

# Adaptive Strategies And Survival in an Environment Dominated by Economic Decline

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## Abstract

*Hall (1980) described the "hostile environment" to be faced by organizations during the decade ahead and provided prescriptions for dealing with a hostile environment. Our study examined 25 firms operating in an economically depressed area containing a number of elements corresponding to Hall's hostile environment. Specifically, we sought to identify adaptive survival strategies used by the sample of firms. We then related the observed strategies to Hall's prescriptions. Generally, the firms employed one or both of the strategies prescribed by Hall: (a) lowest delivered cost and (b) differentiated position. While Hall cautioned against diversification, firms in this study did diversify, primarily through acquisition or by modifying technologies for use in other markets.*

## Introduction and Background

Approximately 10 years ago, Hall (1980) surveyed 64 companies operating in what he called a "hostile environment," which he believed would be increasingly characteristic of the situations to be faced by organizations in the decade ahead. The hostile environment, as described by Hall, is typified by slower or erratic growth, inflationary pressures on costs, regulatory pressures, and increased domestic and foreign competition. As we enter the 1990s, the relevance of Hall's ideas about the hostile environment and the merit of his prescriptions for dealing with such environments need to be reconsidered. This study examines adaptive strategies for survival in an economically depressed environment, relates that environment to the hostile environment described by Hall, and relates the strategies employed to Hall's prescriptions.

Hall expressed doubt that the kinds of analyses and approaches to growth environments which were popular in the late 1970s could be counted upon in hostile environments. Based on an in-depth study of the strategies used by 64 organizations, Hall announced an important set of findings. The findings which relate to the present study are summarized below:

1. Some firms enjoyed great success, even under hostile conditions, while others failed.
2. Successful firms employed common strategies involving purposeful moves toward a leadership position

while failure to employ such strategies led firms into difficulties.

3. Diversification was, generally, not an appropriate strategy for firms in deteriorating positions.

According to Hall, successful firms achieved leadership through one or both of the following strategies:

1. Achieve the lowest delivered cost position relative to competition, coupled with both an acceptable delivered quality and a pricing policy to gain profitable volume and market share growth.
2. Achieve the highest differentiated position relative to competition coupled with both an acceptable delivered cost structure and a pricing policy to gain margins sufficient to fund reinvestment in product/service differentiation. (pp. 78-79)

These strategies are virtually identical to categories discussed by Porter (1980). Porter, however, included focus as a third strategy. Focus refers to targeting a particular segment of a market (i.e., customer, geographical area, or product range). Firms employing a focus strategy can use either cost leadership or differentiation strategies within the selected portion of the market. In Porter's analysis, the three strategies are seen as applicable in all types of environments, while Hall deals only with the hostile environment.

What Hall found was not being done was as interesting as the strategies he identified. Organizations avoided "... simplistic adherence to doctrinaire approaches toward strategy formulation ..." (p. 81). Among the tools which were avoided were share/growth matrices which would lead to the harvesting of "cash cows" as well as use of experience curve/PIMS models which call for high market share and vertical integration to hold down costs. In periods of decline, Hall's findings also suggest that firms should avoid diversification.

Ten years have passed since Hall reported his observations. During this period, the United States has encountered increasing turbulence, but the literature of the 1980s has not totally reflected Hall's concerns. As noted, Porter's (1980, 1985) primary attention has been with strategies applicable to all environments. Harrigan (1980, 1985, 1986, 1988) has continued Porter's work and has dealt with decline, but her emphasis has been on declining industries and the declining industries' environments. Within Harrigan's (1980) endgame environment, product demand is expected "to plateau at a substantially reduced level ... [or] ... to dwindle to a level which no longer justifies continued production or merchandising" (p. 1). The strategies Harrigan prescribes for declining industries may not be the same as those needed in dealing with hostile environments.

While the literature has not dealt directly with the issues Hall raises, there is some evidence that Hall's principles may be operating but perhaps not fully recognized. Several recent studies have concluded that diversification for its own sake may not be beneficial, although several of the accounts come to the conclusions for reasons other than those cited by Hall (e.g., Reich & Mankin, 1986; Staw & Ross, 1987; Sykes, 1986). There is evidence that theorists are questioning the broad use of acquisitions and are generating guidelines for their controlled use (e.g., Bruton & Alexander, 1989; Gaddis, 1987; Jemison & Sitkin, 1986a, 1986b). Perhaps the most sobering conclusions are drawn by Porter (1987). Porter found that over 70% of acquiring companies divested their new subsidiaries and that the track record was particularly poor for unrelated acquisitions.

Porter believes that four possible approaches may guide acquisition strategies: (a) portfolio management, (b) restructuring, (c) transferring skills, and (d) sharing activities. Of these, only the later two are recommended in the hostile environment. Transferring skills and sharing activities imply a situation where both sides of the acquisition can benefit and prosper. Overall, the literature gives evidence of increasing skepticism about "quick fixes" resulting from poorly conceived diversification strategies.

