not yet in academic institutions. For the same fundamental reasons, the adaptive forms of organization are increasingly apparent in China, currently the most rapidly growing economy in the world.

What follows in this section focusses primarily on the strategic adaptation and tactical modifications of nations. Japan is a leading nation in adaptable strategies and tactics. How a country of islands with few natural resources can survive, much less grow and prosper, requires a well-founded knowledge of its history, culture, society, economy, politics and government. Since World War II, Japan has been a “success story” by almost any set of objective criteria. Based on such cultural values as pragmatism, social solidarity and frugality as well as politico-economic threats of survival, the Japanese have been master strategists and adapters.

Japan's success in a progression of industries, from toys made from used tin cans to its leading role with advanced technology, is well-known. The machine tool industry is not as well known. In the past, it was important because it was vital for defence purposes and “provides productivity externalities in the industrialization process.” Joao O. Rendeiro, “How the Japanese Came to Dominate the Machine Tool Business”, *Long Range Planning*, June 1985, Vol. 18, Issue 3, p. 62. Historically, the industry's strong rigidities toward strategic adaptations were based, in part, on Japanese industries' conventional wisdom and from deeply held cultural values. After 1973, the demand for small and medium sized numerical control tools was particularly strong. *Ibid.* With vertical integration, advances in technology and some key modifications in marketing and customer services, the Japanese machine tool industry strengthened their market position. The strong market position brought down production costs. Prices of the machines were half the unit price of machines made in Europe and the United States, adding to the competitive advantages of the industry in global markets.

In recent times, the phenomenal economic growth of China has attracted considerable attention from international organizations, governments, corporations and other major politico-economic bodies. The new economic colossus has been in transition from its orthodox Communist ideology and system since 1978. Twenty-five years later, it became the focus of increasing international attention, especially at the macro level of investigation. “The controlled process of economic reform in China has attracted growing attention from around the world due to its

significance for theory and practice.” Justin Tan and David Tan, “A Dynamic View of Organizational Transformation: The Changing Face of Chinese SOEs Under Transition”, *Journal of Leadership and Organizational Studies*, Fall 2003, Vol. 10, Issue 2, p. 98. This study of China’s economic transition provides instructive findings about adaptively managing a large-scale economy. The transition was staged over more than two decades. In effect, the strategic adaptations and tactical modifications in its economic programs, processes, activities and resource allocations were highly controlled and managed. The transition was characterized by incrementalism, state-owned enterprises (SOEs) and government management. In the past decade, the institutional environment has become more conducive to entrepreneurship. More small businesses have been started. Firms have responded with entrepreneurial activities, risk-taking and innovation. Subsequently, Tan and Tan found that since 1990, firms in China have become more proactive and innovative than firms studied in the previous stage of their research. Justin Tan and David Tan, “Environmental-strategy co-evolution and co-alignment: a staged mode of Chinese SOEs under transition, *Strategic Management Journal*, February 2005, Vo. 26, Issue 2, p. 141. In part, the advances are explained by co-evolution of the organizational environment and the firms’ capabilities to adapt their strategies.

By contrast, the adaptive capabilities of republics formerly in the Soviet Union are more erratic than the incremental progress made in China and Japan. An examination of 10 economic sectors in 10 republics over a period of 12 years resulted in three categories, i.e., lower, moderate and higher levels, of economic development. See Al Barnhill, “Rostow’s Non-Communist Manifesto and Reality in Ten Former Communist Countries, 1992-2004, Proceedings of the 29<sup>th</sup> Annual Macromarketing Seminar, May 2004, Vancouver, British Columbia. Belarus, Kazakhstan, Russia and Ukraine were in the lower category. Agriculture, electronics, public services, retail and personal consumption were predominantly in the traditional stage of economic development and manifested little in strategic adaptation, although there was evidence of tactical modifications. The other economic sectors varied in their strategic adaptations, notably between rural and urban locations. The latter were much more likely to be strategic while the rural agrarian sector was predominantly tactical in its economic development. A moderate level of macro-economic development was evident in Bulgaria, Georgia and Romania. While significant discrepancies were evident between rural and urban locations, there were clear indications of progressive strategic adaptation to the evolving political, economic and social realities of Europe and elsewhere, notably in the communications, retail and transportation sectors. Lithuania, Poland and Slovakia were in the third and highest level of economic development of the 10 republics examined. With the exception of agriculture that was re-structuring from communal farming, most of the economic sectors in these three republics were advancing with widespread strategic adaptations to the realities of non-communist systems, competition and business practices.

Nations, global institutions such as the United Nations, World Bank and International Monetary Fund, and industries provide much of the environmental context for organizations in business, government and charitable sectors of countries. To varying degrees, such macro organizations shape the decision making of companies, government agencies and NGOs. Consequently, an examination and understanding of the macro organizations, forces and conditions provide essential information, intelligence and insights for the requisite strategic and tactical adaptability of micro organizations. Exhibit 26C provides an illustrative set of macro environmental actions and selected strategic adaptations and tactical modifications.

The relationships illustrated in Exhibit 26C are not simple relationships. They are complex, multi-variant relationships that merit sophisticated mathematical, systems and advanced analyses if

management wants to gain a full appreciation of their cause-and-effect, if not deterministic, nature and implications for micro changes, strategic adaptations and tactical modifications.

