A Strategic Fit Relation Model as a Tool for Organization Development

Vladimir SHATREVICH
Department of Innovation and Business Management, Riga Technical University
Riga, LV-1048, Latvia

and

Elina GAILE-SARKANE
Institute of Business Engineering and Management, Riga Technical University
Riga, LV-1048, Latvia

ABSTRACT

The importance of understanding the complexity of the organizational development has always been in focus. The changing environment has made a strong impact on all companies over the world, recognizing development issues requires a different way of acting during organizational change. This paper uses the strategic fit relation model as a tool to illustrate organization development, which is necessary for companies working in dynamic environment. According to it, an organizational performance depends on its behavior, which is a function of the correctness and tightness of 'fit' between competitive advantages of the organization and external environment, when executives develop strategy during change.

Keywords: strategic fit, competitive advantage, value creation, organizational structure, performance.

1. INTRODUCTION

Many scientists have identified the importance of understanding the complexity of the organizational development [1, 2, 3]. Poole and Van de Ven [4] suggest that much of the focus of contemporary theory construction is still unfairly following towards the side of stability and order. Exploring the topic about sustaining high performance, enigma revealed by getting dynamic factors involved.

Quinn and Cameron also highlight this enigma, adding that investigations of complicated organizational development are often focused on linear solutions and equilibrium, either ignoring contradictions or identifying one as good and the other as bad in order to resolve the issue. In recognizing development enigma, 'we are exposed to, and can more effectively explore the complexity and ambiguity of organizational life' [5].

While approving that the development enigma exists, many continue to suggest it could be "managed" [6], [3]. Morgan suggests 'successfully managing change in organization requires an ability to deal with the "contradictory tensions' [6]. Smith and Berg [7] see by the effort to avoid "contradictory tensions", company will find the ability to move a company forward. Based on research of organization development should be viewed from organizational change topic.

2. ORGANIZATION DEVELOPMENT

Organization development (hereinafter - OD) theory has in its fundamentals a system-wide change concept and it has no beginning or end, but rather provides a 'way of managing complex organizations so that they are able to survive in a world of constant change' [8]. Woodman [8] is suggesting that change for OD is both transformational and continuous. This approach indicates that the development should be both continuous and revolutionary. Linear paths, steps or engineering-like flow charts [9, 4, 7] in organizational science; there is a need for both transformation and preservation in order to provide effective change [10, 11, 12].

To determine development enigma, the research authors made OD analysis on organizational change. The authors conclude – organization development requires both sustaining existing equilibrium and breaking of a present equilibrium. The maintenance of the existing equilibrium requires following the planned process (represented in the Figure 1 on the left side).

Breaking of a current equilibrium is the movement towards new equilibrium (represented in the Figure 1 on the right side).

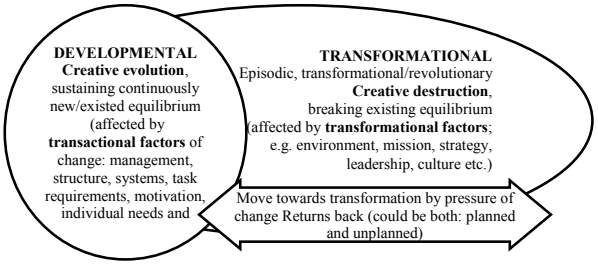

Figure 1. "Breath" model of punctuated equilibrium
Source: the authors' presented model based on Porras and Silver 1992 model Punctuated Equilibrium and Woodman 1993 thesis.

The authors state that equilibrium transaction process presented in "Breath" model could be represented from the strategy perspective for value creation. From the strategy perspective, factors affecting decision making through the periods of revolution or evolution are crucial, since the change could be planned or caused by external forces (e.g. increased competition, changes in customer demand, a lack of resources, or even sudden impacts of climate change, etc.). When needed, organization can impose revolutionary change upon itself in order to make a move forward to innovation. Some types of organizations are inert to innovate, because they fear negative economic impacts or a loss in competitive advantage due to the increasing cost. Gladwell describes a trigger point as a moment of critical mass that, once it occurs, inevitably leads to transformation [13]. After exploratory research of scientific literature, the research authors identified sources for main change factors (transformational factors) associated with external environment. It has created the basis for the organization development strategic context.