Harrigan's (1986, 1988) recent work expresses similar concerns where strategies such as vertical integration

and joint ventures are involved. Harrigan (1986) contends that, under adverse conditions, firms should not seek to integrate. She does, however, call for horizontal joint ventures where demand uncertainty is high or when products are commodity-like (1988). This reflects an overall trend in the literature toward identifying contingencies under which specific adaptive strategies are appropriate.

Hall and Porter (1980, 1985) both point to the importance of the low-cost and/or differentiation strategies. While continuing interest in these areas does exist, virtually no research dealing specifically with use of these tactics during difficult economic periods has been conducted. Kim and Lim (1988), Miller (1988), and Miller and Friesen (1986a, 1986b) examined these issues, but they did not deal specifically with hostile environments. In fact, Kim and Lim explicitly dealt with an environment characterized by expansion.

This study will extend Hall's work by examining strategies for survival used by organizations in a specific hostile environment. In this context, the strategies are the major moves by the firm to permit adaptation. The general hypothesis is that organizations confronting the hostile environment will give evidence of adapting in accord with Hall's ideas. Strategies associated with successful adaptation will include attempting to gain leadership through low costs and/or seeking differentiation and avoiding diversification.

### Methodology

Data for this study was collected in New Orleans, LA, between October 1987 and February 1989. New Orleans, like several other Southern and Southwestern cities, was experiencing a severe economic recession brought about by a decline in demand for domestic oil and gas. The recession had followed moves by the OPEC cartel to cut oil prices. Within a few months during 1986, for example, the world price of oil dropped from \$28 a barrel to \$9 a barrel. As a result, demand for more expensive domestically produced oil was sharply reduced which directly affected all of the firms in the industry. The New Orleans economy is highly oil and gas dependent and, as a result, cutbacks and business failures in the oil and gas industry caused a severe local recession. Little improvement was expected in the immediate future.

In Hall's terms, primary factors in the hostile New Orleans environment were lack of growth and the pressures from foreign competitors affecting primarily the oil, gas, and shipping industries. Domestic competition affected industries such as waste management, shipping, and retailing. Many firms did point to regulatory pressures, primarily environmental regulation, tax laws, and other controls specific to the industry. In

general, however, regulation was accepted as a part of doing business. Several firms were able to use environmental regulations or changes in tax laws as bases for adaptive strategies involving the formation of new businesses. Inflationary pressures cited by Hall as contributing to hostile conditions did not appear to be a strong factor in our study. Possible reasons were that the inflation rate had slowed, and several of the firms reported being in a position to pass increased costs on to consumers.

Our study included all publicly-held, non-financial corporations headquartered in New Orleans, LA, a total of 30 firms. When the study began, these firms had suffered a combined net loss of \$200 million for the 1986 fiscal year, a decrease from the previous year's combined net profit of \$500 million (Young, 1987).

Our sample was selected on a different basis from the sample used by Hall. Rather than study specific industries, we examined a population (all publicly-held, non-financial organizations headquartered in New Orleans) in a hostile environment. We looked for commonalities among different kinds of organizations operating in the depressed New Orleans economy.

Developing adequate criteria for judging organizational success is difficult, especially given the design of this study. Hall, studying industries, could use a variety of financial indicators. In our study, industry to industry differences in reporting financial information made it difficult to use financial comparisons as measures of relative success. The interviewees repeatedly pointed out that they considered themselves "survivors." They believed simply managing to "stay alive" as viable organizations for nearly ten years in the hostile conditions constituted a meaningful measure of success. The consensus was that the environment had brought about a severe shakeout, and much of the competition in the various industries had gone bankrupt or had been purchased. The organizations which remained were generally well-entrenched. In each case, the interviewee was able to point to specific strategies which enabled the firm to weather the crisis. Thus, for the purposes of our study, survival is taken as a criterion of success. Using the criterion, the 30 firms are at least moderately successful. Our emphasis is on examining the strategies to which the executives attributed survival and/or growth.

### Study Procedures

The study involved obtaining information during an interview at each corporate headquarters with the Chief Executive Officer, President, or other upper level personnel. The interviews were conducted using recommended techniques for field and survey research (Fowler, 1987; Harrison, 1987; Schatzman & Strauss, 1973)

and were audiotaped for accuracy. The audiotapes were transcribed and additional information was obtained from annual reports, prospectuses, or similar publications as available. The additional information amplified the interview responses. A synopsis of the interview and additional information was provided to the interviewee to review for accuracy. Subsequent direct quotations in the text were obtained from the synopses of the interviews.