Exhibit 26C

**Macro Changes and Strategic Adaptations – Tactical Modifications**

<u>Macro Changes</u>	<u>Strategic Adaptations</u>	<u>Tactical Modifications</u>
- ideological, e.g., capitalism, socialism, nationalism	- revise politico-economic system, including institutions, markets, business organizations; distribution of wealth;	- change forms of opposition; revise roles of military and security forces; modify enterprises to be compatible with evolving ideological norms
- governmental policy	- develop long term plans, programs, activities, resource allocations/budgets	- re-vamp existing plans, budgets programs, activities, e.g., health care, education, social assistance
- government program changes	- long term plans, activities, resource allocations revised	- related organizations align short term plans, programs, budgets; add/subtract resources needed to adjust to situation
- economic cycles	- stable programs that ride with upswing and counter downswing	- short term adjustments to programs, activities, budgets
- scientific/technological advances	- investment in R&D, competitive technology, additional products, services, human resources	- pricing adjustments, sell off old technology, inventory, develop sales force, change promotions
- environmental degradation	- formulate new policies, rules, regulations; implement corrective programs, penalties	- increase surveillance, policing; use remedies for degradation; take legal action

Micro dynamics

In addition to external, macro changes, management faces an on-going barrage of internal dynamic forces and conditions that influence, if not determine, the adaptations and modifications needed by their organizations. Exhibit 26D illustrates a set of micro dynamics and common adaptive reactions. Historically, *efficiency* has been a vital force in business organizations. Since the beginning of economic enterprises, labor has been exploited, e.g., slaves, children, miners, as a means of gaining the maximum outputs from minimum inputs (maxi-min strategy). Specialization of labor, assembly line production, adaptations of science and technology and other efficiency measures are common endeavors in business. In recent times, *out-sourcing* has become a common practice of large-scale manufacturing, assembling and service organizations. Such measures require strategic and tactical adaptations including revised objectives and goals, plans, budgets, leadership and work behavior, primarily based on the philosophy of achieving increasing marginal benefits from increasing marginal or decreasing costs. Re-structuring of organizations or specified units are undertaken to reflect the changed relationships of people within the company, agency or charity.

Exhibit 26D

**Micro Dynamics and Strategic Adaptations – Tactical Modifications**

<u>Micro Dynamics</u>	<u>Strategic Adaptations</u>	<u>Tactical Modifications</u>
- efficiency measures -- growth organizations	- revised objectives, plans; organizational expansion; changes in budgets, personnel practices, company image; focus on R&D advances/uses	- emphasis on productivity gains; align technology with production; increased sales, profits from same or less spending; changes in organization philosophy, management and work behavior
-- declining organizations	- revised objectives, plans organizational re-structuring; loss of leaders, quality employees, competences, competitive advantages;	- cutbacks to budgets, spending, labor force, plant, equipment, materials, inventory; reductions of R&D, production, marketing, personnel spending; changes in public and investor relations
- - out-sourcing	- seeking lower costs/prices competitive positions by transferring work to lower cost locations, plants, offices	- elimination of jobs, equipment, facilities, sources of supplies
- effectiveness initiatives	- emphasis on acceptance by market, customers, suppliers, investors, employees; can be corporate, divisional, other strategic units of organization	- short term initiatives through public relations, marketing, advertising, investor or labor relations activities; projects used for improving effectiveness
- radical events	- new technology or competition enters market resulting in major changes in entire strategic stream notably aims, programs, budgets and organization	- limited modifications because of major strategic changes; always tasks related to making strategic adaptations
- shifting adaptations/modifications -- focussed/re-focussed	- basic to small/medium-sized business; increasingly being adopted by corporations; based on specialization, competences; external/internal changes cause major adjustments in long term aims, plans, programs, resource allocations, organization	- to be competitive and viable, use needs periodic/on-going re-focussing, alignment to changing market segment/niche; modifications in products, promotion, other marketing activities, external and internal relations
-- positioning/re-positioning	- alignment of product/service with market segment requires strength and well-defined plans, programs, budgets; need for capability to adapt effectively	- competition, technology, other developments cause on-going modifications of products, services, pricing, distribution, promotion, sales activities

While macro forces, conditions and institutions are relatively open systems, businesses tend to be more closed systems. In virtually all politico-economic systems, businesses face competition and the threats of failure. They also face the prospects of opportunities and the gains that they hold. Consequently, micro dynamics tend to be more rapid and pronounced than macro changes. In the age of global business and instantaneous communications, major changes occur daily, if not every hour. Without exception those changes require strategic adaptations and tactical modifications.

Some examples help to elucidate the strategic adaptations and tactical modifications in each of the seven categories in Exhibit 26D. As indicated previously, businesses have exemplified, although imperfectly, the needs for efficiency in most aspects of their organizations. For more than 100 years, Ford Motor Company has been a leader in adapting and modifying its plants, programs, activities and administration. Like most businesses, its objective is to be optimally efficient, especially in its production operations. Historically, most of its focus on efficiency has been within the company. In addition, Ford along with other automotive and manufacturing companies continue to exert pressure on suppliers to cut their prices, e.g., on parts. Both Ford and General Motors Corporation have set rigorous targets for price cuts by their parts suppliers. Norihiko Shirouzu, "Ford, GM push suppliers for aggressive price cuts", *Wall Street Journal*, November 18, 2003, B16. For 2004, Ford required a 3.5 percent price cut and wanted suppliers to provide design cost savings of 20 percent less than 2003.

