

Review

Alignment in the organization's strategy window (concentration on business strategy and operations strategy)

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Nowadays, strategy is defined at corporate, business and functional level. The success of the organizations depends not only on developing strategies at these levels but also alignment between them. In this paper, by delineating strategy levels and their differences, a window called organization's strategy window is introduced and then the concept of alignment and the method of alignment in the organization's strategic window are explained. Strategic alignment is divided into the two types: vertical alignment (alignment between business strategy and functional strategy) and horizontal alignment (alignment between functional units) and the vertical alignment of the functional strategy of operations and business strategy is explained in detail. An overview of the proposed approaches and studies in the field of alignment indicates that organizations that have created a suitable alignment between the elements of their strategy have a high performance. Therefore, a direct relationship between strategic alignment and performance can be defined.

Key words: Business strategy, functional strategy, operations strategy, vertical alignment, horizontal alignment.

INTRODUCTION

Strategy means decision-making about the place where you want your business to go and knowing how it must reach there. The process of strategic decision-making plays a vital role in the success of organizations (Dangayach and Deshmukh, 2006). Successful companies determine their position in a place where there is specific emphasis on strategic planning, the relationship between strategy and all shareholders and a tendency towards long-term perspective and they are also well-aware of the strategic role of operations in their strategic planning. According to Andersen (2000), the studies show that organizations which have used strategic management are generally more successful than those that do not use it. Strategy is usually developed in three organizational, business, and functional levels.

Apart from the necessity of developing a strategy, the method of creating alignment between levels of strategies is of vital importance for the organizations. Lack of a

scientific structure in transferring the developed strategies at the business-level to functional-levels causes some problems. In order to achieve organizational goals, managers require tools by which they may align together different levels of strategy. The purpose of alignment is to identify the contexts for creating this synergy in the organization (as a whole).

Functional operation unit plays the main role in producing the organization's product. Therefore, strategies developed in this unit are of utmost significance. Operation strategies must be aligned with the higher level strategy, that is; business (horizontal alignment) and also with strategies of other functional units such as marketing, human resources, research and development and financial unit (horizontal alignment). Lack of alignment leads to waste of resources and loss of efforts.

LEVELS OF STRATEGY

Literature of strategy shows three levels (Figure 1), which in the sources are often named as corporate-level

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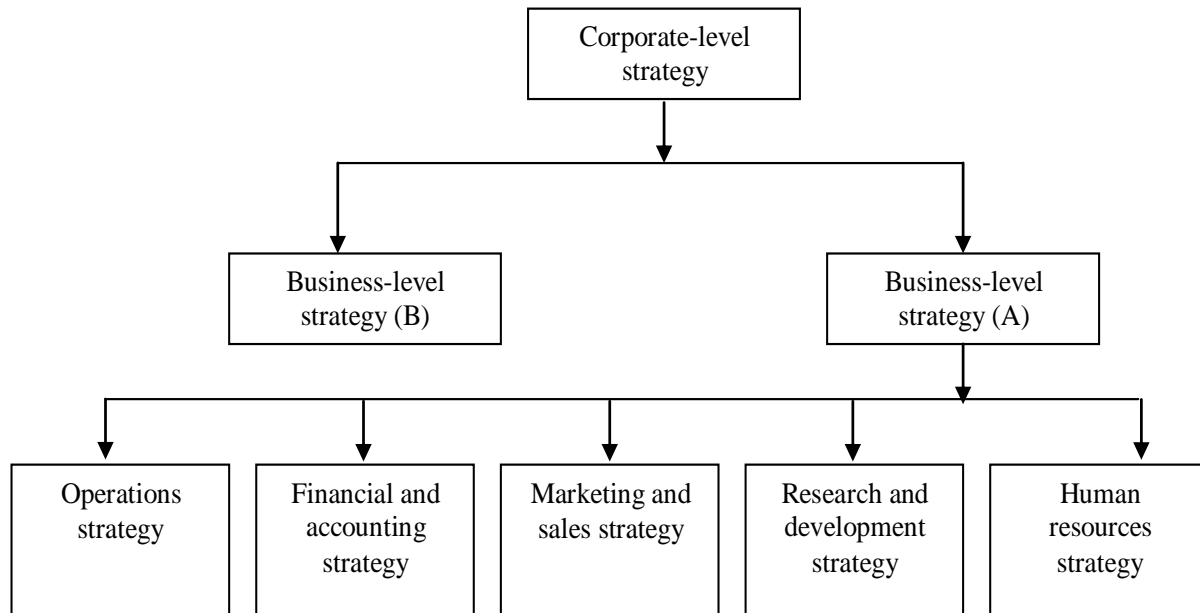


Figure 1. Levels of strategy.

strategy, business-level strategy and functional-level strategy (Wheelen and Hunger, 2000).