The interview obtained the officer's views of the environment and centered on the following questions designed to provide insight into adaptive strategies:

1. What major changes in the organization have been made in the past five years? Why did you make these changes?
2. What major changes in the organization do you anticipate making during the next five years? Why do you plan to make these changes?

Additional questions were added as appropriate for clarification or expansion during the course of each interview.

The total of 30 companies studied included a group of 5 companies which are organized as affiliates of a single, large natural resources company. In our analysis we treated this company as a unit rather than as five affiliates and a parent. Four companies had been public less than five years. In these cases, information on the founding company was also included. The biotechnology company declined the interview request; therefore, public documents were substituted.

The initial step in analysis was to review the strategies which each executive described. Using analytic description based upon "discovered classes and linkages suggested or mandated by the data" (Schatzman & Strauss, 1973, p. 110), strategies were grouped into clusters based on their similarities to each other and to the categories suggested by Hall. The three authors independently reviewed the interview synopses to determine the types of adaptive strategies employed by each organization. Consensus was then used to determine the principal strategies of each firm to be included for subsequent analysis. Next, independent analysis of the organizations and selected strategies was conducted to determine correspondence to Hall's categories. Consensus was used to divide the firms into lowest cost and differentiation. Independent analysis again occurred to identify linkages within Hall's two categories to use in forming subgroups of strategies. Consensus determined the ultimate clustering and labeling of strategies.

## Results and Discussion

Judgments concerning the classification of organizations are subjective. Boundaries overlap to some degree. Even given these problems, the firms in this study appeared to cluster into five general categories. Many of the categories related to Hall's findings and were divided as to major emphasis on lowest delivered cost or differentiated position. The division was again subjective with some firms emphasizing both positions. Because the clusters which developed appeared to correspond closely to several of the categories of grand strategy suggested by Pearce (1982), cluster names were derived from that source. Table 1 describes, by cluster, the organizations and their primary strategies.

### *Cluster One: Lowest cost. Horizontal integration/divestiture.*

Three firms are in this cluster. In general, the strategy is to divest non-related business holdings and acquire available firms within the area of competence. Such moves appear to be made to permit the acquiring organization to take advantage of various kinds of efficiencies which lead to cost leadership. The emphasis in these firms appears to be on identifying the firm's primary business purpose, cutting back anything not falling within that purpose, and using acquisition to grow within the designated area.

Table 1 conveys that two of the three firms in Cluster One are solely in the oil and gas industry, and these organizations explicitly discuss a strategy of divesting interests unrelated to oil and gas. The third firm, which includes oil and gas along with other natural resources, also mentions selling properties that do not fit into the overall plan. Previous holdings as well as the undesired portions of new acquisitions have been divested. The natural resources company takes pride in being the lowest cost producer of each of the company's products.

All three firms made moves to insure that they would have the financial capability to buy out failing competitors. The respondent from the contract drilling and exploration company viewed the situation as "... a time when only the very fit were surviving and almost an economic Darwinism." All pointed to the opportunities presented to financially healthy firms to acquire failing competitors at extremely low prices. Harrigan (1980) describes a similar phenomenon as a strategy for firms in declining industries to seek dominance. The activities in Cluster One suggest that this strategy may also be appropriate in hostile environments. The natural resources company and the oil and gas exploration, production, and acquisition company stress the benefits of acquiring synergistic businesses. Costs of production are immediately reduced, and operations are often integrated into the existing organizational structure.

While these firms did pursue low-cost strategies, they did not pursue doctrinaire market penetration strategies. For example, the contract drilling and exploration company's policy was that bids for work had to be cash flow positive. This resulted in losing much of the available work. Other companies with high utilization rates (i.e., pursuing a pure market penetration strategy) were accelerating cash losses. Apparently, many such firms later attempted to change strategies, but for most, it was too late. This finding is fully in line with Hall's observation that doctrinaire market penetration strategies are not used by successful firms in the hostile environment.

### *Cluster Two: Lowest cost. Concentration/retrenchment.*

The emphasis of these firms is on internal moves without making significant use of acquisition. Table 1 suggests that these firms relied upon their own management and/or technology to achieve cost savings. The shipbuilder respondent pointed to the intense competition from foreign firms which faces United States shipbuilders and the organization's ability to control costs as a key element in its strategy. The development of modular construction methods has contributed to making this firm "... one of the most efficient and cost competitive of United States shipbuilders." The steel producing company became a low-cost producer, expanded markets, and recently invested in new technology. "The key to success in an increasingly competitive steel market is to be a low cost producer." At the data base company, the decision has been to stay with technology which delivers "... 80 to 90 percent of the reliability of modern seismic data but at 1 to 5 percent of the cost..." This organization believes it can be cost competitive by delivering a product near the quality of competitors at a fraction of the cost.

The first three firms in Cluster Two are clearly characteristic of Hall's low cost strategy and the other firms show evidence of the strategy less clearly. The three remaining companies in this cluster have had relatively good success over a number of years and have apparently made the decision not to change what management believes to be basically sound practices.

