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Determining organization alignment: A research model

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DETERMINING ORGANIZATION ALIGNMENT: A RESEARCH MODEL

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ABSTRACT: Organizations function effectively because they put together different characteristics in complementary ways. This paper introduces an alignment model that informs business leaders how to configure the firm's market approaches, business design, and human assets for effective strategic performance. The firm's strategic mission provides the balancing element for the alignment model. This paper will also present findings from a survey of over 300 firms based on the elements of the alignment model. Our research shows the following: A large percentage of firms are stuck-in-the-middle regarding their configurations and firms that weakly align their market approach with their employee know-how and have non-distinct cultures tend to perform at an average level against their peers. Implications for creating winning configurations are discussed.

INTRODUCTION

Managers look to organizational alignment as a distinct source of competitive advantage. Firms seek to seamlessly align their external brand with their internal operating practices. The words that are used with the customer should be the same words used within the organization. Examples of strongly aligned firms are part of our current business lore. Southwest Airlines aligns its low fare offerings with lean operations. Yet it keeps its customers happy by having them cheerfully engage in the self-service practices, such as carrying their own bags. Dell Computers uses highly efficient logistical and customer service systems to enhance operating profits. Like Southwest Airlines, it aligns its best cost practices with a service system that gives customers the opportunity to order a computer that meets their specific needs. Starbucks wants friendly, engaged servers to greet its customers. To hire and retain the right people, it aligns the values of its employees in terms of work schedule and job satisfaction with the customer desire for a comfortable, friendly place to enjoy a cup of coffee.

Contemporary business authorities understand the value that alignment provides to firms and the costs of non-alignment. They are urging managers to align the assets of their firms into a systemic business design that focuses on the synthesis of diverse organization attributes. Or as noted by Lei and Slocum (2005, p. 31), organizations "constitute configurations of mutually supporting parts that are organized around stable themes or strategies. These themes or strategies may be derived from leaders' visions, the influence of powerful departments/divisions, or the state of the industry. Once a stable theme or strategy emerges, a whole infrastructure emerges to support it." In this paper we will introduce a model used to assist firms in effectively conceptualizing and developing their organizational alignments. We will then present outcomes from research on organizational alignments that is based on the model.

ALIGNMENT CONCEPT

A configuration may be defined as "any multidimensional constellation of conceptually distinct characteristics that commonly occur together" (Meyer, Tsui, and Hinings, 1993, p.1175). As noted by Miller and Mintzberg (1983, p. 57), alignments "can be defined as commonly occurring clusters of attributes... that are internally consistent, such that the presence of some attributes can lead to the reliable prediction of others." In other words, organizations function as complex systems comprised of interdependent sub-components that are best understood when studied holistically (also Miller and Friesen, 1984). Configuration theories focus on the realized *pattern* of multiple independent variables, how the variables interact longitudinally, and how the pattern is related to the dependent variable of interest.

Contemporary business writers present many operationally-based alignment models. While their work is often rooted in both theory and empirical research, their goal is to assist managers in building functional alignments within their businesses. The most popular of these alignment models include Six Sigma, The Balanced Score Card, and Total Quality Management. These measurement-based tools tend to be more operational than strategic.

Mintzberg has long been a proponent of alignment modeling. He and his associates (Mintzberg, Ahlstrand, & Lampel, 1998) have described theoretical alignments in terms of power, structure, and change management processes. He has utilized the configuration construct to explain the relative stability of market strategies which are then interrupted by occasional and often dramatic movements to new configurations.

