

Strategic Fit - The Missing Link between Strategy Formulation and Strategy Execution

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Abstract

A wide framework for strategy formulation and procedures for its implementation are designed and used in last few decades by a large number of firms, with strong conviction that the expected outcome will be as precise as it is claimed. A study of 750 of the biggest U.S. business catastrophes from the past 25 years pointed at popular but risky strategies, which were used by their firm. Strategists find it difficult to cope with the complexity and trim it to a manageable extent. The complex interactions of variables from the perspective of geopolitics, technical innovation, capital market swings due to national economic policies, direct and indirect competition, varying consumer preferences etc insists the organization to change the way strategies are visualized and alter the methods of implementation. The organizational behavior determinants from internal and external contingencies decide the course of strategy implementation and complexities arising in it. The implementation may not take place as expected from formulation due to concealed gaps and may result in a deficient performance. This paper is an effort to identify the determinants of a commendable strategic fit to create a win-win situation; by encompassing the factors creating the gap and evaluating the performance perimeters consequent to dimensions of a strategic fit.

Keywords: Strategic Fit, Strategy Formulation, Strategy Execution, Gaps, Contingency Rationale.

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1.0 Introduction

Organizational behavior and its impact on success is determined by the strategy with which it manages to balance and drive the available resources efficiently during strategy implementation. The desired outcomes from a strategy are subjected to the degree of synchronization of organizational environment to the requirements of strategy's implementation. Intentional layout for each strategy differs with the purpose for which it is formulated and conditions for its implementation. Thus, the projection of strategy's outcome may become different in each exclusive situation (Ulwick & Greenwood, 2005).

The steps of strategy formulation such as setting long term plans, defining the corporate mission, short term objectives, strategy development and defining guidelines to achieve it; and the steps of strategy execution such as resource allocation, developing programs to put strategies and policies in action, need to be aligned to achieve the targeted long term goals (Thenmozhi, n.d.). A commendable strategy may turn the company's face and increase its performance (Blahová & Knápková, 2011). Regrettably, companies struggle stiffly during the phases of strategy implementation. To bridge the gaps between strategy formulation and strategy execution in an organization by calibrating the resources, and strictly controlling the attenuation of short term objectives, is addressed by the concept of strategic fit. The next section outlines the concept of strategic fit.

2.0 Overview of the concept of Strategic Fit

The concept of strategic fit as defined by Scholz (Scholz, 1987) is a situation in which all the internal and external elements relevant for a company are in line with each other and with the corporate strategy. Impediments while implementing a strategy may arise due to lack of "fit" with internal resources such as employee capabilities and external resources such as outsourced production unit (Amlt & Schoemaker, 1993). Balancing the two in an appropriate way creates a supportive environment to achieve the organizational mission and goals.

The following section presents the aim & objectives of defining a strategic fit, addressing the missing link which bridges the gap between strategy formulation and execution.

3.0 Aim and Objectives

The aim of this study is to review the concept of strategic fit, and how it can act as a catalyst to link strategy formulation & execution by resolving the underlying contingencies.

Objectives:

- To understand and review, the importance & contribution of internal and external elements of a strategic fit.
- To analyze the precursors of strategic fit by highlighting environmental and organizational contingencies, and how they can bridge the gap of strategy formulation and execution.
- To outline the consequences of strategic fit by evaluation of organizational performance.

- To analyze the imperatives of strategic fit in the cases of mergers & acquisitions and its impact on the organizational behavior.

To achieve the aim of the study, a systematic literature review to analyze the strategic fit's antecedents is discussed in the next section. The role of environmental and organization contingencies towards a strategic fit is also reviewed.

4.0 Literature Review

The changing organizational environment lays a difficult platform for any strategy to be executed as expected from its aspects of formulation. One of the major reasons for such difficulties is the multidimensional nature of strategic fit. Traditional approaches of strategy formulation prevent the strategists from conceptualizing the strategic fit accurately. Environmental and organizational contingencies affect the course of strategic fit's implementation. Thus, the projected behavior of a strategic fit deviates and fails to deliver on the notes of its unique competencies. As a result, a new set of approaches to accommodate the responses to changing environments is introduced, which further increases the uncertainty (Zajac, Kraatz, & Bresser, 2000). The next section points the environmental and organization contingencies with respect to the strategic fit.