3. STRATEGIC CONTEXT BACKGROUND

Based on OD discussion, the authors established strategic context background for development of model. The goal of most organizations is to make people (who belong to that

organization) to follow the direction or strategy determined by its leaders [14, 15]. Since organization's leadership and strategy are dominant transformational factors that determine how to change, the authors examined structure, strategy, and external environment relationship from strategic perspective. Every organization expects minimum profit/performance' from their stakeholders and the change in external environment within which it operates. Based on these goals, each organization has to decide on the strategies and the organizational form that would enable the organization to operate in the external environment and meet the expected profit. Environmental conditions are subject to the strategic choice of organizations [16]; strategy is viewed as 'a mediating force between the organization and its environment' [17]. Then an organization's strategy should reflect the most critical elements of environment. Usually strategy development process is addressed to the environmental needs [18, 19, 20]. Scientists underline that environment can and should influence strategy [21, 22, 23, 24, 25, 26]. The strategy-structure-performance paradigm developed by Chandler and Scott [27] has become a dominant paradigm in the strategic management literature. Many contingency studies have defined which structures can best implement certain strategies [28, 29, 30, 31, 32, 33, 34, 35, 36,]. The research authors underline that the sequence between corporate strategy and organizational structure is essentially important topic in strategic management (see [37, 38]). The authors highlight that structure can constrain and influence strategy. These relationships are likely to be dynamic, reciprocal, and iterative, and are expected to influence performance. Many researchers already analyzed traditional hierarchical models of strategy formulation.

Scientists like Ward et al., after researching the process of developing a functional (manufacturing) strategy, mentioned that capabilities (distinctive competencies) could arise from unplanned patterns of activities, rather than from a strategic plan [39]. Hayes pointed out, sometimes strategies need to be driven by capabilities rather than the opposite way as in the hierarchical models [40]. The key feature of this discussion is the bi-directional relationship as shown in Figure 2. Dominant relationship is uni-directional and hierarchical, i.e. environment decides the strategy, which in turn decides the organizational form. The building blocks of the internal organizational structures are the functions, with processes and systems being used as integrating mechanisms.

This conclusion is important for the research authors, as it introduces a bi-directional relationship among environment, strategy, structure, competence, and performance as represented by Figure 2. The authors support bi-directional approach, but states that market structure is a primary factor affecting the profitability of corporate strategy, as it fits the empirical work of [41, 42, 43].

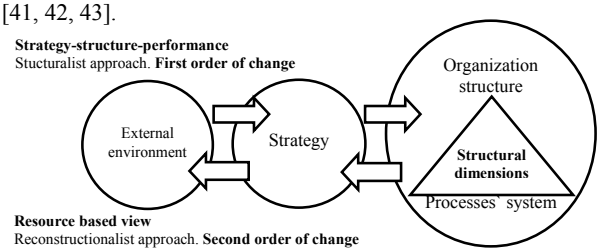

Figure 2. External environment, Strategy, Structure bi-directional relationship
Source: Based on [41, 42, 43] with the authors' comments

Strategy can influence environment, 'causing a company to "gravitate" toward customers with particular preferences, and inviting retaliation in kind from competitors' [44]. A major change in the causal direction appears to have emerged with the work of Prahalad and Stalk et al. who introduced the concept of core competence and core capability [45, 46].

Modern enterprises operate in rapidly changing environments that are 'hyper-competitive' [47], and where technologies are transforming scenarios [48]. Likewise, new organizational forms, have appeared in this modern era [49], [50], that were based on a different from "strategy follows market structure" approach [51, 52, 53, 54, 55, 56,] (Blue Ocean Strategy authors comment), [57].

The authors would like to stress that some external factor variables and formal structural, strategy integration processes (transactional factors processes) are out of scope of the research. Many investigators from different strategy schools have already massively studied the variety elements of structure, [59, 60, 61] the processes of strategy, and decision making in complex organizations [61, 62, 63, 64]. There are common relationship between strategy and organizational design (see studies from [65, 66, 67, 68, 69]). The authors would like to highlight that paper aim is not focused on strategy implementation, but discusses values generated from competitive advantages. In the scientific literature, the four main structural dimensions could be identified: integration, formalization, centralization, complexity and many minor specialization, size of administrative and staff components, vertical span, and number of operating sites, technocratization, mechanization of production, relation/communication devices and etc. [70, 71, 72]. These structural dimensions, nonetheless, play a major role for the strategy implementation.