Slywotzky, Morrison, Moser, Mundt, and Quella (1998) note that over the past fifteen years billions of dollars in market value have migrated from old business designs to new ones. For these authors, winning in the market place is a result of defining and implementing a unique business design or alignment that opens a new cycle of value growth. Firms such as Southwest Airlines, Dell Computers, and Starbucks have become de facto standards in their markets through the implementation of unique configurations that provide an undisputed competitive advantage. The business designs presented by Slywotzky et al., integrate several "imperatives": customer priorities, operational systems, stakeholder negotiations, and sources of talent. As noted by Miller (1987) and Miller and Friesen (1984), imperatives are factors that tend to both shape and restrict the varieties of configurations over time by organizing their elements into an enduring system, are resistant to change, and typically act as lead variables during organization transformations. They provide long-term integrity, stability, and evolutionary momentum to a configuration. As a result, only a small percentage of the theoretically possible configurations actually occur in practice.

Unique configurations allow firms to avoid imitation and capture a lasting mind share of customers and investors. In this construct, the organizational configuration becomes the distinct point of strategic differentiation. One has to note the power of these alignments and ask why the business designs of Southwest Airlines, Dell Computers, and Starbucks have not been successfully replicated, even though the world's business community is fully aware of these models. The difficulty of imitation of a socially complex configuration may be a partial answer.

As managers work strategically with organizational alignment, they should keep in mind a few points drawn form the more theoretical literature. These are:

1. Sets of organizational assets should be addressed simultaneously in an effort to yield a more systemic view of the firm.
2. Organizations fluctuate between periods of stability when a particular alignment is successful and periods of change when new alignments are conceived and implemented.
3. Internally consistent alignments tend to correlate with superior financial performance.
4. Various discrete alignments of assets can lead a firm to brand dominance.

STRATEGIC ALIGNMENT CONCEPT AND IMPERATIVES

For an alignment model to be strategic, it must serve as a means of gaining or sustaining competitive advantage for its user. For the purposes of this project, we chose to focus on market approach, organization culture, and employee know-how (i.e., knowledge, abilities, and personality traits), as our imperatives. The centrality of these variables for organization success has been strongly advocated by Collins (2001) and by Collins and Porras (1994).

A firm's mission ought to express its vision, either implicitly in its goals or explicitly in a clear statement of purpose. Explicit vision statements are often high minded but lacking in connection to the actual operational management of the firm's assets. The strategic mission must make that connection in a clearly articulated manner. It should provide a statement of vision that tells it readers what business the firm wants to be in the future. The vision should be a picture that provides some detail. It should state long-term goals and determine how to measure progress towards those goals. It should suggest a business model that provides the firm with a distinctive competitive advantage in its markets. A well-used example of this is the linear flight model of Southwest Airlines that contrasts Southwest from the more traditional and less profitable hub-and-spoke carriers. In summary, the mission should state the purpose of the firm in a way that makes it relevant, interesting, and exciting for customers, suppliers, employees, and investors and provide a context for other imperatives.

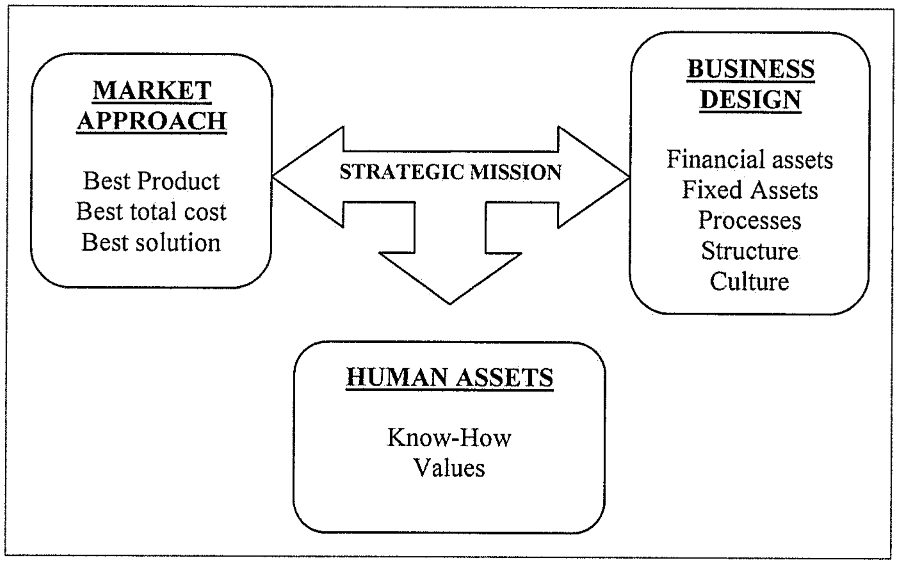
The market approach determines how to best add value for the firm's customers. McNally and Speak (2002, p. 4) identify the meaning of brand as "perception or emotion, maintained by a buyer or a prospective buyer, describing the experience related to doing business with an organization or consuming its products and services." To an even greater extent, the brand should represent a company's unique assets. Otherwise
the firm may be considered as an industry follower or a commodity business. The firm must determine the means by which is chooses to create that perspective. They can do so by excelling in one of the three market dimensions of best total cost, best product, or best total solution as define by Treacy and Wiersema (1995).