Out-sourcing is a growing way of increasing the efficiency of an organization. Accounts of transferring jobs to lower cost providers focus on the company that is out-sourcing and not on the adverse consequences of laid-off workers. Companies, even if they are highly profitable, are out-sourcing in their efforts to decrease their costs more. On the same day that it reported record profits, Gildan Activewear announced that its was shutting down two of its plant and shifting its production to a plant in North Carolina. Allan Swift, "Gildan to shut down two plants", *The Globe and Mail*, February 2, 2005, B8. Companies that are losing money or under-performing by management or stakeholder standards have led the out-sourcing trend. Following its announcement of a fourth quarter loss of \$810 million, Celestica Inc., said that it was closing plants and laying off workers in North America and opening new plants in China and Romania. Simon Avery, "Celestic cuts 5,500 jobs, shifts operations offshore", *The Globe and Mail*, January 28, 2005, B1. Virtually every industry in North America has been out-sourcing.

In late 2003, Leitch Technology Corp. faced a declining situation. Ten months later, after a new CEO had been appointed, the company had cut costs, improved efficiency in its factories, round out its product lines, reduced inventory by one-third, improved customer services, boosted margins, returned to profitability and had its stock price increase by 18 percent. Simon Avery, "Leitch CEO upbeat on turnaround, aims to raise margins", *The Globe and Mail*, September 7, 2004, B13. Additional adaptations planned for Leitch's future included selective acquisitions to add to the company's products and targeting the growing digital markets for broadcast equipment globally, specifically in Australia, Spain, Italy and Eastern Europe. In the next two years, the company planned to double its product support business. Customer services were expected to account for at least ten percent of revenue by that time.

In similar although more dramatic ways, companies in declining industries take more severe measures to achieve greater efficiencies. In 2004, one of North America's largest steel producers was faced with bankruptcy, temporarily protected from its creditors by the Companies' Creditors Arrangement Act. In its efforts to survive and be viable, Stelco had to streamline its operations dramatically by closing several plants and cutting 1,200 jobs, abandon several product lines, notably

steel wire and steel pipe, and focus on value-added steel products. Greg Keenan, "Stelco moves to streamline operations, abandon products", *The Globe and Mail*, July 30, 2004, B3. In addition, the company had to re-structure agreements successfully with its stakeholders, especially its creditors. Stelco is one of a long litany of companies that make drastic strategic and tactical adaptations in their efforts to survive. As the old saying goes, "Desperate times require desperate measures." In 1980, Chrysler Corporation laid off thousands of employees at all levels in the organization, including vice-presidents, fired its president and hired Lee Iacocco, formerly the CEO at Ford Motors. Over 80 banks around the world were not paid for loans, credit lines were lengthened, suppliers were forced to carry Chrysler's accounts indefinitely, pension fund contributions were suspended and numerous other actions were taken to conserve cash. Efficiency is epitomized when companies face bankruptcy.

Strategic and tactical initiatives to improve the effectiveness are more oriented to gaining or maintaining acceptance by employees, customers, markets, suppliers, investors and others than they are with increasing the input-output ratio. Increasing the effectiveness of an organization can be quite compatible, strategically and tactically, with increasing efficiency. Previously, reference was made to Ford Motor Co. demanding lower costs of parts from its suppliers in 2003 and going forward. In 2004, Ford's "comeback strategy" was based on bringing "as many new vehicles as possible to market in the next few years to help lure the customers who have gone away." Greg Keenan, "Is Ford's strategy a better idea?", *The Globe and Mail*, October 30, 2004, B4. New or re-designed vehicles would represent 34 percent of Ford's entire production during the coming two years. To achieve its product strategy, \$1 billion was to be invested in building a flexible assembly plant, one capable of assembling four models, based on two platforms or basic vehicle underbodies.

Radical events typically relate to technological developments. History is filled with such developments that have revolutionized industries and forced companies and other organizations to adapt or face extinction. While the telephone has been used for nearly 13 decades, advances in electronics, digitalization and the launching of commercial satellites during the past three decades have radically transformed telephone systems from land lines to wireless. Numerous changes have resulted from this transformation. Uses have become more varied, flexible, widely dispersed throughout the world and in virtually every conceivable locale. Markets have burgeoned. Prices of products and services have decreased. The number and variety of strategic adaptations and tactical modifications resulting from the advances in telecommunications are inestimable, growing and as close to universal as any service.

In closing this discussion of micro dynamics and the resultant strategic adaptations and tactical modifications, a brief examination of shifting changes is provided. Management's reaction to such dynamics may be a new focus or re-focussing the company to the new realities or it may adapt its strategies and tactics to a new position or re-positioning in their market(s). Small and medium-sized business tend to focus their products, services, production, personnel and other aspects of their operations in markets where they have competitive advantages. For 33 years, one small printing and publishing company flourished by serving a stable, incrementally growing market in central Alberta. Following the death of the company's founder, owner and manager, the new management re-focussed on a larger target market, including the large capital city forty miles away. In the years following, the company changed its printing technology, production processes and the format of its paper as well as achieving record growth in sales and profits. At the other end of the size spectrum, the founder and chairman of Magna International Inc. pursued a strategy of product