Today, with the development of the companies and their activities in various fields, another level of strategy has been created, which is known as corporate strategy. At corporate level of strategy, decisions regarding the overall framework of the organization are made.

Collis and Montgomery (2005) have defined corporate strategy as creating value through shaping corporate activities in multi-business markets. Their definition has focuses on three aspects, value creation, scope of corporation (configuration), and coordination between businesses. In another definition of corporate strategy, allocation of resources among different units is taken account. At the corporate level of strategy, decisions regarding variety, vertical integration and proprietorship of a new activity are made and also method of allocation of resources among different units of the organization is considered (Jacobs, 2010). Generally, in addressing corporate strategy, it is important to keep in mind that corporate strategy subject is about businesses in which corporate intends to be active.

In the literature of strategy, a second level has been defined which focuses on a business unit. This level of strategy is known as business-level strategy and sometimes it is also referred to as competitive strategy. This concept was first introduced in the 1960s and 1970s by a number of business policy scholars. Collis and Montgomery (2005) articulated that central to their ideas was the notion that firms needed to adopt a unified approach to their activities and resource allocation decisions. Business strategy deals with method of competition and

determines the place of business within a specific industry.

According to Ohmae's (1982), what distinguishes strategy from other business plans is one word and that is competitive advantage. Without competition, there would be no need for strategy. The sole aim of strategic planning is to enable the organization to achieve efficiency and superiority over its competitors. The important point that can be deduced from this definition is that the necessity of business strategy is due to the existence of a competitive environment and in the absence of this environment, the existence of strategy would be practically meaningless.

Functional-level strategies are developed in order to support the business-level strategy (Davis et al., 2003). In other words, functional strategies are a set of decisions in each of the functional areas of the organization which determine the role of the functional unit within the business strategy. In other words, functional strategy is the notion used by a business area for achieving the objectives and strategies of company and business through maximizing resources efficiency.

Marketing managers make decisions about the position of the products or services, advertisement, and customer relations management. Human resources managers make decisions about work force management, employment policies, and compensation policies. Financial and accounting managers make decisions about sources of financial supply, resource allocation, accounting system and the structure of internal auditing.

According to Wheelen and Hunger (2000), the general direction of strategy is determined by the business. For

Table 1. Key issues in strategy levels.

Strategy level	Key issues
Corporate	<ul style="list-style-type: none"> • What businesses shall we be in? • What businesses shall we acquire or divest? • How do we allocate resources between businesses? • What is the relationship between businesses? • What is the relationship between the centre and the businesses?
Business	<ul style="list-style-type: none"> • How do we compete in this business? • What is the mission of this business? • What are the strategic objectives of this business?
Function	<ul style="list-style-type: none"> • How does the function contribute to the business strategy? • What are the strategic objectives of the function? • How are resources managed in the function? • What technology do we use in the function? • What skills are required by workers in the function?

Source: Barnes (2008: 23).

instance, a business which follows differentiation strategy and pays much attention to the quality of its products must use more expensive and higher quality products in functional production units and employ skilful and efficient personnel in human resources unit. Generally, it can be said that most large companies have documented functional strategies (Weir et al., 2000). In other words, medium and small companies do not have documented and developed functional strategies. To satisfy the customers and create a brand strategy, operations and marketing of functional units are of higher significance (Heskett, 1986).

In a view, levels of strategies can be defined in an up-to-down relationship. It means business-level strategies are supposed to fulfil organization's strategies and functional-level strategies are supposed to fulfil business-level strategies. In other word, how do functional areas participate in business strategy and support it?

However, there are other viewpoints on the relationship between business and functional strategies in which functional capabilities and strategies form the business strategy. In the literature of strategy, these viewpoints have been proposed as resource based values (RBV). There is cooperation and interdependence among the strategies of the three levels of corporate, business and functional strategy units. Key issues in each of these levels have been presented in Table 1.