A business design informs the firm regarding how to optimize core assets and determine which non-core assets should be reduced, outsourced, or divested. The strategic core of a firm is generally made up of a combination of its fixed assets, processes, organization structure, financial management, and operating culture that managers attempt to optimize within the context of the mission.

Collins reminds managers that in a good-to-great organizational transformation, people are not your most important asset; the *right* people are (2001). He urges that firms create an environment where the right people would thrive. Aligning employee know-how and work values (e.g., beliefs regarding customers, how to compete, etc.) with market approach is essential but often neglected. For example, the best total cost market approach would call for know-how and work values that reflect efficiencies. The best product approach needs creators or innovators. The best solutions approach demands good communications skills and customer-orientation values. In other words, the firm's market approach and culture should align with human resource policies and employee know-how and work values.

Human resource managers often push for best practice models where the firm that has the most HR programs is thought to be best at managing human assets. Certain practices may work better in certain alignments. Participative management programs may have a lesser impact in a call center than they would in a fabrication plant. Incentive bonuses would be more valuable in sales oriented unit then they would be in a treasury department of a company. In other words, a systems or configuration paradigm may be more useful in advancing and sustaining organization competitive advantage than a universal or best practice model (Becker and Huselid, 2003). The model in Figure 1 is intended for use by managers to align the assets of their firms to their missions and create viable strategies that aid in the management of those assets and to inform our research paradigm.

FIGURE 1
THE STRATEGIC ALIGNMENT MODEL



The theoretical work on alignment has had a significant impact on management practice. The concepts presented by Treacy and Wiersema (1995), Mintzberg, et.al. (1998), and Slywotzky, et.al., (1998) have influenced managers over the past decade. While they have provided numerous vivid case studies, in general, they have not generated empirical work to support their theoretical assumptions.

Our research is an attempt to provide empirical support for the theoretical valuation of strategic configurations. We constructed a research instrument based on the alignment model presented in Figure 1. We were most concerned about the relationship of market approach to employee know-how and organization culture and the resultant impact on firm performance.

HYPOTHESES

Based on our experiences and the findings of Porter (1985) regarding the large number of firms that are "stuck-in-the-middle" with regard to their market approaches, we formed the first hypothesis. We believe that an organizational posture that makes few intense demands on employees and simultaneously provides minimal information regarding market strategy, culture, and employee know-how is a frequently occurring configuration in business.

Hypothesis 1: An empirical configuration of firms will emerge that has the majority of its elements (i.e., market strategy, culture, and employee know-how) clustered around the sample average.

Hypotheses 2 and 3 are drawn from the theoretical assumptions of Treacy and Wiersema (1995) that a firm must have distinct points of differentiation in their markets and that employee know-how and culture need to be aligned for the firm to experience above average performance. We assume that above average performance is related to specific alignment assets that are differentiators in the firm's market and are related to other assets in the overall configuration of the firm. Treacy and Wiersema (1995) described in detail configurations of assets, culture and employee know-how in this project, that supported each of the three primary market strategies: operational excellence, product leadership, and customer intimacy. Therefore, we stated hypothesis 2 as:

Hypothesis 2: Three empirical configurations will emerge that focus clearly on the operational excellence, product leadership, and customer intimacy market disciplines.