line diversification and “spinning off divisions when they became large enough” to grow on their OWN. Greg Keenan, “Magna reverses strategy, plans to take part subsidiaries private”, *The Globe and Mail*, November 3, 2003, B1. In late 2004, acknowledging that the automotive industry had changed, Magna decided to integrate three parts companies. Instead of bidding on parts contracts, Magna was being required to quote on total cars. “... that means you’ve got to cross over some of the public companies we have .... Every time there’s a crossover, we need so many public committees and outside opinion. It’s just too cumbersome.” *Ibid.* To increase the efficiency and effectiveness of decision-making, Magna chose to re-focus its organization from the manufacturing of parts to complex modules and entire vehicles. Similar examples of re-focussing are found in various industries. Following worse than expected financial results in 2003, Reuters Group, the international news service, announced that it was simplifying the company, cutting 3,000 jobs and re-focussing on news and other content. Charles Goldsmith, “Reuters post loss for year; 3,000 jobs go”, *The Globe and Mail*, February 19, 2003, B9. More recently, in a totally unrelated industry, Sara Lee decided to re-focus on its strongest brands in bakery, meat and household products. Janet Adam, “New CEO changes the recipe at Sara Lee”, *The Wall Street Journal*, February 11, 2005, B10. At the same time, the company announced that it will sell its apparel business in a massive restructuring that will cut product lines, e.g., Hanes, Playtex and Champion sportswear, and annual revenues by US\$8.2 billion or 40 percent. Sara Lee’s decisions reflect the industry trend of cutting back on their large portfolios of products and focussing on its leading brands. “We would rather have big No. 1 or No. 2 brands than 50 brands in a lot of different categories.” Steven McMillan, Chairman, Sara Lee Corp., quoted by Adam, *ibid.* The re-focussing was estimated to cost about US\$1 billion in restructuring charges.

Positioning and re-positioning are closely related strategically to focussing and re-focussing. The latter pair of strategies are basic, even the *raison d’être* of small business. It is based on the specialized skills, technology or capabilities of the entrepreneurial owner-manager. Over time, these businesses grow and establish a position in their market(s). Over time, businesses need to re-focus and, similarly, be re-positioned in their market(s). With new management, the small printing and publishing business was re-positioned with higher quality products and pricing. On a global scale, McDonald’s Restaurants have been re-positioned periodically. Between 2000 and 2002, the company experienced poor financial results, with a 50 percent drop in profit, including the first-ever quarterly loss in 2002. Shawn McCarthy, “Turmoil at top can’t slow McDonalds”, *The Globe and Mail*, July 15, 2004, B9. Its share price lost more than half of its value. In early 2003, following the loss of adult market share, declining sales, profits and share prices, growing public concern about beef-related diseases and adverse reactions, including legal actions against obesity, fatty and unhealthy “junk” foods, McDonalds made a concerted effort to re-position itself and its fast foods with the “baby boomer” market segment. In addition to less fatty burgers, it introduced more wholesome meats, a choice of salads and low-fat yogurts. Mary Cahan, “McDonald’s tries for healthier image”, [www.news.bbc.co.uk/1/hi/business](http://www.news.bbc.co.uk/1/hi/business), April 8, 2003. Customer service was improved. Promotional campaigns revolved around trust of McDonalds. By late in 2003, McDonald’s had been re-positioned as a caring, healthy food restaurant. The results were impressive with major gains in sales, profits and share price, up 37 percent in the past year. Through 2004 and into 2005, the re-positioning continued with new, healthier products being introduced and McDonald’s being perceived as providing a wider, healthier range of (fast) foods.

Making strategic adaptations is difficult, risky and laden with pitfalls, cost and potential benefits. Oftentimes, major changes in leadership are required to make such adaptations. The small printing and publishing company had to suffer the loss of its founder and owner before it was re-

positioned. McDonald's had to suffer losses of market share, sales and profits before making its strategic adaptations. For managements not wanting to subject their organizations to losses and other damages, ways are available to modify strategies and tactics. They might learn from the mistakes and lessons of other organizations. They might also learn from the strategic and tactical alternatives discussed in Activities 11, 12, 18, 19 20 and 21. Those Activities are available for adapting strategies and tactics at this stage of the TSMP. In addition to those alternatives, they might be able to utilize the approaches that follow.

## Approaches

The approaches or ways organizations and their managers adapt have been the subject of much debate, research and development in the past century. However, no simple formula or panacea exists for management to use in adapting or modifying their organization to its internal and external dynamics. "Specialists in the field of OB (organization behaviour) agree that there is no one best approach when it comes to such complex phenomena." Jerald Greenberg, Robert A. Baron, Carol A Sales and Frances A. Owen, *Behaviour in Organizations – Understanding and Managing the Human Side of Work*, Scarborough, Ont.: Prentice Hall Canada Inc., Canadian Edition, 1996, p. 9. To challenge managers further, numerous ways of approaching the need for strategic adaptations and tactical modifications are available.

### The Learning Organization

What many managers and academics consider "common sense" has been formed into a flexible approach to adapting and modifying organizations to meet the challenges of changes in strategies and tactics. "The learning organization" was formalized in 1990. See Peter Senge, *The Fifth Discipline: The Art and Practice of the Learning Organization*, New York: Currency Doubleday, Inc., 1990. The essence of this approach is that an organization is continually expanding its capacity to create its future. The concurrent practice of five disciplines is advocated to overcome the obstacles or "learning disabilities" that block effective organizational learning. Greenberg, et al, *op. cit.*, p. 73. The "disciplines" are:

- building shared vision;
- personal mastery;
- team learning;
- mental models; and
- systems thinking.

Systems thinking is the "fifth discipline" and considered to be the most essential in adapting organizations to the changing forces and conditions that they encounter in their environments. The TSMP is based primarily on systems thinking and is manifest in its total process model or "map", the sub-processes or sub-systems and activities that comprise the approach in its entirety.

