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## STRATEGIC ALIGNMENTS AND PERFORMANCES OF THE FIRM.

Align strategic priorities with customer expectation and individual behavior with organizational goals. •

### Introduction

Are performance of the firm influenced by both internal and external alignments (market structure and strategic priorities; organizational goals and individual behavior)?

The answer to this question requires a correct definition of two constructs of “alignment” and “performance” (Bain, 1959).

Several studies analyze relations between structure of the market and performance of the firm. This relation is the same of Bain’s framework “structure of the market - conduct of the firm – performance”. Bain gave a low weight to “conduct of the firm” and, even if others authors (Scherer, 1980) modified his framework giving more emphasis to “conduct”, two strong assumptions are still in their framework.

1. The first assumption is the fact that organizations are “individual entity”: this assumption is very often used to simplify reality. Even if the assumption that rational behavior has been replaced by bounded rationality, consider organization as individual seems to be a too strong simplification. On the contrary, the alignment among strategy and people’s behavior is one of the most important problem in the companies life.
2. The second assumption is that market is an entity with clear characteristics and boundaries. Actually, market is a competitive interaction among firms and/or interaction among customers with several priorities. Several studies research correlation between market’s characteristics (concentration, uncertainty, life cycle step/maturity, ...) and performance (stock value, profitability, ...).

Remove these two assumptions introducing “plurality” of market and decision makers verifying consequences on performance is the aim of this study.

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## **Situating**

The above cited assumptions have always the goal to simplify reality “paying” a price in terms of coherence with real situations.

The removal of the assumption above can help managers to recognize their specific situation and use the results of research that fit better to their own context.

Even if this effort could limit the determinism of studies’ evidence, it’s better find a qualitative relation than ignore an aspect so clear in the mind of managers.

This study requires a multilevel analysis (organizations, groups, individuals). More exactly, relations among different levels is the aim of this study.

## **Grounding**

People who works in companies have every day problems in terms of knowledge, disagreement and implementation like, for instance, the following:

- management control systems measure often only financial performances and customers have no possibilities to communicate their satisfaction;
- managers spend few time in discussing about corporate strategies;
- strategies aren’t communicate to people;
- incentive system are often based on expected behavior opposite to strategies expectation;
- belong to a team change people behavior;
- decision taking is very often not rational and different in collective situation.

Evidence of these statements were founded in 2001 by Norton in a survey. His findings were the followings:

- in 60% of organization there is no connection between strategy and budget;
- in 70% of organization there is no connection between middle management incentive and strategy;
- 85% of executive board spend less than an hour for month discussing strategy;
- 95% of people don’t understand company strategy;
- 90% of organization fail in acting strategy.

Agency theory has explained how in the firm exists a relation between shareholder (principal) and managers (agent) with different goal. Anyway managers aren’t a single entity: they have different goals, experiences, values and expectations.



Transaction Cost theory suggests that the choice between market and hierarchy (hybrid form are also considered) should be a rational process to individuate the more efficient wideness of the firm.

This theory is based on two main assumption about human behavior (opportunism and bounded rationality): how would change the result of these studies when we introduce multiple not-aligned decision makers?

Theory of decision (March, 1994) has explained that multiple decision makers have (in addition to bounded rationality):

- different preferences;
- different identities;
- ambiguity in their own identity;
- limitation in time and resource.

Understanding effect of multiple decision makers on performance could be very interesting for managers in order to design appropriate organizational microstructures (team?) or procedure and tools.

The problem of “internal” alignment is less interesting when the dimension of companies is smaller: in these cases shareholders and managers could be the same people and relations among management and workers use the form of coordination that Mintzberg classify as “direct supervision”.

## Diagnosis

How is possible classify different symptoms of dis-alignment into categories that could help operationalization of the concepts?

Alignment requires - for both internal and external - at least:

- Knowledge of organizational and individual priorities;
- Agreement about them (sense making, values, ...);
- Translation in action and concrete behavior.

External alignment requires that:

1. people know customers' key performance expectations;
2. people want change their priority following customers' expectations;
3. people are able to innovate processes according with new priorities.

Internal alignment requires that:

1. people know corporate strategy;
2. people believe in company's values;
3. people are able to realize initiatives scheduled in strategy.



The most specific management approach dealing alignment problem seems to be SFO (Strategy Focused Organization) developed by Kaplan and Norton as consequence of prior studies about balanced scorecard.

Anyway, find answers to specific research questions about alignment and performance could help organizational choose of management.

### **Selecting research question**

The research problem of verify if performance are correlated with internal and external alignment is very interesting for managers but, at the same time, is too wide.

A selection among interesting research questions could suggest the following three question.

The first one analyzes how changes correlation between performance (measured through firm's ability to economize transactions) and external alignment (measured through opportunistic behavior) in presence of multiple decision makers.

Research question can be explicated as follows:

How can a governance based on multiple decision makers influence firm's ability to economize transactions?

The second and the third questions check if two managerial tools can help external alignment in terms of knowledge (management control systems) and internal alignment in terms of agreement (self-regulated teams).

Research questions can be explicated as follows:

Does management control systems really support alignment between market expectations and objectives of managers?

Can self-regulated teams help the process of alignment between strategic priority and individual behavior?

### **References**

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