Furthermore, alignment adds value to a firm by creating a system of mutually supporting parts that yield stable themes over time (Lei and Slocum, 2005). Clearly aligning organization assets around the Treacy and Wiersema (1995) disciplines would be expected to impact organization performance. Therefore, we stated hypothesis 3 as:

Hypothesis 3: Market discipline firms (i.e., OE, PL, and CI) that demonstrate a supportive alignment of market approach with employee know-how and cultural practices will show above average performance.

We defined "closely align" as scores that are less than .5 of each other. For the operational excellence configuration, we predicted the following closely aligned dimensions: high or very high market strategy with efficiency know-how, and the cultural dimensions focus on rewards, emphasize competition, and focus on results. In other words, we predicted an organizational environment where employees possessed strong efficiency skills and lived in a rigorous performance oriented culture. For the product leadership configuration, we predicted these aligned dimensions: high or very high market strategy with creativity know-how, and cultural dimensions of conflict resolutions and information sharing, risk taking, teaming, and focus on results. This is an organizational configuration housing highly creative employees that expect and receive large amounts of information about the company and their jobs, engage in frequent conflict resolution practices, take appropriate risks regarding products/services, work in collaborative teams rather than alone, and focus on clear product/service goals. Finally, for the customer intimacy configuration, we predicted the following alignments: high or very high market strategy with customer/solution oriented employee know-how, and cultural emphases on conflict resolution and information sharing, risk taking, teaming, and focus on results. The configuration is similar to the product leadership configuration except that risk taking, teaming, and focus on results are customer rather than product/service oriented.

Finally, not all organizations seek to develop and utilize well aligned configurations to compete in their markets. In these organizations, senior managers gravitate toward market strategies that are useful at the time and change on a regular basis, and little attention is paid to building a corporate culture or workforce with competencies suited to the processes for satisfying customers. Therefore,

Hypothesis 4: An empirical configuration of firms will emerge that exhibits low emphases on most elements and well below average performance.

METHOD

Requests for participation were sent to 840 organizations taken from the Reference USA 2000 database in two separate waves three months apart. Those requested came from the following industries: healthcare, financial services, manufacturing, wholesale/retail, information technology, food processing, and services. A total of 120 firms were selected within each industry where sufficient information existed to identify a contact person and mailing information. In addition, a call was made through the University of St. Thomas College of Business for local participants. We recognize that these two approaches produced a convenience rather than statistically random sample thus introducing the possibility of selection error in the sample of firms (Cook and Campbell, 1976). In a convenience sample members of the group are chosen largely on basis of their relative ease of access. For example, political polling at a shopping mall is likely to produce a skewed sample based on the individuals that populated the mall on the day the study was conducted and those who agreed to stop for the questioning. Or, the researcher that uses a database of manager competency ratings assembled from firms desiring to evaluate managers at that time. However, we found this a more useful approach for attracting participation in this particular study.

Participating firms were mailed a packet of six surveys: business environment, market approach, culture, know-how, human resource practices, and organizational effectiveness. This study focused on market strategy, culture, and employee know-how. The survey instructions requested that the contact distribute the surveys as follows: employee know-to the human resource manager; culture and effectiveness to senior executives; and business environment and market approach to the marketing manager. A total of 326 packets were received: 90 from the Reference USA database (11% response rate) and 236 from the local request. However, seven packets contained a great deal of missing data and so were removed from the sample. Finally, an additional 12 packets had sufficient missing data to be excluded from the cluster analysis. The firms added locally were chosen from a population taking advanced management courses within the St. Thomas MBA executive programs and were screened by senior faculty members. The industry break-down of the sample was as follows: manufacturing—15.3%; retail/wholesale—19.9%; finance/ insurance/real estate—14.7%; transportation/communications—2.8%; agriculture/mining/ construction—7.7%; services—35.0%; and government/nonprofit—4.6%. While the sample is clearly convenience in nature, we believe it is representative of the general U.S. business population.

