

SELECTING MARKETING STRATEGY THROUGH ENVIRONMENTAL ANALYSIS

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This paper describes one approach to determining the optimal generic marketing strategy through analysis of the firm's environment and marketing management system. This analysis takes place within the organization's task environment. The paper concludes with suggestions for empirical testing and additional research suggestions.

INTRODUCTION

This paper describes a method of predicting the optimal generic marketing strategy for an organization based on an analysis of the organization's task environment. Step one of the process is to place the firm in an intersection of marketing management system and environmental munificence continua. Daft & Weick [1984] suggest optimal methods for scanning, interpreting, and learning the environment. Daft and Weick [1984] suggest that each of their four interpretation methods is most appropriate for one of the Miles and Snow [1978] generic behavior types. Each of the Miles and Snow [1978] behavior types has a suggested generic strategy that has been empirically tested and supported [McDaniel and Kolari 1987; McKee, Varadarajan, and Pride 1989; Hambrick 1982].

The purpose of this paper is to show that the level of environmental munificence and marketing management system utilized by a firm has a direct connection to Daft and Weick's [1984] optimal methods of interpreting the environment. The Daft and Weick model is tied to Miles and Snow's [1978] generic strategy typologies. The proposed analysis and chain building takes place within the organization's task environment.

ENVIRONMENTAL MUNIFICENCE

This paper utilizes the concept of munificence to describe the state of the task environment because munificence is a broad and familiar measure. Munificence is described as the availability of critical resources required by an organization(s) operating within an environment [Castrogiovanni 1991; Dess and Beard 1984; Pfeffer and Salancik 1978; Randolph and Dess 1984; Staw and Szwajkowski 1975; Tuschman and Anderson 1986]. Castrogiovanni [1991] provided a synthesis of the munificence literature and offered a paradigm depicting munificence as a three dimensional construct.

The first element, capacity, refers to the level of resources available within the environment [Aldrich 1979]. Several authors have suggested methods of measuring capacity utilizing economic ratios as gauges. Dess and Beard [1984], for example, suggest industry average return on investment (ROI) and return on equity (ROE) while Staw and Szwajkowski [1975] propose industry average return on sales (ROS).

The second element of munificence as summarized by Castrogiovanni [1991] is growth/decline. Growth/decline is the relative change in capacity over time [Zammuto and Cameron 1985]. As with capacity, growth/decline has a variety of names and a variety of measures. For example, Dess and Beard [1984] label growth/decline as munificence. They recommend measuring growth/decline (munificence) through a composite index of industry change in sales, value added, price-cost spread, number of firms, and employment level. Staw and Szwajkowski [1975] suggest

a less complex measure incorporating percent change in sales and profits to measure relative change in environmental capacity.

The final element of munificence is opportunity/threat. Astley [1985] describes this element as the capacity that is not exploited by organizations in the environment. Higher levels of unexploited capacity represent a lower level of threat from competition. Just as with capacity and growth/decline, there are several labels for this element. However, no objective measures have been suggested.

An environment that has the characteristics of high capacity, a positive growth/decline measure, and positive opportunity is termed highly munificent. Conversely, an environment that is low or declining in capacity and has little opportunity is termed low in munificence. Munificence can be viewed as a continuum with all elements exceptionally favorable at the highly munificent extreme and exceptionally unfavorable at the low munificence extreme.

MARKETING MANAGEMENT SYSTEM

Burns and Stalker [1961] developed a continuum of management systems for making decisions ranging from highly mechanistic to highly organic. While Burns and Stalker were concerned with a firm's top management, more recent works have extended the mechanistic/organic classification to marketing management [e.g., Ruekert, Walker, and Roering 1985].

Mechanistic systems are quite bureaucratic in an effort to promote internal efficiency. Mechanistic systems define an individual's functions, methods, responsibilities, and powers. Individuals are told what to do, what they need not do, and how they should perform their functions [Burns & Stalker 1961; Zaltman, Duncan & Holbeck 1973]. Mechanistic systems offer the advantages of efficiency and consistency at the expense of flexibility.

Organic systems are the opposite of mechanistic systems. Decision-making is highly decentralized. The boundaries on what an individual can and cannot do disappear. The individual has full responsibility for discharging any tasks that appear over his horizon. Rules, if written, are probably ignored [Daft 1992]. Organic systems are purported by Burns and Stalker [1961] to be more effective in environments where there is a faster rate of technological change while mechanistic systems are more appropriate for slow rates of technological change [Zaltman et. al, 1973].

By setting the construct of environmental munificence on the X axis and the organizational construct of marketing management systems on the Y axis we can begin to select the optimal generic marketing strategy. Four gradients are formed in the two by two matrix: High munificence/organic systems; high munificence/mechanistic systems; low munificence/organic systems; and low munificence/mechanistic systems.

INTERPRETING THE ENVIRONMENT

Daft and Weick [1984] developed a typology of methods for interpreting an organization's task environment. The Daft and Weick model proposes that environmental interpretation is done in three stages. First, the environment is scanned to collect information. Scanning methods can be intrusive and formal, such as market surveys or market testing. At the other extreme, scanning can be passive and informal such as through personal contacts. The second stage of the process is called interpretation, where data collected through scanning is given meaning. Finally, in stage three, the interpreted data is learned from and acted upon. All of this takes place in an environment the organization perceives to be, at the extreme, benevolent and analyzable to unanalyzable.

Daft and Weick's typology has given names to environmental interpretation methods in each cell of a two-by-two matrix. On one axis is the assumptions about the environment, the other axis is organizational scanning intrusiveness.