### The Continuum of Organizational Urgency and Adaptations

Previously in this Activity, notably Exhibit 26A, five generic situations were identified, based on the "state of urgency" that management faced in adapting to changing forces and conditions. The "adaptation tendencies" in each of state of urgency infer *learning* or *experience curve* development and provide basic guidelines to adapting the organization to its evolving realities. However, even when major changes occur, like the resignation of Carly Fiorina as CEO of Hewlett-Packard in February 2005, its directors declared that the corporation was "Staying the Course" that

had been established during her six year tenure. By contrast, a study of 797 hospitals in the United States found a positive association between administrative turnover and strategic adaptations. Stephen S. Mick, Laura L. Morlock, David Salkever and Gregory de Lissovoy, "Rural hospital administrators and strategic management activities", *Hospital and Health Services Administration*, Fall 1993, Vol. 38, Iss. 3, p. 329. While much criticism, mainly related to obsolescence, is aimed at "staying the course", this approach is often the most prudent, at least until management has been able to decide rationally what is a significantly better alternative to adapting and/or modifying the organization to its situation(s) and the optimal strategies and tactics to take. Monitoring the "Warning Signals" is another learning approach used by management. Through various means of vigilantly monitoring the organization and its environment, management is aware of changing situations and the adaptations of strategies and tactics that are required. Over time, management learns which form(s) of adaptation and modification are optimal for the situations being encountered by the organization. Under "Normal" conditions of urgency, management is monitoring the situations of its organization to determine what threats or opportunities are present. Management takes such approaches as deemed necessary to adapt to maintain the dynamic equilibrium of the organization. Such approaches may be proactive and/or reactive to the situations faced by the organization and its management. "Pending Crisis" and "Disaster" are conditions that necessitate major or emergency adaptations and modifications of organizational strategies and tactics. In the former situation, major adaptations are necessary with some time available for rational managers to make strategic and tactical changes in systematic ways. In the latter situation, progressive managers will be able to put the organization's contingency plans, programs, activities and resources into action. Organizations lacking such contingency arrangements tend to react in haphazard, ad hoc ways and suffer undue consequences from not being proactively prepared.

### Emergent strategies and tactics

Small business owners, divisional or departmental and operating managers are most aware of the need for adapting strategies and modifying tactics to evolving situations. These managers and their teams or organizational units are "close to the action" and sensitive to changing forces and conditions in their environments, especially those which are threatening to the organization. As a consequence of these attributes, progressive managers for decades have been practicing participatory management as a means of proactively adopting to changing and challenging situations.

A rich literature is available to assist managers in adapting to emerging situations. More than four decades ago, Alfred D. Chandler stated a series of propositions, the second one of which was: ... the administrator must handle two types of administrative tasks when he is coordinating, appraising and planning the activities of the enterprise. At times, he must be concerned with the long-run health of his company, at other times with its smooth and efficient day-to-day operations. Chandler, *op. cit.*, p. 9.

Nearly thirty years ago, other authors identified strategic issues that confronted companies in emerging industries. Charles W. Hofer and Dan Schendel, *Strategy Formulation: Analytical Concepts*, St. Paul, Minn.: West Publishing Company, 1978. Two of the critical issues then are common today: 1. how to finance initial operations until sales and revenues take off, i.e., venture capital and financing; and 2. what market segments and competitive advantages to focus on in attempting to gain a secure position, i.e., early entry benefits. In their classic article, Mintzberg and Waters propose eight approaches to formulating strategies suitable to emerging situations. Henry Mintzberg and James A. Waters, "Of Strategies, Deliberate and Emergent, *op. cit.* pp. 257-73. Of the approaches presented, only the *entrepreneurial* strategies and tactics were adaptable and thus distinguishable from planned strategies. A second adaptive approach, i.e.,

*imposed* strategies, evolves when the environment directly forces the organization and its management into a reactive series of actions. From a competitive market perspective, six courses of strategic and three courses of tactical action have been outlined. Thompson and Strickland, *op. cit.*, pp. 251-2.

The “strategic avenues” include:

- trying to win the early race for industry leadership with risk-taking entrepreneurship and a bold, creative strategy;
- as technological uncertainty clears and a dominant technology emerges, adopt it quickly;
- form strategic alliances with key suppliers to gain access to technological capabilities, specialized skills and critical materials or components;
- acquire or form alliances with companies that have related or complementary technological expertise; and
- pursue new customer groups, new user applications and entry into new locations.

The tactical modifications included:

- efforts to perfect technology, improve product quality and develop better features;
- to encourage first time buyers, make the product or service easily purchasable; and
- use price cuts to attract the next wave of price-sensitive buyers into the market.