Finally, two or more individuals in the participating firms completed 65% of the packets. In the remaining 35%, the HR contact completed the surveys after consultation with others in the organization. All respondents were either members of the senior teams in their organizations or direct reports to a senior team member.

The market strategy survey was comprised of 21 items suggested by Treacy and Wiersema (1998). The culture survey contained 24 items across six topics: information sharing, risk-taking, teaming, focus-on-rewards, competition, and results orientation. Our intention was to look at items commonly used in culture measurement (Cummings and Worlely, 2005). The employee know-how survey was comprised of 24 items suggested by Treacy and Wiersema (1998) and intended to reflect the market strategies of operational excellence (i.e., efficiency), product leadership (i.e., creativity), and customer intimacy (i.e., customer solution orientation). Finally, a total of 18 organization effectiveness items were developed based on Quinn and Rohrbaugh (1983), and supplemented by items dealing with resource acquisition (people and capital), position in the market, maintaining customers, and overall financial performance.

RESULTS

Sub-scales were developed within each construct (market strategy, employee know-how, organization culture, and organization effectiveness) by factor analyzing the survey items using a principal components solution with a varimax rotation (SPSS-X, 1988). A summary of the scales is provided in Table 1. (The full scales are available from the authors.)

TABLE 1
CONSTRUCT SCALES

SCALE	FOCUS	# ITEMS	EIGENVALUE	ALPHA
Market Strategy				
Product Leader	Developing new products/services	6	4.77	.77
Customer	Providing customized products/ services	8	2.24	.71
Operational Excellence	Quality products at the lowest cost	5	1.52	.66
Employee Know-How				
Creativity	Constantly improving products/ processes	8	9.40	.87
Efficiency	High output for lowest input	7	4.05	.88
Customer Solution	Develop unique solutions for customers	9	1.44	.90
Culture				
Information	Sharing company information with employees	7	7.60	.83
Risk Taking	Taking appropriate risks	5	2.71	.82
Teaming	Working collaboratively	3	1.89	.76
Rewards	Providing rewards for good performance	3	1.25	.87
Competition	Emphasizing external/internal competition	3	1.14	.72
Results Focus	Emphasizing results attainment	3	1.07	.70
Organization Effectiveness				
Overall	Effective management of information, costs, processes, and people	9	6.50	.81
ROI	Return on capital investment	3	1.66	.76
Commitment	Loyalty of employees/suppliers to the firm	3	1.45	.71
Quality	Quality of products/services	4	1.03	.74
#1/#2	Being #1 or #2 in markets	1	1.00	NA

The dimension raw scores were converted to standard scores with a mean of 50 and a standard deviation of ten. The emergence of distinct configurations predicted by the hypotheses was tested by clustering the 12 dimension scores (organization effectiveness not included) for each company. A group structure was obtained using the Ward complete linkage method. This method is a rigorous approach that requires all members of a cluster to show a strong resemblance to all other members of the cluster (Aldenderfer and Blashfield, 1984). Visual inspection of tree-plots was used to define the final number of clusters. Five clusters were obtained using this method. To simplify portrayal of the configurations, five score bands were constructed. One-half a standard deviation above and below a dimension mean was labeled as "moderate." One-half a standard deviation below that was "low" and a second one-half standard deviation below that was "very low." A similar procedure was used to identify the "high" and "very high" ranges above the dimension mean. Table 2 summarizes the configurations using this banding protocol.