A major strategy of these three firms in Cluster Two has been to restructure finances to permit operation until more favorable economic conditions return. The oil field services company completely restructured its debt with deferral of principal payments. The department store terminated a pension plan and recovered \$4.4 million from the overfunded plan. A variety of real estate transactions, including the sale and leaseback of a store, and plans to seek a purchaser for other holdings were reported. The electric utility reduced the amount of high-cost commercial bond debt through bond financings and refinancing efforts and also changed accounting methods.

TABLE 1

FIRM	DESCRIPTION	STRATEGIES TOWARD LEADERSHIP POSITION
<b>CLUSTER ONE - LOWEST COST. HORIZONTAL INTEGRATION/DIVESTITURE.</b>		
NATURAL RESOURCES COMPANY	EXPLORATION/MINING/PRODUCTION/PROCESSING OF SULPHUR/OIL/GAS/GOLD/COPPER/SILVER/URANIUM/PHOSPHATES/GEOTHERMAL ENERGY	FORMED PUBLIC ENTITIES, ACQUIRED COMPANIES/SOLD INCOMPATIBLE PORTIONS, DEVELOPED/SOLD TECHNOLOGIES, DIVESTED NICKEL MINE
OIL AND GAS EXPLORATION, PRODUCTION, AND ACQUISITION COMPANY	EXPLORATION/PRODUCTION OF CRUDE OIL/NATURAL GAS	DIVESTED NON-OIL INTERESTS/UNITED KINGDOM RESERVES, ACQUISITIONS, LOW-COST/RISK DRILLING
CONTRACT DRILLING AND EXPLORATION COMPANY	LOCATION/DEVELOPMENT/PRODUCTION OF OIL/GAS, OFFSHORE CONTRACT DRILLING, UNDERWATER INSPECTION/CONSTRUCTION	DIVESTED INSURANCE OPERATION, MAINTAINED OIL/GAS PRODUCTION, ACQUIRED DRILLING FLEET/FARHOUTS/LEASES, UNITED KINGDOM JOINT VENTURE
<b>CLUSTER TWO - LOWEST COST. CONCENTRATION/RETRENCHMENT.</b>		
SHIPBUIDER	CONSTRUCTION/REPAIR OF VESSELS, CONSTRUCTION OF NON-MARINE FACILITIES/RIGS/PLATFORMS/BOATS/BRIDGES	ESTABLISHED INDEPENDENCE, MODULAR CONSTRUCTION, PUBLIC OFFERING, ACQUIRED SMALL VESSEL COMPANY, LEASED LOCAL SHIPYARD
STEEL PRODUCING COMPANY	MINIMILL/ROLLING MILL (PRODUCES BILLETS ROLLED INTO SHAPES OR SOLD TO OTHER STEEL PRODUCERS)	REORGANIZATION, PURCHASED BY HOLDING COMPANY, REVISED PRODUCT MIX, INCREASED STOCKING POINTS, PUBLIC OFFERING, NEW TECHNOLOGY
DATA BASE COMPANY	DATA/INFORMATION PROCESSING SERVICES TO OIL/GAS EXPLORATION INDUSTRY	DOWNSIZED TO SINGLE UNIT, TECHNOLOGICAL UPGRADE OF SALES STAFF
DEPARTMENT STORE	EMPHASIS ON FASHION/QUALITY/SELECTION/SERVICE	SALE & LEASEBACK/MORTGAGE OF STORES, JOINT VENTURE SHOPPING CENTER, RENOVATION
ELECTRIC UTILITY	PROVISION OF ENERGY TO RESIDENTIAL/COMMERCIAL/INDUSTRIAL CUSTOMERS	BOND FINANCING/REFINANCING, DIFFERENTIAL PRICING, RATE PHASE-INS
OIL FIELD SERVICES COMPANY	MARINE PETROLEUM SUPPORT, NATURAL GAS PRODUCTS/SERVICES	DIVESTED NON-MARINE/COMPRESSION BUSINESSES & COMPRESSION/AIR DRILLING SUBSIDIARIES, RESTRUCTURED DEBT, ACQUIRED VESSELS
<b>CLUSTER THREE - DIFFERENTIATION. PRODUCT/MARKET DEVELOPMENT.</b>		
EYE CARE PRODUCTS COMPANY	MARKETING/DISTRIBUTION OF OPHTHALMIC PRODUCTS AND CONTACT LENSES	ACQUIRED COMPANIES, INVESTMENT IN SUPPLIER, BEGAN MANUFACTURING FACILITY
WASTE ANALYSIS AND TREATMENT COMPANY	ANALYSIS/TREATMENT OF HAZARDOUS/ NONHAZARDOUS WASTES	DEVELOPED TECHNOLOGY TO MEET REGULATIONS, ACQUIRED LABORATORY AND SUBSIDIARIES