CONCEPT OF ALIGNMENT

Different equivalents have been used within the literature for explaining the concept of strategic alignment. In 1974, Skinner has presented the concept of alignment using the

practical term strategic consensus, Porter (1996) has referred to it as fit, Henderson and Venkatraman (1993) as alignment, and Venkatraman (1989) as fit. Each of these theories presents a concept of alignment. According to Porter (1996), strategy means making the activities of an organization fit each other. In other words, activities must cooperate and support and strengthen each other.

Accordingly, there are three types of fitness: fitness between each of the general activities and strategies of the organization, fitness between activities which support one another and fitness through optimization of activities. Boyer and McDermott (1999) have stated that strategic alignment means that individuals at various organizational levels agree on the issues of cost, quality, delivery and flexibility, which are important for organization's success. Many of the writers on the issue of strategy have stated that alignment between strategies is an integral component of organizations' success (Hayes and Wheelwright, 1984; Hill, 1988; Voss, 2005).

Venkatraman (1989) has explained the concept of alignment in strategic research. According to him, six types of alignment are possible. These alignments are obtained in two dimensions of relating alignment to a specific criterion and the degree of accuracy in forming alignment relationships. The assumption of the model is that the greater the number of equation variables, the lower the degree of accuracy in alignment relations will be. In the viewpoint on alignment which considers it as a moderator, the effect of an independent variable such as strategy on a dependent variable such as performance depends on the performance of another variable such as environment which is known as the moderator.

In the alignment approach as mediation, a mediating

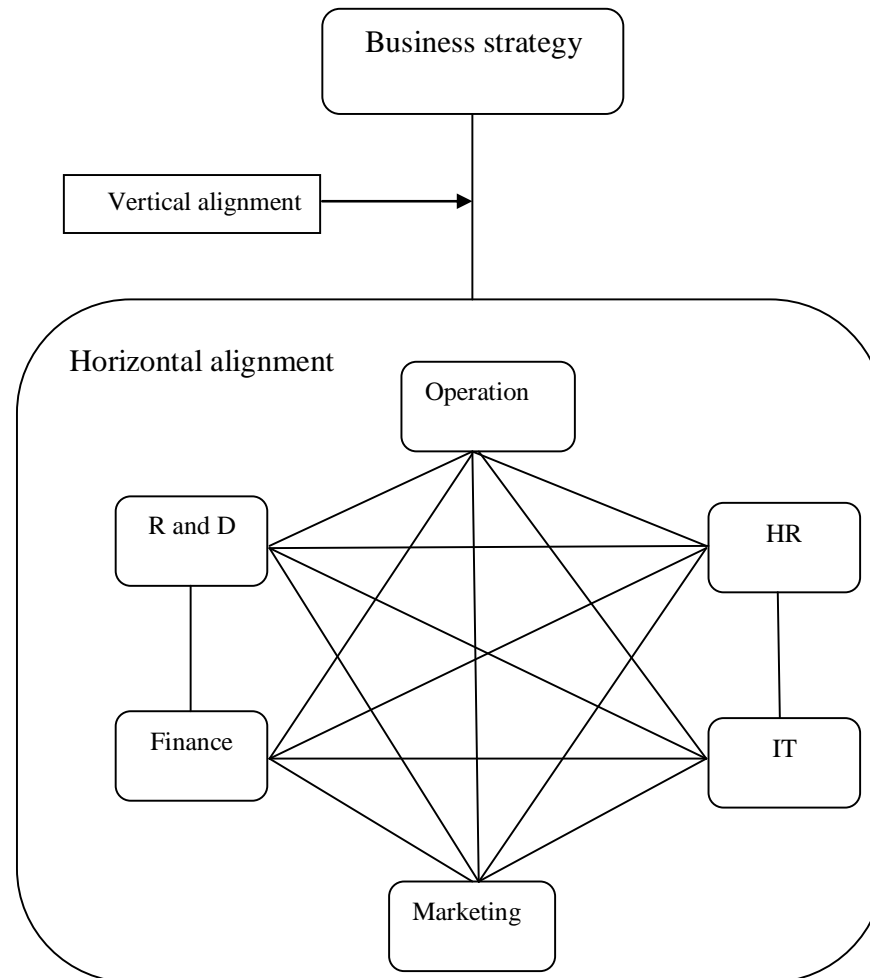


Figure 2. Dimensions of alignment.

variable such as organizational structure mediates in the relationship between a primary variable such as strategy and a consequent variable such as performance. Alignment approach as proportion expresses coordination between two variables. What distinguishes this approach from previous approaches is that in this approach, a criterion variable such as performance is not considered. Nevertheless, even in this approach the effect of coordination of two variables on one or more criterion variables selected by the researcher is measured. A famous example of this approach is Chandler's study on the relationship between structure and strategy.