TABLE 2
EMPIRICAL CONFIGURATIONS

#1: Stuck-in-the-middle with a results and rewards focus (27% of sample)

Scale	Results
Market Strategy	
Operational excellence	Moderate
Product leadership	Moderate
Customer intimacy	Moderate
People Know-How	
Efficiency	Moderate
Creativity	Moderate
Customer solution	Moderate
Culture	
Information sharing/conflict resolution	Moderate
Risk taking	Moderate
Teaming	Moderate
Focus on rewards	High
Emphasize competition	Moderate
Results orientation	Very high
Organization Effectiveness	
Overall	Moderate
ROI	Moderate
Commitment	Moderate
Quality	Moderate
#1 or #2 in our markets	Moderate

#2: Stuck-in-the-middle with customer solution skills (32% of sample)

Scale	Results
Market Strategy	
Operational excellence	Moderate
Product leadership	Moderate
Customer intimacy	Moderate

TABLE 2 (CONTINUED)
EMPIRICAL CONFIGURATIONS

#2: Stuck-in-the-middle with customer solution skills (32% of sample)

Scale	Results
People Know-How	
Efficiency	Moderate
Creativity	Moderate
Customer solution	High
Culture	
Information sharing/conflict resolution	Moderate
Risk taking	High
Teaming	Moderate
Focus on rewards	Moderate
Emphasize competition	Moderate
Results orientation	Moderate
Organization Effectiveness	
Overall	Moderate
ROI	Moderate
Commitment	Moderate
Quality	Moderate
#1 or #2 in our markets	Moderate

#3: Customer intimacy with a distinctive culture (13% of sample)

Scale	Results
Market Strategy	
Operational excellence	High
Product leadership	High
Customer intimacy	Very high
People Know-How	
Efficiency	High
Creativity	High
Customer solution	High
Culture	
Information sharing/conflict resolution	Very high
Risk taking	Very high
Teaming	Moderate
Focus on rewards	Very high
Emphasize competition	High
Results orientation	Very high

TABLE 2 (CONTINUED)
EMPIRICAL CONFIGURATIONS

#3: Customer intimacy with a distinctive culture (13% of sample)

Scale	Results
Organization Effectiveness	
Overall	High
ROI	Moderate
Commitment	Moderate
Quality	High
#1 or #2 in our markets	Moderate

#4: Weak master of two (OE & CI) with a moderate competition and results focus (22% of sample)

Scale	Results
Market Strategy	
Operational excellence	Moderate
Product leadership	Low
Customer intimacy	Moderate
People Know-How	
Efficiency	Moderate
Creativity	Moderate
Customer solution	Low
Culture	
Information sharing/conflict resolution	Very low
Risk taking	Very low
Teaming	Very low
Focus on rewards	Moderate
Emphasize competition	Moderate
Results orientation	Moderate
Organization Effectiveness	
Overall	Moderate
ROI	Moderate
Commitment	Moderate
Quality	Moderate
#1 or #2 in our markets	Moderate

TABLE 2 (CONTINUED)
EMPIRICAL CONFIGURATIONS

#5: Low across the board (6% of sample)

Scale	Results
Market Strategy	
Operational excellence	Very low
Product leadership	Low
Customer intimacy	Low
People Know-How	
Efficiency	Low
Creativity	Very low
Customer solution	Very low
Culture	
Information sharing/conflict resolution	Very low
Risk taking	Very low
Teaming	Very low
Focus on rewards	Very low
Emphasize competition	Very low
Results orientation	Very low
Organization Effectiveness	
Overall	Very low
ROI	Low
Commitment	Very low
Quality	Very low
#1 or #2 in our markets	Low

Hypothesis 1 called for the emergence of a configuration in which the majority of the elements (i.e., market strategy, culture, and employee know-how dimensions) clustered around the sample average. Two clusters, *#1 Stuck-in-the-Middle with a Results & Rewards Focus* and *#2 Stuck-in-the-Middle with Customer Solution Skills* partially meet this criterion. Both of these clusters have ten of their 12 dimensions within the moderate emphasis region.