SPECIALTY RESTAURANT CHAIN	FULL-SERVICE SPECIALTY RESTAURANT CHAIN	CONVERSION TO CURRENT SPECIALTY, PUBLIC OFFERING, FRANCHISES, INVESTMENT IN MARKETING/SITE SELECTION/PERSONNEL
ENTERTAINMENT FACILITY	RACETRACK WITH LEGALIZED WAGERING/FOOD & BEVERAGE SERVICES	UPGRADED/REFURBISHED FACILITIES, INCREASED/BROADENED ADVERTISING
BIOTECHNOLOGY COMPANY	DEVELOPMENT OF THERAPEUTIC/DIAGNOSTIC PRODUCTS BASED ON UNIQUE IMMUNOREGULATORS	TESTING BIOLOGIC AGENT, DEVELOPING IMMUNE FUNCTION DIAGNOSTIC TESTS, OPENED NORTHEAST FACILITY
HELICOPTER TRANSPORTATION COMPANY	HELICOPTER TRANSPORTATION FOR OFFSHORE OIL & GAS EXPLORATION/DEVELOPMENT/PRODUCTION & HOSPITALS	ENTERED MEDICAL SERVICE, SOLD EXCESS HELICOPTERS, DIVESTED 30% INTEREST IN ARABIAN HELICOPTER COMPANY
REAL ESTATE INVESTMENT TRUST	INVESTMENT IN INCOME-PRODUCING REAL PROPERTY	PARENT FORMED INVESTMENT TRUST/ORGANIZED MANAGEMENT COMPANY FOR SERVICES
ALUMINUM TECHNOLOGY COMPANY	RESEARCH/DEVELOPMENT OF COMMERCIAL PRODUCTION PROCESSES FOR ALUMINUM/ALUMINUM CHLORIDE PRODUCTS	GENERAL PARTNERSHIP FORMED FOR PRODUCTION PLANT, REFINED TECHNOLOGY, STOCK OFFERINGS/DEBENTURES
<b>CLUSTER FOUR - DIFFERENTIATION. CONCENTRIC DIVERSIFICATION.</b>		
OIL AND GAS ACQUISITION AND EXPLORATION COMPANY	ACQUISITION/DEVELOPMENT OF OIL/GAS PROPERTIES & MANAGEMENT OF OIL/GAS LIMITED PARTNERSHIPS FOR PUBLIC INVESTORS	DIVESTED CANADIAN PETROLEUM SUBSIDIARY & ACQUIRED COMPANY RESERVES
INTERNATIONAL MARINE TRANSPORTATION COMPANY	FREIGHT TRANSPORTATION EMPHASIZING MEDIUM-TO LONG-TERM CHARTERS	SHIFTED FROM COMMON CARRIAGE LINE OPERATOR TO CONTRACT CARRIER, FOUND NICHES, ACQUISITION BASED ON CONTRACTS, FOREIGN LIMITED PARTNERSHIPS
NATURAL GAS DISTRIBUTOR	GAS PROVISION TO RESIDENTIAL/COMMERCIAL/INDUSTRIAL CUSTOMERS, EXPLORATION/DEVELOPMENT OF OIL/GAS	ACQUISITION OF OIL/GAS RESERVES, LOW RISK DRILLING, REDUCE DEPENDENCE ON SUPPLIER, AGGRESSIVE MARKETING
ENERGY SERVICES COMPANY	POWER GENERATION SYSTEMS/EQUIPMENT, MARINE CONSTRUCTION	ELECTRIC POWER INDUSTRY ACQUISITION, AUTOMATED MARINE/UPGRADED EQUIPMENT/NAVAL CONTRACTS, DIVESTED UNPROFITABLE UNITS
ENVIRONMENTAL SERVICES COMPANY	SERVICES TO OIL & GAS EXPLORATION/DRILLING/PRODUCTION INDUSTRY WITH SHIFT TO ENVIRONMENTAL SERVICES	DIVESTED DRILLING BUSINESSES, FINANCIAL RESTRUCTURING, BARGE CLEANING/DRILLING WASTES/PIT CLOSURES
RADIO POSITIONING COMPANY	ELECTRONIC POSITIONING TO LOCATE SITES & RECORD INFORMATION, INVESTMENT IN HELICOPTER TRANSPORTATION COMPANY	DIVERSIFIED PRODUCT APPLICATIONS, PARTICIPATION IN GLOBAL SYSTEM, UNITED KINGDOM JOINT VENTURE
<b>CLUSTER FIVE - DIFFERENTIATION. CONGLOMERATE DIVERSIFICATION.</b>		
SOLID WASTE AND TIRE COMPANY	COLLECTION/DISPOSAL OF SOLID WASTE, RETAILING/WHOLESALING/RETRADING OF TRUCK TIRES, 29% INTEREST WASTE ANALYSIS & TREATMENT COMPANY	DIVESTED SUBSIDIARY (RETAINED INTEREST)/COMMERCIAL AND INDUSTRIAL WASTE BUSINESS, DIVERSIFIED INTO TRUCK TIRES
RETAIL SPECIALTY COMPANY	112 STORES (HIGH-QUALITY SHOES/APPEL POPULARLY PRICED FOR ENTIRE FAMILY, 7 STORES (HOME BUILDING MATERIALS)	SHOE/APPEL EXPANSION OUTSIDE LOUISIANA, HOME BUILDING DIVERSIFICATION/EXPANSION IN GEORGIA AND SOUTH CAROLINA