Antecedents of Strategic Fit

The traditional contingency theory of management is applicable to the theory of strategic fit as well. Matching the strategy and its content with higher degree of congruency to align them is subjected to contingencies (Santala & Parvinen, 2007). These contingencies are defined as environmental contingencies and organizational contingencies, and are discussed below.

Environmental Contingency

The environmental contingencies are a set of those possibilities which are independent of organization strategies. They are often addressed in SWOT analysis for any project, situation like acquisition & merger as well as strategy formulation with PESTEL (Political, Environmental, Social, Technological, Economical and Legal) analysis. Some of the major environmental contingencies are (Nielsen, 2010):

- Direct & indirect competition
- Rate of technology change
- Impact on cultural and social trends due to competition and new options
- Political, legal and regulatory environment domination by changing laws
- Demographic or cross border limitations
- Regional Economy fluctuations

With respect to a strategic fit, as these contingencies tend to be dynamic in nature, a dynamic strategic fit (Zajac et al., 2000) is designed to address their impact. It allows a strategic fit to manage the environment as well as catalyze the operations of ongoing strategy within an organization.

Organizational Contingency

The organizational contingencies, unlike environmental contingencies are under the control of authorities administering the strategy formulation and implementation. Major organizational contingencies insist on strategic alignment by taking those steps which will address organizational goals, organizational strategy, vision & mission as well as attenuating the culture within.

While considering the scenario of strategic fit, environmental and organization contingencies can be related to it as follows:

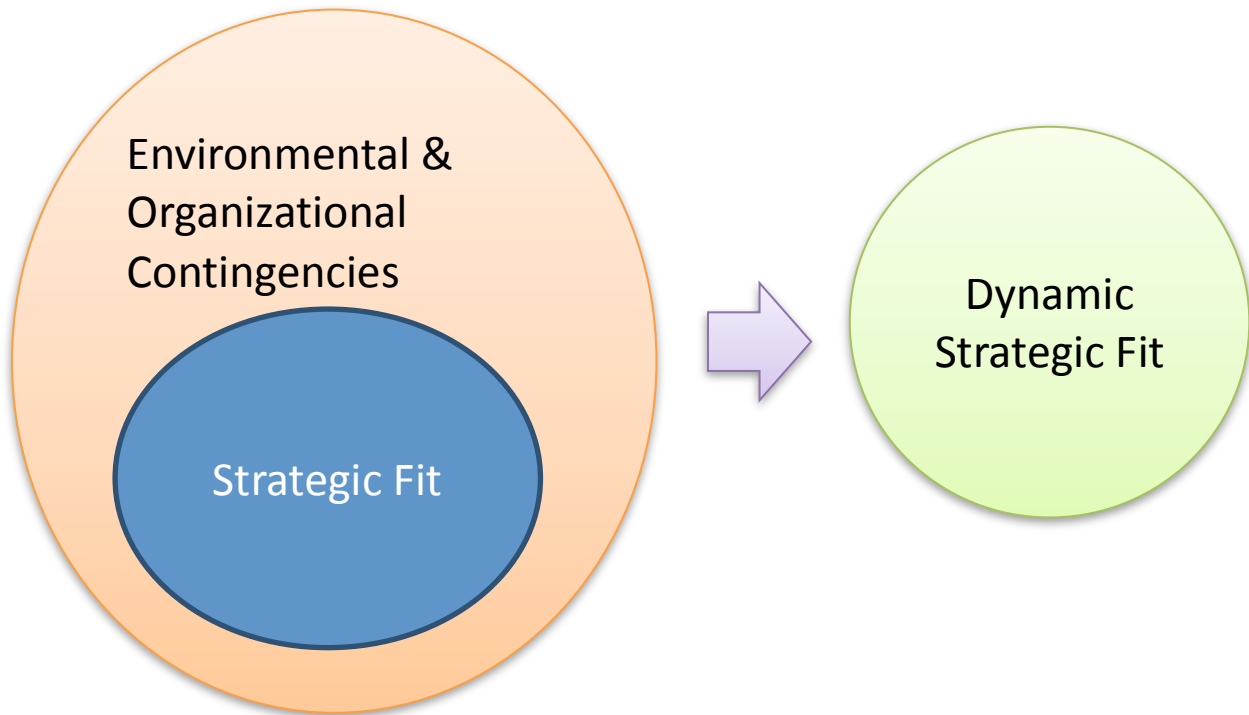


Figure 1: Strategic Fit and Contingencies

Strategic Fit bridging the gaps between strategic formulation and strategic execution

Strategies demand all organizational processes and resources to work cohesively to contribute to their success. In the case of failure, strategists find the processes and resources incapability as the culpable factor. Creating an alignment between the processes, resources and core functional strategies to minimize the conflicts between multiple functional goals during execution, requires the intervention of chief executive officers (CEO's). A strategic fit demands this alignment to perform as desired by the top management(Chopra & Meindl, 2006).