4. A STRATEGIC FIT RELATION MODEL

The authors consider strategic fit as a core element for company development. The optimal strategy-structure match would have a superior performance when compared to other organizations in the same adaptive state. Chakravarthy's "goodness of fit" theme is widely described by the proponents of the contingency school of organizational behavior [73, 74]. Organizational effectiveness was a function of the correctness and tightness of 'fit' among the structure and processes of an organization, and of its environment [75, 76, 77, 78, 79]. According to these theorists, organizational adaptation was the process by which organizational managers adjusted their scale of operations or structure to adapt with the dictates of the immediate environment. Porter also notes that strategic fit among many activities is fundamental not only to competitive advantage, but also to the sustainability of that advantage [80]. It is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular sales-force approach, match a process technology, or replicate a set of a product features'. Strategic fit in the authors' model displayed in Figure 3, is an adequate reaction of company's management to the change in external environment. In current context, strategic fit means that the company's business is functioning properly, maintaining the same level of profitability reacting to the change. Expected profit/performance and strategic fit from company competitive advantages is a feedback from the external environment within which company operates, helps to decide on the strategy justification, organizational form in order to meet the expected profit. Companies fit their advantages according to the environmental feedback created by these advantages (or will find themselves at a relative disadvantage in exploiting their environments/resources [69, 16, 18, 19, 10]). In the current, more competitive environment, the advantages of companies

and the way organizations use them must constantly change to produce continuously changing temporary advantages.

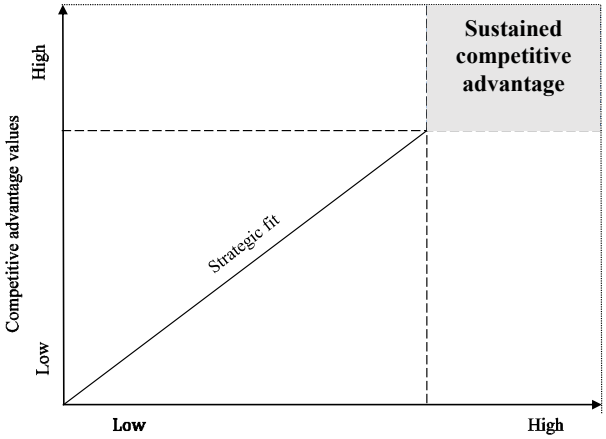

Figure 3. Strategic fit relation model between a company strategy and a business model as a tool for an organization development.
Source: the authors' created model based on [81, 82].

Thus, advantages derived through skills/resources/competencies of companies, due to dynamic nature of external environment, should be rebuilt. [48]. The choice of company advantages system that best fits environment gives rise to superior performance. The optimal strategy-structure match would have a superior performance when compared to other organizations in the same adaptive state. Strategic fit here is concerned not only to among many activities for certain competitive advantage, but for company's sustainability as a system of advantages. It is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular sales-force approach, match a process technology, or replicate a set of product features. The main emphasis is focused on internal and external environment relationship mechanism.

This model is perfectly suitable for the process of punctuated equilibrium discussed in "Breath" model. Creating the analysis tool for traditional strategic analysis, model proposition provides a framework for the question of sustained competitive advantage. The research authors conclude that the sustainability of the competitive advantage depends on the ratio of strategic fit. In this model, strategic fit is a ratio of the competitive advantage values and value added generated from them.

In Figure 3 is illustrated how a given company performs based on the strategic fit between the Y-axis (explained further in the paper) and X-axis. Accordingly, the contribution from the value added is represented by the X-axis, where the value added generated from competitive advantages can vary from weak to strong. The strategic fit shown in Figure 3 is an important tool illustrating how components relate to and reinforces one another, i.e. it is the whole system of reinforcing strategic activities instead of independent set of advantages.

Strategic fit here describes the sustainability of competitive advantage system, which is more valuable when focusing only on core competencies, critical resources or other factors separately. Strategic fit is the complex system of strategic activities, because competitive advantage of company grows out of the entire system of activities.

5. SURVEY AND QUANTITIVE MODEL

Empirical research based on theoretical findings was performed from July 2013 until September 2014. The population of the survey was – 8 981 enterprises of Latvian manufacturing companies working in manufacturing industry. The number of respondents surveyed (368 surveyed online) compared to the number of companies reflected in the database made up 4.09% (5.00 confidence interval). The respondents replied with one of the five given option (five-point Likert scale [83]).

Before to obtain the results, the research authors used VRIO (Value, Rareness, Imitability, and Organization) [84] framework evaluation method for defining Y-axis values based on the survey questions. VRIO framework results were converted into quantitative factor model (Formula 1).