*Cluster Three: Differentiation. Product/market development.*

The helicopter transportation company epitomizes a differentiated position in striving for distinction. "The only thing to sell is the perception of being a little bit better, giving a little more, and working a little bit harder than the other companies." Emphasis on service has been a key factor in portraying this image. Oil and gas cutbacks affected business, but the shakedown resulted in fewer competitors, leaving this firm in a good position to compete in the reduced market.

Basically the strategies of the firms in Cluster Three correspond to Hall's ideas on differentiation. The eye care products company respondent stated that the company "... served as the trailblazer as previously no ophthalmic company sold generic products under the company's brand name." The waste analysis and treatment company has capitalized on a niche created by government regulation by specializing in conforming chemical treatment processes to the new regulations. The real estate investment trust was formed in response to tax laws, particularly the Tax Reform Act of 1986, and provides access to equity markets at a lower cost of capital. In contrast to Hall's thesis, regulation is a source of opportunity, rather than an environmental threat, for these two firms.

The entertainment facility and the specialty restaurant chain have both emphasized their unique products and have devoted most of their energies to refining the quality and the presentation of the product. The entertainment facility expanded its customer base and services, and the specialty restaurant chain improved its site and market selection.

For the aluminum technology company and the biotechnology company, the key feature is research to develop new products. The aluminum technology company engaged in research to refine its technology and plant modifications directed toward achieving commercial production levels. Research refinements permit 90 percent recoverability of the aluminum compared with the previous 30 to 40 percent. The biotechnology company is developing patent rights to therapeutic and diagnostic products in immunoregulator research.

In general, all of the organizations in this cluster emphasized knowing and operating within their niches. Expansion was within the main businesses. The waste analysis and treatment company, for example, made an acquisition which enabled the business to expand geographically to California. The eye care products company acquired an organization serving optometrists, thereby expanding its customer base from the ophthalmologist market previously served.

*Cluster Four: Differentiation. Concentric diversification.*

Six firms were classified in this category. Table 1 indicates that all but one of the firms are in industries directly affected by the oil and gas cutbacks. The general pattern was (a) divesting or reducing dependence on the volatile rig count and expanding into related industries less affected by the cutbacks or (b) identifying niches where the firm's competencies would be advantageous. This cluster corresponds with Porter's (1980) concept of focus as a third strategic type. This cluster also has similarities to Harrigan's (1980) repositioning strategy for firms in a declining industry.

Several examples will illustrate the activities captured by this cluster. The environmental services company disposed of its oilfield pipe and drilling fluids businesses. A new position as provider of environmental services, such as barge cleaning and pit closures for the oil and gas industry, was established. In this case, the firm entered a related business. New pit closure regulations provided a niche within which the firm now operates. Similarly, the energy services company made moves to "downsize" oil and gas related businesses. The respondent also reported a decision to concentrate on those businesses that the company "understands and considers compatible." A key acquisition was in the electrical power industry through which the company has "moved aggressively to maintain and improve [market position]."

Other oil and gas related companies also reported changes. The natural gas distributor and the oil and gas acquisition and exploration company remained in oil and gas but sharply reduced exploration and drilling. The new strategy was to buy oil and gas reserves. According to the oil and gas acquisition and exploration company respondent, the change occurred because buying independents out of bankruptcy was cheaper than drilling. To gain independence from a single supplier, the natural gas distributor reported spending several million dollars developing a network of suppliers. The radio positioning company is increasing revenues through the development and manufacture of navigation and tracking systems for airborne and surface vehicles.

According to the international marine transportation respondent, "the current situation in the oil business has not had a significant effect on the shipping industry ..." However, overtonnage resulted from building during the oil boom of the 1970s, and changes were made in response. This company has been a successful competitor, a situation reported as unusual for a United States flag operator. A large part of the success is related to a shift from common carriage to contract carrier during the late 1970s. Success is also attributed to "finding niches in the market and attaining contracts to keep various assets occupied and ... not entering into any speculative shipbuilding without first having a contract."