Strategy visualization & formulation, and its execution assisted with strategic fit encounter some challenges creating a gap between. It is an important aspect to introspect before hand to ensure rise in organizational performance. Monitoring the weaknesses and threats during

strategic execution and considering the strengths and opportunities identified during strategy formulation may result in a successful and well managed strategic fit. Porter claims that a fit drives both, competitive advantages and sustainability.

Anticipation to find a strategy implemented as congruent with its visualization & formulation is driven by few mandates. These mandates engage the organizational elements and strategy, and control the effect of contingency.

Human taskforce must understand the minutes of management's intended strategy. Efforts to align the view of organizations' members and top management towards strategy aid in the direction of collective action. Finally, the effect of external contingencies needs to be mitigated and uniting these 3 mandates ensures bridging of the gap between strategy visualization and implementation. However, it is exceptionally intricate to meet all the above mandates, thus strategies need alterations during implementation (Christensen & Donovan, 2008; Kipping & Cailluet, 2010; Mintzberg & Waters, 1985).

The individual oriented rationale of strategy formulation is affected by the surroundings in which strategy is visualized. The situations during strategy formulation may change during strategy implementation due to organizational and environmental contingencies. The core challenge in such circumstances is managing a panorama of uncertainty underlying each step of strategy implementation and addressing the objectives to meet the organizational goal.

Proposing a strategic fit to address this gap requires a mix of organizational values, negotiation power and behavioral forecasting for short-term goals and the patience to implement it.

The significance of strategic fit is easily understood in the cases of mergers and acquisitions. The gap between strategy formulation and implementation is wide enough due to differences across the two organizations' ongoing practices. These gaps occur due to cultural differences, communication barriers, different organizational practices & professional environment, cross border positioning, and financial policy modulations (Katsikeas, Samiee, & Theodosiou, 2006; Kithinji, 2012). In such cases, a strategic fit may not need just a goal and a set of objectives to accelerate the operational mergers but a unified opus of change driven policies with well negotiated terms and conditions.

Change Management
Terms & Conditions Negotiation
Appreciation towards best practices
Soft Skills