X-axis values were also provided through survey (value generated for specific advantage in a company). The research authors compared provided information on advantage rarity (how rare is certain advantage) to summary statistics data obtained through survey and obtain Y-axis assessment.

During factor analysis, the research authors constructed the with the number of variables determined by the context of the research. Since the theoretical framework and the measurement scales of each variable in the conceptual model have a strong theoretical base, factor analysis in this study was based on theory testing. Quantitative data processing was performed with SPSS program. Descriptive and conclusive statistical methods in data processing were used. The result of the companies' components significance is shown in Table 1.

Table 1. Factor analysis

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
C1	8.832	18.025	18.025	8.832	18.025	18.025	7.135	14.562	14.562
C2	6.978	14.241	32.266	6.978	14.241	32.266	6.363	12.985	27.547
C3	4.301	8.778	41.044	4.301	8.778	41.044	3.242	6.616	34.163
C4	3.521	7.186	48.229	3.521	7.186	48.229	3.129	6.386	40.549
C5	3.059	6.243	54.473	3.059	6.243	54.473	3.039	6.201	46.751
C6	2.228	4.547	59.020	2.228	4.547	59.020	2.920	5.960	52.710
C7	2.012	4.105	63.125	2.012	4.105	63.125	2.617	5.340	58.051
C8	1.817	3.709	66.834	1.817	3.709	66.834	2.311	4.716	62.767
C9	1.728	3.527	70.361	1.728	3.527	70.361	1.958	3.995	66.762
C10	1.533	3.128	73.490	1.533	3.128	73.490	1.922	3.923	70.684
C11	1.386	2.829	76.319	1.386	2.829	76.319	1.683	3.435	74.120
C12	1.243	2.538	78.856	1.243	2.538	78.856	1.656	3.379	77.499
C13	1.117	2.279	81.136	1.117	2.279	81.136	1.556	3.176	80.675
C14	1.044	2.131	83.267	1.044	2.131	83.267	1.270	2.591	83.267
Extraction Method: Principal Component Analysis.									

For the determination of the competitive advantage values (Y-axis), the authors used respondent evaluation significance, which is reflected in Table 2. The authors derived the particular respondent's value, which enables to rank it in one of the scale groups.

As a result, model for competitive advantage values (Y-axis on Figure 3) was created:

$$CompLvL = 14.56C_1^h + 12.98C_2^e + 6.61C_3^i + 6.38C_4^i + 6.20C_5^e + 5.96C_6^i + 5.34C_7^h + 4.71C_8^e + 3.99C_9^i + 3.92C_{10}^i + 3.44C_{11}^i + 3.37C_{12}^i + 3.17C_{13}^h + 2.56C_{14}^i + 19.32C_0,$$

where:

CompLvL – the total value of competitive advantages (competitiveness level) as a score;

After calculating competitiveness of manufacturing companies, within the framework of the paper, the research authors added index for components as follows:

C^i - components with internal factors,

C^h - hybrid components, components with both external and internal factors. External and internal factor relationship exists,

C^e - components with external factors.

Components (C_i) – the factors of:

C_1^h – a manufacturing competitiveness, product (service) high value added and company information channel; the competitiveness factor of a manufacturing competitiveness, product (service) high value added and company information channel;

C_2^e – cluster utility;

C_3^i – marketing and technology of an enterprise;

C_4^i – company initiative (pro-activeness);

C_5^e – external environment;

C_6^i – operation management efficiency;

C_7^h – external environment and internal environment;

C_8^e – external environment;

C_9^i – management efficiency;

C_{10}^i – patents, knowledge management and motivation system;

C_{11}^i – leader experience and knowledge;

C_{12}^i – price leadership;

C_{13}^h – external environment;

C_{14}^i – internal environment;

C_0 – gross unrecognized factor effect.

6. CASE STUDY

Case study of four manufacturing companies in Latvian manufacturing industry was conducted. Results acquired in Table 2 are based on Formula 1 (evaluating competitive advantage values of company in manufacturing industry). Visualization was created based on model represented on Figure 3 (according to competitiveness for all factors). The case study results for all factors (Figure 4) revealed that the lowest score of the factors was identified in the competitiveness of KB&KO Ltd. The case study results for all factors (Figure 4) revealed that the lowest score of the factors was identified in the competitiveness of KB&KO Ltd.