### Roles, Tasks and Management Style

In small business, the entrepreneur makes the adaptations as situations dictate, i.e., *ad hoc*cracy. A primary role of the small business owner is to take the lead, make the decisions, take the action, perform many of the operating tasks and keep pursuing his or her dreams or objectives. At the other end of the size, scope and complexity spectrum, boards of directors have numerous, more formal roles and tasks, many of them prescribed by law and the incorporation documents of the company. In North America, Western Europe and other advanced countries, directors are taking on expanding roles, notably in regard to governance of the corporation and being increasingly responsive to social responsibility and other critical issues in the environment. The external pressures for greater board involvement have stimulated some insightful research. One study of 114 board members found that directors’ involvement was negatively related to the size of the board, the levels of diversification and insider representation. William Q. Judge and Carl P. Zeithaml, “Institutional and Strategic Choice Perspectives on Board Involvement in the Strategic Decision Process”, *Academy of Management Journal*, October 1992, Vol. 35, Issue 4, p. 769. By contrast, board involvement was found to be positively related to financial performance. In another, more recent paper, one of the key conclusions was that the composition of the board is altered to respond to significant changes in the external environment of the corporation. Amy J. Hillman, Albert A. Cannella Jr. and Ramona L. Paetzold, “The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change”, *The Journal of Management Studies*, March 2000, Vol. 37, Issue 2, p. 235. Is such a response strategic, tactical or both?

The nature of the organization and its management style often shape, if not determine, the approach taken to dynamic situations. Historically, military organizations, notably armies, have provided clear examples of approaches taken to warfare. Institutionalized armies have limited success with rebels, insurgents or less structured combatants. The British “redcoats”, marching in specified lines, with flags flying, drums being beaten and horns sounding, were easy prey for the revolutionary militia during the U.S. War of Independence. The highly structured armies of the Third Reich were found to be excessively vulnerable to disorganization and inferior combat performance when senior officers were killed or captured. They lacked the flexibility of the Allied

forces in World War II. In more recent times and non-military organizations, similar challenges persist. In contemporary models of change in health care professions, the applications of modern management principles to health care creates the risk of overriding the action orientation that is a defining component of professional work. Eugene S. Schneller and John B. Ott, "Contemporary models of change in the health professions", *Hospital and Health Services Administration*, Spring 1996, Vol. 41, Issue 1, p. 121. To protect the action orientation, the *system of professions model* is advocated as an approach to secure and sustain their position. In the health care sector, two other approaches merit consideration. They are:

- \* a model of *redesigning patient care* which applies total quality management (TQM) and other industrial techniques to the health care workplace; and
- \* a *strategic adaptation model* by which professionals attempt to adjust to changing environments, much like organizations in other sectors are doing.

## Teams

Teams or groups of specifically designated personnel are commonly used in corporations and other large companies or government agencies to make adaptations to organizational strategies and tactics. Such teams will have breadth and depth of expertise, ranging across organizational mandates and functions and from general to highly technical and operational capabilities. When long term strategic adaptations are the mission, e.g., mergers, major acquisitions and/or capital expansions, such groups will be headed by a generalist and comprised of personnel who tend to be multi-functional in their expertise and experience. In situations where the strategic adaptation is diversification, either product line, geographic or both, the team will include a multi-functional mix of personnel, including a general manager, several marketing, finance, information technology, production, human resources and distribution specialists. In product line diversification, brand managers and key personnel have lead roles and tasks. In geographic diversification, nationals and personnel with appropriate cultural backgrounds will be integral to the composition of the team. Like much of modern day management in large organizations, teams of strategic and tactical specialists will provide the expertise, leadership and capabilities to effect change efficiently, effectively and economically.

In medium and small companies, the roles, tasks and responsibilities "fall on the shoulders" of a smaller group of personnel, mainly the owners and senior managers of the firm. Few resources are available for making strategic adaptations while tactical modifications are on-going as integral activities of progressive companies. Since a major part of strategic adaptations involve cut backs, the teams have a strong human resources component to counsel and assist employees who are losing their work and compensation, their self-esteem and social worth and faced with making major, fundamental changes in the work and life style. In situations involving outsourcing and relocations, human resources, production, finance, marketing, product and geographic personnel will be integral to the project teams mandated to make the strategic adaptations and tactical modifications.

## Functional changes

Organizations seldom require teams to create and make major, multi-functional strategic changes. More often, strategic adaptations and tactical modifications are smaller in scope, requiring less time and resources and appreciably less in risk. Consequently, the approaches that management takes are predominantly functional. Since much of organizational strategy is oriented to markets,

publics or clients, the main focus of strategic adaptations and tactical modifications will be on marketing. Because most organizational changes involve resources, finance and human resources are two other key functions to consider in this Activity. Accounting and other forms of information systems are integral to strategic adaptations and tactical modifications. Ultimately, a prime objective of such adaptations is to increase productivity and returns from assets and organizational operations.

## Marketing

In most organizations, marketing encompasses the activities most likely to be used in adapting the organization strategically and tactically. In business, the marketing people are more likely to function in the external environment than others in the organization. Marketing adaptation has become a factor critical to a firm's success in national and global markets. Tung-lung Chang, "Formulating adaptive marketing strategies in a global industry", *International Marketing Review*, 1995, volume 12, issue 6, p. 5. Frameworks and processes are available which assist managers in improving their adaptive abilities when developing appropriate marketing strategies for global expansion. Having an approach that utilizes organizational slack can be particularly beneficial to an organization, especially in times of slow economic activity.

Of the marketing activities, *pricing* is the most commonly used means of adaptation. With few exceptions, pricing is an integral part of competitive strategies, especially in consumer-based markets. While services and/or product lines may be priced strategically in an effort to maximize revenues, gain or maintain a quality image or for other long term objectives, in competitive markets pricing is highly tactical. *Selling* is integrally related to pricing. Sales personnel "cut prices", give discounts, make credit arrangements and use other pricing-related means for making sales. No marketing adaptation activities are as tactical as pricing and selling.