In this research, the relationship between structure and strategy is examined without considering the variable of performance and it is assumed that lack of coordination between structure and strategy leads to poor performance. In fact, these three viewpoints study the alignment between two variables. The three other approaches study Venkatraman model of alignment between several variables.

According to Collis and Montgomery (2005), the central

concept of SWOT approach is notion of alignment between the unique capabilities of a company and the competitive requirement of an industry.

By examining the viewpoints of the experts on alignment, two main dimensions of alignment of the strategy of functional units and business strategy (vertical alignment) and alignment of functions (horizontal alignment) may be expressed (Figure 2).

Based on what was mentioned regarding business strategy and functional strategies and also concept of alignment, it may be concluded that functional strategies form the business-level strategy, in other words as Beckman and Rosenfield (2008) state, decisions made at functional units on the whole forms the business strategy. In these concepts, an alignment window can be defined which its sections form the functional strategies and its frame forms the business strategy (Figure 3).

From alignment window, it can be concluded that the sum of functional strategies provide necessary elements for gaining competitive advantage.

Each unit pursues its own strategy, however for this

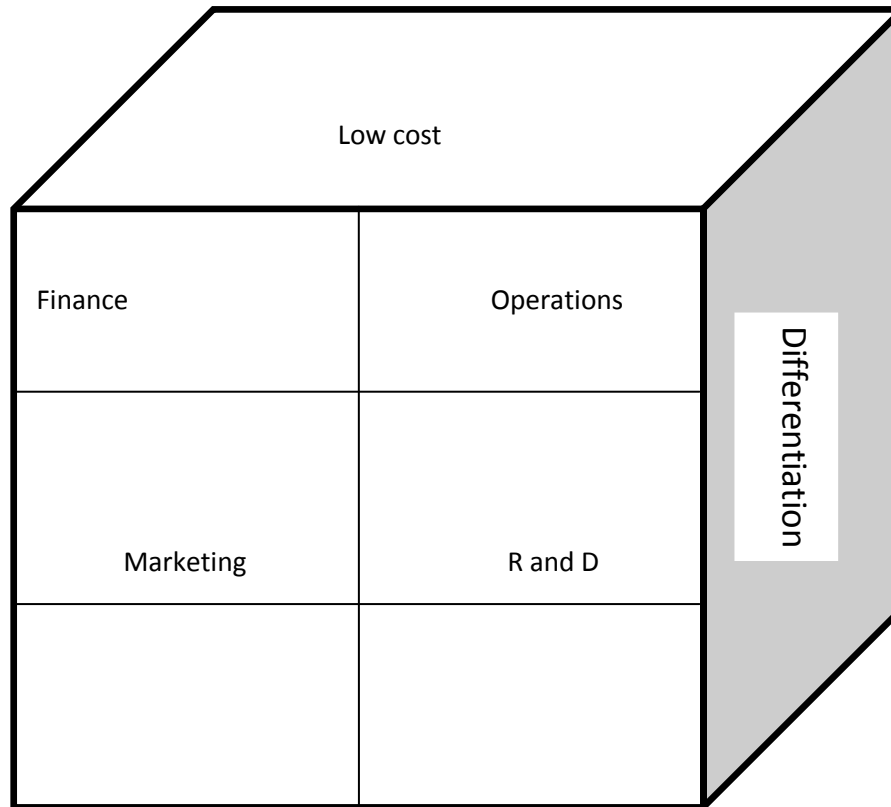


Figure 3. strategic alignment window.

window to fit, unit strategy must be aligned with and fit strategies of other units as well as business-level strategy. Fitness of small windows with one another is defined as horizontal alignment and fitness of small windows with the window frame is defined as vertical alignment.

Vertical alignment

This dimension deals with alignment of functional units with business strategy. Henderson and Venkatraman (1993) introduced the Strategic Alignment Model (SAM) with the aim of aligning IT strategies and business strategy. In this model, integration of strategy and operation (processes and skills) in two sections of business and IT is examined. It can be inferred from this model that there is a relationship between business strategy and IT strategy and on the other hand, they also have a relationship with business and IT processes.

Operations strategy must also be aligned with business strategy. Operations strategy includes decisions which are made in the field of operations. These decisions must be aligned with business strategy or the competitive strategy of the organization. Schroeder et al. (2011) incorporate aligning of operation strategy with business strategy and other functional strategies in their definition

of operation strategy. Brown and Blackmon (2005) have examined the alignment of operations and business strategies and have emphasized its importance.