Hypothesis 2 called for the emergence of three configurations that focused distinctively on the three market disciplines, operational excellence, product leadership, and customer intimacy, as described by Treacy and Wiersema (1995). Only one of the empirical configurations, *#3 Customer Intimacy with a Distinctive Culture*, resembled the predicted Treacy and Wiersema (1995) market disciplines. Configuration *#4 Weak Master of Two with a Moderate Competition and Results Focus*, suggests emerging competitive approaches described by Treacy and Wiersema (1995) that are based on extreme emphasis on two of the three market disciplines. However, this empirical configuration showed only a modest emphasis on two disciplines, operational excellence and customer intimacy. Therefore, we chose not to interpret this configuration within the Treacy and Wiersema (1995) context. Thus hypothesis 2 was only partially supported.

Hypothesis 3 predicted that firms with clear market disciplines and alignment of market strategy with employee know-how and culture would exhibit higher organization effectiveness than other firms. Only configuration *#3 Customer Intimacy with a Distinctive Culture*, resembled the Treacy and Wiersema (1995) configurations. Therefore, an anova was conducted with configuration #3 versus all other configurations combined as the two levels of the independent variable and the dimension of overall effectiveness as the dependent variable. The anova showed a significant difference between configuration #3 and a combination of the other four configurations on overall effectiveness ($F=28.46$, $df=1,305$, $p<.05$).

Finally hypothesis 4 predicted the emergence of a configuration with low emphasis on all the dimensions, including overall effectiveness. Configuration *#5 Low Across The Board,* with all dimension scores in the low and very low ranges clearly supports this hypothesis.

DISCUSSION

Our study provided mixed support for our hypotheses. Hypothesis 1 suggested that the stuck-in-the-middle configuration occurs with great regularity in for-profit organizations. Our results showed that two configurations, tallying 59% of the sample firms, had a majority of dimension scores close to the sample averages. This lack of distinctiveness strongly supports Porter's (1984) notion that creating clear and differentiated market approaches is the norm rather than the exception for many firms. This may be an uncomfortable notion for managers to accept. Our data point to firms that have not engaged vigorously in the process of strategic differentiation. These firms are satisfied with managing things as they are and seem to be unwilling to risk taking those steps which allow them to participate more significantly in building wealth for their shareholders.

Our results only partially supported Treacy and Wiersema's (1995) descriptions of firms based on operational excellence, product leadership, and customer intimacy market approaches. The fact that the customer intimacy configuration emerged from the data suggests that an increasing number of contemporary firms are seeking proprietary relationships with their customers as a competitive approach. They realize that value can be most readily gained from a stronger relationship with the customer. Few firms have the creative resources to be a product leader. Larger firms that appeal to a large heterogeneous customer base are the ones that benefit from an operational excellence approach. Customer intimacy gives the smaller or growing firms the opportunity to smooth out variations in the market and retain customers at a good price. Picking this market approach makes a great deal of good sense for the average firm.

Our results did show that if firms align market approach, employee know-how, and culture in complementary ways they will experience above average performance. Configuration #4 and its relationship to the other configurations clearly confirms hypothesis 3. We need additional research to identify clear and appropriately aligned operationally excellent and product leadership firms in order to extend the results found in this study with customer intimate organizations.

The presence of the two stuck-in-the-middle configurations and the low across the board configuration indicate how difficult it is for managers to create clarity within their organizations despite the facile advice offered by strategy gurus. We need to recognize the notion of average management as an accepted option for leadership behavior. These three configurations accounted for 65% of the firms in the sample. Therefore, it appears that most managers probably pay more attention to individual elements within our model than the overall configuration. This may occur due to a number of factors: a) mediocre systems thinking skills on the part of organization strategists, b) the dominance of functional over enterprise-wide perspectives, c) an over reliance on industry best practices that reinforce similarity rather than uniqueness, and d) industry changes that result in some senior executive choosing to take a deeply conservative approach to leading the business.

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