*Promotion* activities are closely related to selling and pricing. By definition, promotion focusses on persuasive communication with customers for the purpose of advancing the objectives and/or goals of the organization. Typically, national or international advertising campaigns are planned and developed with long range, strategic objectives. Other advertising and promotional components of such campaigns, e.g., local advertising, merchandise displays and couponing, are highly tactical. Making strategic adaptations to long term advertising campaigns is more difficult and costly than making modifications to tactical promotions.

Within marketing campaigns and systems, *distribution* is one of the most complicated, and least adaptable, especially for large scale, e.g., global, organizations. In part, the complications emanate from the need for controls of quality, flows, levels and timing of inputs, e.g., labor, materials and supplies, processes, e.g., production, and outputs, e.g., finished products and waste. Controls of inputs, processes and outputs necessitate optimally planned, developed and scheduled uses of transportation, storage and communications systems. Such optimality can be achieved by making tactical modifications, e.g., re-routing shipments, and, less often, strategic adaptations, e.g., closing warehouses or discontinuing shipments to insolvent customers.

The most challenging adaptations in marketing involve *product* and *market* strategies. For new and established products, life cycles provide a common basis for determining the adaptive approaches to take to changing competitive and market conditions. Several matrix approaches are

valuable in analyzing and planning product portfolio changes. The Profit Impact of Market Strategy (PIMS) approach uses past performance and experience to guide future decisions. New product or service introductions require major marketing adaptations. Typically, new or innovative products or services are intended to gain or sustain a competitive advantage. If competitors pre-empt or react effectively, then the "intro" will not likely have the desired results. To prevent such competitive pre-empting or effective counter tactics or strategies, companies make major efforts to modify their marketing practices and safeguard their product introductions. Prototypes are tested and products are made in various locations, unbeknown to relevant units of the organization, investors, the general public and, especially, competitive companies. When new products or services are introduced, numerous and, at times, major modifications are needed in the promotion, distribution and sales programs.

Research findings indicate that business organizations make a significant number of adaptive changes in all areas of the sales management mix. Thomas R. Wotruba and Linda Rochford, "The impact of new product introduction on sales management strategy", *Journal of Personal Selling and Sales Management*, Winter, 1995, volume 15, issue 1, p. 35. Quotas are most likely to be changed and the organization structure is the least likely to be modified. To recapture lost profits and compete better in the future, adaptive tactics such as cross-selling, have been used by European resellers of computers to increase the volumes in orders, increase economies of scale and efficiency. Jack Sweeney, "European resellers change tactics", *Computer Reseller News*, September 11, 1995, issue 648, p. 36. Given the adage that "nothing happens in a company until a sale is made", sales personnel and programs are highly adaptive in their strategies and tactics.

Market scope strategies focus on extensive and intensive coverage of targetted markets or niches. Even global corporations, such as McDonald's, Mercedes and Proctor and Gamble/Gillette, focus primarily on target markets such as children, affluent adults and homemakers. The degree and extent of the adaptations depends on a multitude of factors. Is the strategy single-, multiple- or total-market oriented? Is the strategy local-, regional-, national- or internationally/globally-market directed? Is the market strategy aimed at entry, expansion, maintenance or exist? These three questions raise a multitude of issues for strategic adaptations and tactical modifications.

There are only limited periods during which the fit between the key requirements of a market and the particular competencies of a firm competing in that market is at an optimum.

Companies should not, therefore, tie themselves to a particular market strategy permanently.

Subhash C. Jain, *Marketing Planning and Strategy*, Cincinnati: South-Western College Publishing, 5th Ed., 1997, p. 324.

While long term campaigns, programs and activities may be reasonably continuous and consistent, shorter term modifications will be required to "fine tune" such endeavors and make them optimally successfully. Typically, market and product strategies are interrelated, interactive and interdependent, making them adaptable systemically as well as modified by more specific activities and their inherent details. Numerous and various accounting/information systems are available to provide the quantity and quality of data needed, on a timely basis, to make the adaptive and modifying decisions required by management.

## Finance

Financial information often triggers the need for strategic and tactical adaptations. Revenues are down, below forecasts or expectations of management. Costs are higher than budgetted and adversely impacting on cash flows. Profits are less than forecasted and causing negative reactions

from investors and/or other stakeholders. As a consequence of these and/or other unsatisfactory financial conditions, adaptations have to be made. Those adaptations will occur in the financial function, e.g., revising forecasts, objectives and targets, and in other functional areas, especially marketing, production and human resources. The multi-functional nature of financial issues necessitates multi-functional teams to adapt their strategies and modify their tactics.

Major corporate scandals, such as Adelphia Communications Corp., Arthur Andersen, Enron Inc., Hollinger Inc., Nortel Networks, Shell Canada, Tyco International, WorldCom Inc., and other companies in various industries brought critical attention to the variability and abuses of accounting information and financial management. Such criminal behavior has caused major strategic changes to be made in the finance function. Even less dramatic influences, such as the accounting methods used in different countries, require strategic adaptations and tactical modifications. A study was conducted with United States-based Japanese manufacturers for the purpose of determining the current direction of accounting practices being transferred from Japan to American workplaces. Y.S.A. Chen, Timothy Romocki and Gilroy J. Zuckerman, "Examination of U.S.-based subsidiaries: Evidence of the transfer of the Japanese strategic cost management", *The International Journal of Accounting*, 1997, Vol. 32, Issue 4, p. 417. The results of the research showed that most of the U.S.-based Japanese companies were similar to Japanese firms in their use of management accounting methods of target costing and value engineering, variable costing and strategic adaptations of traditional methods such as standard costing and budgetting. For a wide variety of reasons, the finance function is integral to strategic and tactical situations.