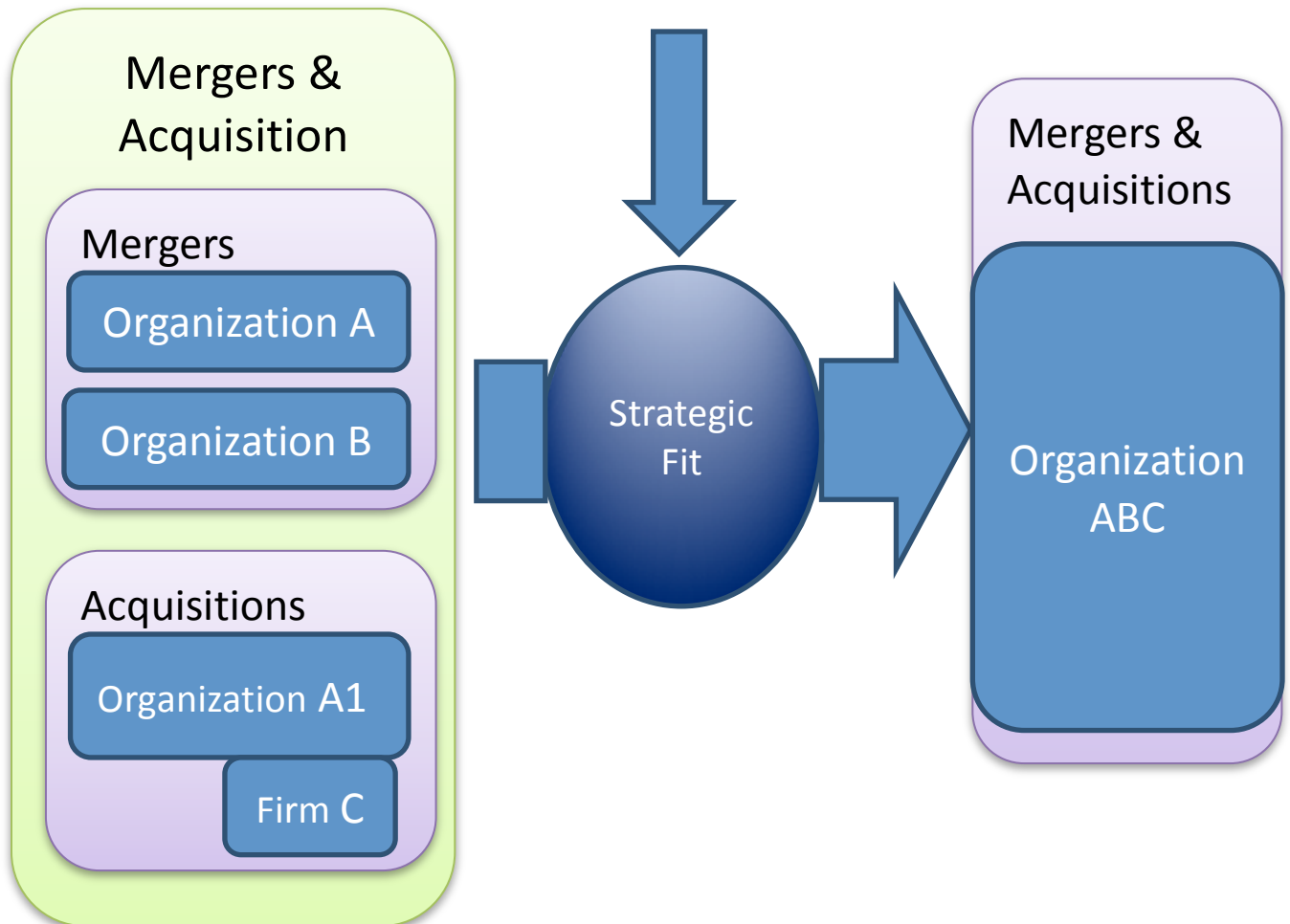


Figure 2: Strategic Fit and its role in Change Management

Consequences of Strategic Fit

Consequences of strategic fit are dependent on the situations in which it is adopted. One approach and framework can't fit in all environments. In many cases, right understanding towards a strategic fit helps an organization to identify the appropriate merger & acquisition opportunities, which helps it to create higher performance. Strategic fit exists when the value chains of different businesses present opportunities for cross-business skills transfer, cost sharing, or brand sharing (Gamble, Thompson, & Peteraf, n.d.).

Organizational Performance

Organizational performance of a strategic fit is determined by the strategy standardization in the implementation environment. However, the degree of performance may reduce if the implementation environment variables deviate from their predicted behavior (Katsikeas et al., 2006). An example of strategic fit is exhibited by company Dell, which has competitive strategy to provide a variety of customizable laptops and personal computers at a reasonable price to their customers, but delayed delivery as compared to another company's in-house selling policy across portals and retail outlets. In such case, a supply chain strategy that promises flexibility and responsiveness is an ideal fit for Dell instead of another company's policy to produce diversified products, with higher cost of sustaining business (Chopra & Meindl, 2006).

5.0 Discussions and Conclusions

Strategic thinking is driven by a match between current capabilities and existing opportunities, seeking sustainable advantages. The strategic fits are highly volatile to contingencies from the adapting environment and organization ethics. A successful strategic fit within a certain scenario leads to value creation and may remain bleak in some other scenario during similar strategic execution due to contingencies.

Ensuring smooth operational environment, disruption free strategic formulation and implementation without affecting its elements, mergers resulting in a motivating environment, acquisitions resulting in a homogeneous organization are key deliverables of an exceptional strategic fit. Before addressing bigger issues lying within a heterogeneous mix during mergers, insights over smaller aspects of a strategy need to be dealt in symmetry.

A contingency is a situation in which the ultimate outcome is determined only on the occurrence or non-occurrence, of one or more uncertain future events. ("Accounting Standard (AS) 4 - Contingencies and Events Occurring After the Balance Sheet Date," 1995). Alteration to the ongoing strategy without affecting the organizational environment by a higher degree, is therefore required to negotiate a contingency's effect. It can be achieved by introducing strategic fit (managerial, resource and competitive fit) to fill the gap (Knapp, 2000). The overall appreciation for a strategic fit speaks volumes in terms of long-term repute of organizations and their increased financial performance.

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