In a study of the banking industry, Rhee and Mehra (2006), suggest that the relationship between competitive strategy and business performance is mediated by manufacturing strategy. Their findings imply that a differentiation strategy works when it is supported by manufacturing capability, that is, quality. Ward et al. (2007) have conducted an applied research on creating relationship and alignment between business strategy and structural and infrastructural production decisions. The findings show that the type of business strategy (cost leadership, differentiation, concentration) influences the type of structural and infrastructural production decisions; therefore, there is a relationship between business strategy and production strategy.

In Kotha and Orne's (1989) model, based on the complexity of the process structure, complexity of the product line and product domain on the one hand, and cost reduction and differentiation strategies, general operations strategies are introduced. Slack and Lewis (2011) consider a suitable operations strategy to be the result of alignment between market needs and operations capabilities.

Kim and Arnold's (1996) model begins with business strategy and ends with strategies which are adaptable in

operations. According to Hayes et al. (2005) there are three types of consistency: consistency between operations strategy and business strategy, consistency between operations strategy and other functional strategies, and consistency between various areas of decision-making within operations strategy.

Horizontal alignment

The second dimension of strategic alignment is introduced between functional units. Horizontal alignment refers to the relationship between the functional unit and other functional units. Strategic alignment among organization's functional units plays a significant role in the competitive success of the organization, but few applied researches have been done on this issue (Weir et al., 2000).

By studying the alignments between marketing and production strategies, Weir et al. (2000) have found out that there is a weak relationship between production and marketing strategy and have stressed the need for developing a methodology for this purpose. In Rhee and Mehra (2006) studies, organizational performance is depended on the proportion between operations and marketing strategies.

With regard to the literature of the subject, less attention to horizontal alignment than vertical alignment is observed. Also, it could be said that strategic alignment between some functional units such as human resources and financial units, operations and financial units, financial and research and development units is less common and more viewpoints on the alignment of operations and marketing can be observed.

ALIGNMENT AND ORGANIZATION'S PERFORMANCE

An organization's performance is the result of all the activities and efforts which have been planned and implemented. Venkatraman and Ramanujam (1986) believe that organizational performance is equivalent to organizational effectiveness and is, practically, in the core of strategic management. The significance of organizational performance in strategic management is described in theoretical, applied and managerial aspects. In the theoretical aspect, organizational performance is located in the core of strategic management.

Many of the strategic management theories are implicitly or explicitly affected by performance because it is necessary while testing any strategy. Also, many strategic studies make applied use of organizational performance structure in order to test strategy and process issues. The significance of organizational performance in management is that it presents recommendations for improving performance. The relationship between strategy and performance has been the subject of researchers' discussions. Porter (1980) believes

that selecting a strategy by itself does not lead to gaining competitive advantage, but rather it is the manner of implementing the strategy that plays a significant role in achieving performance. Porter's competitive strategy has been linked to performance in studies such as Campbell-Hunt (2000).

The effect of operations strategy on performance has also been considered by the researchers. The idea of operations strategy's support for organization's performance has been introduced in studies such as Kim and Arnold (1996) and Williams et al. (1995). In some studies, the importance of consistency between operations strategy and competitive strategy for fulfilling organization's goals has been emphasized (Swamidass and Newell, 1987; Miller and Roth, 1994). Case studies of successful companies have indicated that in these companies alignment between operational and strategic aspects is more conspicuous (Boyer and McDermott, 1999; Joshi et al., 2003).

CONCLUSION

It could be said that nowadays with regard to the expansion of the companies, they must develop strategies at corporate, business and functional levels. In this paper, a window was created from the sum of business and functional strategies whose frame consists of business strategy and the small windows within it consist of functional strategies.

Apart from creating strategic alignment window, companies must align these components by using an appropriate strategy. Studies indicate that the important outcome of alignment is enhancement of organizational performance and existence of unalignment leads to poor performance.

Taking the literature of the subject into consideration indicates that more studies and approaches deal with vertical alignment rather than horizontal alignment. In other words, it could be said that horizontal alignment has been ignored within the literature of the subject and requires more study and applied research. Studying the literature shows approaches to vertical alignment between operations strategy and business strategy and also horizontal alignment between operations strategy and marketing strategy. However, it could be claimed that no serious work on horizontal alignment is observed.

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