Conditioned viewing is the term for passive scanning in an analyzable environment [Daft & Weick 1984]. Conditioned viewing means the organization utilizes routine, impersonal scanning methods, many formal rules for interpreting the data, and a programmed decision process. The benevolent, analyzable environment suggests a highly munificent environment. The routine, formal, and programmed decision process described in conditioned viewing would be typical of a mechanistic marketing management system. Therefore, conditioned viewing corresponds to a mechanistic system in a munificent environment.

The second method of environmental interpretation suggested by Daft and Weick is called "discovering". The discovering mode utilizes active data collection techniques in an analyzable environment. Discovery interpretation implies deduction of the single correct answer in an analyzable environment; the firm is actively seeking opportunities in the environment. Data collection methods include utilizing surveys and other

intrusive measurement probes. Because the environment is analyzable (munificent) and the scanning is active, discovery corresponds to the high munificence environment with an organic marketing management system.

The third method of environmental interpretation in the Daft and Weick typology is "enacting". The enacting mode assumes an unanalyzable environment, but intrusive, active scanning methods. The organization attempts to construct its own environment. Methods of gathering environmental information include experimentation, simulation, and similar methods which may very well ignore old rules and traditions. This mode of interpretation could be used by organic marketing management in low munificence environments where changing the environment may be beneficial.

The fourth type of environmental interpretation is "undirected viewing". Undirected viewing consists of haphazard scanning methods in an unanalyzable environment. Expending time and resources to collect data in an unanalyzable environment are concluded unproductive. Undirected viewing would be most typical of mechanistic marketing management systems in a low munificence environment.

GENERIC STRATEGY FORMATION

Daft and Weick [1984] have proposed that their conditioned viewing, discovery, enacting, undirected viewing environmental scanning typology translates directly into the Miles and Snow [1978] strategy typology. Daft and Weick associated conditioned viewing with Miles and Snow's defender strategy: the discovery mode of interpretation is the equivalent of the analyzer strategy: enacting is similar to the prospector strategy: the undirected viewing mode corresponds to the reactor strategy.

Each type of organization described by Miles and Snow has a distinct marketing strategy. Defenders try to seal off a segment of their total available market in order to create a stable domain. Defenders produce a limited set of goods for a narrow market niche which is defended vigorously. Standard practice includes high quality products or competitive pricing to prevent new entrants in the defenders niche. Growth comes from market penetration and quite limited product development. The defender stays focused on its core business. An analyzer is somewhat less risk averse than the defender. The analyzer moves to new product and market opportunities, but only after the potential has been demonstrated. Analyzers imitate the most suc-

cessful products in their markets in order to maximize the opportunity for profit. However, most of the analyzer's income is from established core products and customers. The analyzer stresses balancing existing business and exploring new opportunities.

Miles and Snow's prospector represents an aggressive, active strategy. Prospectors continually seek new products and new markets, even outside of their traditional industry. The prospector's domain is broad and fluid. New products are systematically introduced and new markets explored as old products and markets are withdrawn. Prospectors develop the ability to service a wide variety of environmental conditions and are responsive to trends and events by investing in environmental scanning groups and individuals. Prospectors frequently create change in their industry as a competitive tool to gain an edge over others in the industry.

The fourth strategy, reactor, is really no consistent strategy. The reactor is not at all proactive with the environment perhaps because (1) marketing management has not articulated a strategy, (2) the organization's structure does not fit the strategy, (3) or the strategy is hopelessly outdated due to changes in the environment. Reactor is a leftover strategy resulting when one of the other strategies is improperly implemented; more properly, a reactor is an organization without an apparent strategy. While the marketing management of the firm may believe it is following a specific strategy, the firm itself and its employees are given little demonstration that they actually have a strategy. An organization can not remain a reactor and survive unless it operates in a protected environment such as a monopoly or heavily regulated industry. To survive outside a protected environment, a reactor must assume one of the other three types of strategy.

The marketing strategies suggested by Miles and Snow [1978] have been empirically tested. McDaniel and Kolari [1987] tested the typology using the banking industry as a vehicle and found support for the typology. McKee, Varadarajan, and Pride [1989] found further support for the Miles and Snow typologies from a market-contingent perspective. McKee, et al [1989] found considerable variation in the environmental scanning activities of the various typologies with the prospector being most active, followed, in order, by the analyzer, defender, and reactor.

While an organization may select to follow any generic strategy (except reactor) within an environment, higher levels of performance are thought to accrue to those

TABLE 1: SUMMARY TABLE
MARKETING MANAGEMENT SYSTEM/ENVIRONMENTAL MUNIFICENCE MODEL

Marketing Management System	Munificence	Interpretation System	Miles & Snow Typology	Marketing Strategy
Mechanistic	High	Conditioned Viewing	Defender	Narrow product Narrow market
Mechanistic	Low	Discovering	Analyzer	Mixture of Defender and Prospector
Organic	Low	Enacting	Prospector	Continually searches for new products and markets
Organic	High	Undirected Viewing	Reactor	No consistent marketing strategy

who are closest to the pure archetypes. As such, the fit between environmental munificence and marketing management system may be important antecedents of organizational performance.

CONCLUSION

This research paper proposes a method of selecting the most appropriate generic marketing strategy based on the level of munificence in the organization's task

environment and the marketing management system utilized by a firm. It is suggested that the four combinations of high to low munificence and organic to mechanistic marketing management systems correspond to Daft and Weick's [1984] environmental scanning modes. Scanning and interpretation modes, in turn, correspond to Miles and Snow's [1978] generic strategies. The above summary table graphically depicts the relationships described in this essay.

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