The respondent commented, "there is always a way to make a profit, but you have to look for it."

Acquisitions are made within Cluster Four, and shifts in business emphasis occur. In general, the acquisitions are made opportunistically to permit the firm to use expertise in an area less dependent upon environmental elements. These acquisitions or shifts are in related areas. The thrust is toward differentiation, but differentiation is achieved through repositioning the company to take advantage of a niche. In effect, these firms exemplify Porter's (1980) concept of focus with differentiation strategy.

*Cluster Five: Differentiation. Conglomerate diversification.*

Two organizations were classified in this category. In contrast to firms in Cluster Four, these organizations dealt with environmental pressures by making moves to change their domains. As with Cluster Four, a similarity to Porter's (1980) focus strategy was observed.

The solid waste and tire company is diversifying from waste control into retailing, wholesaling, and retreading of truck tires. Contacts from solid waste activities will be used to build the new business. The respondent from this firm indicated that the diversification move was selected because of competition in the waste industry. They believe large competitors in the waste materials industry bid contracts at unprofitably low rates to attract customers and drive small competitors out of the business.

The retail specialty company reports diversifying from shoes and apparel and into building materials through an acquisition. The acquisition was described as in a "viable, upcoming industry ... located in Georgia and South Carolina which represented growth and economic development."

Both respondents reported similar reasons for the diversification decisions. First, the original line of business was perceived as one in which the firm could not compete effectively at present and for at least several years into the future. Second, each firm perceived a niche in the environment which offered opportunities. When both factors were present, the organizations were willing to try the new lines of business.

The activities of this cluster of firms, and to some extent those of the firms in Cluster Four, run counter to Hall's findings. Hall's prescriptions generally do not call for diversifying when firms are in deteriorating positions, and the firms in Cluster Five report not only diversifying but doing so into largely unrelated areas. A common theme through both these clusters is the opportunistic nature of the diversification. The firms seemed well

aware of environmental opportunities and diversified either into related or unrelated businesses when they perceived niches.

### Summary

Our findings appear to have practical implications for managers facing a hostile environment. We observed commonalities among the firms we examined. Virtually all emphasized surveillance of the firm's environment. Surveillance was coupled with a realistic assessment of the firm's capabilities. Proactive strategies were devised which involved making changes in the firm's internal operations but leaving its primary business purpose unchanged, or changing the business purpose. Our sense, based on the interview discussions, was that the firms' preferences were generally to attempt less radical internal changes before resorting to external changes. Clusters One to Five may represent a sort of continuum of firm preferences, ranging from most preferred to least preferred changes.

In Clusters One and Two, the firm's primary attention is internal. The firm is aware of its current capabilities, both in terms of human resources and technology, and restructures the business to take advantage of those capabilities. In Cluster One, the realignment takes the form of buying resources made available by the weak economy and divesting operations which are outside the firm's primary purpose and area of expertise. In Cluster Two, the firm pares down, takes a "lean and mean" stance, and uses the realigned internal capabilities to compete effectively on a low-cost basis.

Cluster Three shows a more proactive stance toward the environment. The organization emphasizes its distinctive capabilities relative to the market and other environmental factors. Distinctiveness in terms of quality or product features is emphasized. Firms differentiated products/services by traditional means and by identifying niches where their technologies provided distinctive competencies. In several instances, the niche was created by regulatory activities. Regulation was perceived as offering opportunities in these instances.

In Clusters Four and Five, contrary to Hall's but in line with Porter's (1985, 1987) ideas, firms made changes in their type of business. Changes made by the Cluster Four firms were somewhat less radical, in that the firm downsized portions of the business which were most vulnerable to environmental pressures and redirected existing competencies toward environmental niches. The more radical Cluster Five moves were apparently undertaken only under intense environmental pressure and in circumstances where the firm could see no alternative and, in effect, exited one type of business and moved to another. The firms in Clusters Four and Five engaged in forms of diversification which appear closely

related to Porter's (1980) concept of focus. The eight firms in these clusters comprise too significant a segment of our sample to disregard and lead us to conclude that focus strategies may be particularly important in hostile environments. Thus, one finding of our study is that Porter's strategy of focus needs to be considered in the hostile environment and used in conjunction with Hall's categories.

Our findings suggest that there are a range of options available to firms facing environments of economic decline. Key factors appear to be realistic assessment of internal capabilities and environmental factors. The search for niches appears to be vitally important, and management must be willing to make difficult choices to realign the organization with its environment.