According to the case study results (Table 2), most respondents can be characterized by high reaction to the external environment (except *Tolmets* Ltd.). Nowadays, SMEs in manufacturing industry face external environment rapid change and its dynamics are very important. Companies must react to rapidly changing environment in a short time in order to keep their competitiveness level. If a company plans its return rates to remain at the present level, then equilibrium rate shows how to adequately react to the environment change. As a conclusion, in the authors' opinion, the competitiveness *KB&KO* Ltd. in the group of competitive advantage sector can be evaluated as weak.

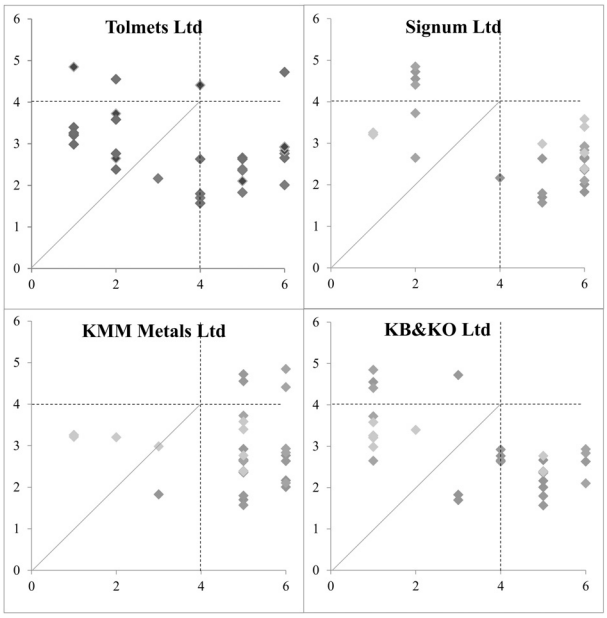

Figure 4. Industrial competitiveness for all factors
Source: case study data

Tolmets Ltd. and *Signum* Ltd. have close results, but *Tolmets* Ltd.'s profile is different due to its less necessity for knowledge management and patents. *Tolmets* Ltd. has superior competitiveness in sustainable competitive advantage (high sector) than *Signum* Ltd. does which is the most important for company competitiveness.

Table 2
Summarized results for competitiveness

Criteria	*Tolmets* Ltd.	*KMM Metals* Ltd.	*Signum* Ltd.	*KB & KO* Ltd.
Turnover 2013, EUR	**148,54 MM**	**74,39 MM**	1,5 MM	0,14 MM
Workers	**50-249**	**50-249**	10-49	<10
Equilibrium ratio	2,40	**0,84**	**0,72**	**0,68**
Competitiveness for all factors	313,36	**433,13**	**378,19**	278,67
Competitiveness for factors in high sector	**45,97**	**155,44**	41,87	14,17
Competitiveness for factors in medium-high sector	220,47	**368,26**	**257,64**	204,77
Competitiveness for factors in low sector	203,91	**213,60**	**227,75**	192,28

Source: case study data

Summarizing the results of the thesis, the authors conclude that the use of the methodology and the model confirms its validity in selected examples. Thus, in authors' opinion, in the scope of model's case study results positively reinforce model's validity.

7. CONCLUSIONS

In this paper, our main goal was to reveal the main theoretical and practical aspects of the company's strategic fit. We created the strategic fit relation model to discover the relation between company's value added and competitive advantage values.

Strategic fit relation model was created to evaluate company performance, which is necessary for companies working in dynamic environment and to decrease visualization complexity. Strategic fit relation model can be integrated with conventional strategic perspectives by combining approaches on sustained competitive advantage. The research authors' contribution to the company performance evaluation provides better understanding on how a company has sustained competitive advantage be created. Strategic fit relation model is supporting approach attitude to external environment. This provides a company with continuous development through company business model that

ensures that transformations made to previous equilibrium are successful. The sustainability of competitive advantage exists when the system of competitive advantages is high and overall value added generated from all the components in the business model proposition is strong. Traditional strategic perspectives consider that competitive advantage arise from external environment structure (industry forces) and choice of generic strategies (industrial organization). The opposite view is dedicated to distinctive competencies and resources, giving the company advantage from internal resources. Both views are implicated for static equilibrium and, therefore, should be modified to meet the requirements for continued success in a dynamic environment. When looking at sustainability of competitive advantage, it is necessary to explain that concentrating on conventional company generic strategies or focusing explicitly on internal resources or core competences is insufficient. As a result, company performance depends on the integration ratio between strategy and business model. Sustainability of competitive advantages requires strategic fit, which means that company has strong competitive advantages, value generated from them and complex strategic system.

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