#### Production/operations

In the past, methods of arts and crafts production were highly adaptable. Few, if any, products were the same. With the advent of mass production came large volumes of standardized products made by highly developed processes. During present times, industrialized nations have productive capacities that exceed the demand of those who are able, financially, distributively and otherwise, to purchase such goods. Making changes in the production function commonly requires tactical modifications and, to a lesser extent, strategic adaptations. Production systems and their component pieces of equipment and processes require "fine-tuning", just like violins before being played in a symphony or a ballet. Periodically, often when productivity, customer demands or other competitive situations dictate, major adaptations will be made to the production strategies of an organization. If a company's strategic advantage is low cost, new or innovative technology may be required to optimize production runs and lower marginal costs. If the competitive advantage is based on product differentiation, new designs, re-tooling and other adaptive changes will be needed in production systems. If the strategy is first into market, then strategic adaptations and tactical modifications are essential to make radical changes as well as more evolutionary, incremental ones in the market. The nature of the production and related strategies greatly influence the nature, scope, costs, risks and other vital considerations in making adaptations and modifications.

#### Human resources

During the three year period of mid-2001 to mid-2004, Nortel Networks eliminated 60,000 jobs, many of them in management. In mid-2004, Air Canada planned to cut 25 percent of its managers. The acquisition of Gillette by Procter and Gamble in 2005 was expected to generate savings of up to \$16 billion, including job cuts of 6,000 employees. What these occurrences indicate is the reactionary nature of making adaptations to human resources and work force strategies. In

each situation, the company's strategic and tactical modifications were triggered by financial considerations. The companies needed to cut costs. Sometimes, organizations cut programs, cull products from their lines, introduce technical innovations, streamline operations and cut production. Almost inevitably, adaptive actions involve changes in working conditions and the employment of people in the organization. Re-organizing and re-structuring are common organizational adaptations. Increasingly, such adaptations lead to the elimination of jobs. In the Air Canada situation mentioned above, the CEO stated,

As we restructure the airline profitably in the new environment, we are eliminating a layer of executive management in many areas and pushing more responsibility down to the next level of management. Robert Milton, quoted in Virginia Galt, "Air Canada to cut 25% of managers, *The Globe and Mail*, July 15, 2003, B3.

Of the 1,100 jobs eliminated, four were vice-president positions.

The elimination of positions, jobs or employees raises several vital issues for management. Assuming that most organizations will grow in the future, is such a tactical adjustment as cutting the work force an acceptable strategic adaptation? While "desperate times" may require "desperate measures", research findings show that such short term reactions to challenging situations have adverse long term consequences. Hypocrisy is another, more contentious issue. While Air Canada was eliminating thousands of jobs in an effort to stave off bankruptcy and become attractive to creditors, the federal government and investors, the two most senior executives agreed to multi-million dollar offers from a prospective takeover company to continue in their positions. A third issue is: what is the best approach to take to organizations with declining financial resources? Since each situation is different, no panacea or formula of success is known. However, the following two approaches taken to a similar set of circumstances illustrates two strategic and tactical adaptations.

Between 1983 and 1985, Simon Fraser University (SFU) and the University of British Columbia (UBC) had to adapt to multi-million dollar reductions in operating grants from the British Columbia government. The two institutions dealt with their situations quite differently. UBC cut programs and terminated nine tenured faculty members. SFU absorbed the reductions through attrition, early retirements, a hiring freeze and faculty pay cuts. Greenberg, et al, *op. cit.*, p. 434. A subsequent analysis of the organizational adaptations showed that political contexts and pressures shaped the retrenchment decisions.

Both institutions were attempting to accommodate the financial and political pressures forced on them by the government. In order to do so, central administrators had to juggle the different interest groups that had the power (or potential power) to have an impact on the retrenchment decision process. C. Hardy, "Retrenchment strategies in two Canadian universities: A political analysis", *Canadian Journal of Administrative Sciences*, 1992, pp. 188-9.

This situation illustrated was the strategic contingencies approach.

The strategic contingency model is based on power through dependence. "To the extent that a department is able to control the relative power of various organizational subunits by virtue of its actions, it is said to have control over *strategic contingencies*." Greenberg, et al, *op. cit.* p. 433. In effect, the organizational units and/or managers which were central in importance had the political power to shape the strategic and tactical adaptations of the organization. Successful companies tended to focus the control and decision making over strategic (and tactical) contingencies within the organizational units most responsible for the success of the organization. In most organizations, the hierarchical structure clearly depicts the levels of independence-dependence present. When strategic

and tactical adaptations are needed in an organization, they are made where the dependence is greatest; at the lowest levels in the hierarchy.

In many organizations, strategic adaptations of human resources departments, programs and other activities are residual adaptations. Management tends to deal with people in the organization at the end of its strategic adaptation process or as tasks and responsibilities that have to be dealt with because employees are an expense or maybe needed to make the organization productive. In the calculus of many organizations and their managements, human resources are expenses that need to be incurred or eliminated. Historically, labor and its costs were closest to being transferable, e.g., to machinery or to part-time employees. In recent times, with the growth of globalization, workers are being hired almost anywhere in the world to do interchangeable jobs. Outsourcing of work has become a major and growing trend in strategic human resource adaptations to emerging situations, most notably the increased competitive pressure to lower production costs.