### Conclusions

The results of this study are related to Hall's examination, conducted 10 years ago, of industries in hostile environments. In contrast to Hall's work, this study was conducted in a limited geographic area, New Orleans, LA, where hostile conditions were brought about primarily by the decline in oil and gas prices. The sample included all non-financial corporations headquartered in New Orleans. Therefore, a population of firms, representing several different industries, was examined. Differences in approach between this study and Hall, as well as the 10-year time difference, make the similarities in findings notable. The firms in this study could be classified into one or both of Hall's categories. These firms, which had successfully weathered nearly 10 years of hostile conditions, generally were pursuing leadership through low costs and/or differentiation. Furthermore, and in line with Hall's contentions, the firms were not following doctrinaire share/growth or experience curve/PIMS approaches. In fact, reported information suggested some of the firms which failed attempted such strategies.

This study has, however, pointed to several areas where Hall's ideas may require modification or amplification. Hall's ideas about diversification may be somewhat restrictive. While Hall cautions against diversification, firms in this study did diversify primarily through acquisition and by developing technologies for use in other markets.

Insights offered by Porter (1980, 1985, 1987) concerning diversification and motives for the diversification may be beneficial in dealing with discrepancies between the two studies. In Cluster Four, diversification was into a related area to position the firm to take advantage of a niche. In Cluster Five, the diversification was into relatively unrelated businesses but again a niche existed. This diversification activity appears to be contrary to Hall's analysis and appears to be undertaken in the face

of strong environmental pressure. In Cluster One, acquisition is of weak competitors and appears to be a method of attaining a low cost strategy. Acquisitions are used to lower costs when synergy exists between the two firms. This idea relates directly to Porter's (1987) ideas of when acquisition can be beneficial.

In general, our study supports and amplifies Hall's findings under somewhat different conditions and after the passage of approximately 10 years. However, several cautions are in order. The sample is small and is limited to a specific geographic area with a unique set of environmental problems. That the findings support Hall under these circumstances is notable, but additional study in different environments is needed. Furthermore, the success criterion used in our study requires refinement. In our study, survival over nearly 10 years in the hostile environment was taken as indicating success.

Similarities have been noted between the adaptive strategies in our study of a hostile environment and Harrigan's (1980) work in declining industries. The advantages of firms' internal strengths were recognized in both cases. The internal capabilities of the firms in a hostile environment affected the type of adaptive strategy and level of implementation. Weitzel and Jonsson (1989) present decline in five stages ranging from failure to recognize survival threats to firm demise with the possibility of reversal present at all stages except the last. The fact that firms in hostile environments face decline if adaptive strategies are not implemented may explain the correspondence with Harrigan's findings.

Ten years ago, Hall pointed out that study of organizations' responses to the hostile environment would continue to be important because hostile environments would typify the operating conditions of many organizations in the future. Recently, Whetten (1987) has confirmed the need for work of this kind:

*Here again, our knowledge about the effective management of growth far surpasses what we know about retrenchment or downsizing. Due to the lack of large-scale research on this subject, prescriptions for managers are largely based on sketchy anecdotal evidence. This is an especially promising area for future research. (p. 54)*

The findings of our study support Whetten's idea and suggest there is indeed much more work to be done in this area.

### Suggestions For Future Research

This study has focused on one specific hostile environment, economic decline - and one specific situation - the oil dominated economy of the Southwestern United

States. While we feel that this research has extended Hall's ideas, it now becomes important to consider how universal our findings are. Specifically, future research needs to examine whether our findings hold in other kinds of environments such as intensely competitive environments (e.g., the airline industry under deregulation) or environments where there is heavy regulation (i.e., banking). Perhaps only certain environments will show the clustering we have identified and this may lead to further speculation about how a hostile environment should be defined.

In addition, this study dealt with reported rather than actual perceptions. Data was obtained by asking decision makers for their impressions of such factors as environmental conditions. Under such circumstances, it is not only possible but likely that reported impressions were swayed systematically by factors such as social desirability. Thus, results must be interpreted with caution. In general, however, decision maker assessments of the economic situation related closely to the researchers' and journalists' (Young, 1987) impressions of the same phenomena. Future research could explicitly consider the effects of social desirability and could also examine the relationships between perceptions and hard data.

More importantly, from the standpoint of understanding relationships among perceptions, interpretations, and strategies, is the linkage to organizational success. Developing adequate criteria for judging organizational success is difficult. In this study, industry to industry differences in reporting financial information increased the difficulty of using overall financial comparisons as measures of relative success. Instead, survival became the *de facto* criterion. Clearly, more work is needed to develop meaningful ways to accurately compare firms of diverse types.

Another need is to expand this investigation to other areas, including areas outside of the United States. New Orleans like a number of other southwestern cities, has not only been influenced by the oil decline, but also has a disproportionate number of firms in and supporting that industry. The model should be examined in areas where other industries are predominant. Within the geographic area, another extension of interest will involve examination of these firms' responses as developments in the Middle East bring further changes to the petroleum industry.

Overall, this study should be regarded as an initial test of the elements of the Hall model. While insights have been gained, considerable additional research will be required to understand the linkages involved and the relationships among the variables considered. ❧

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