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Examine the relationship of strategic alignment between business Strategy and Organizational Structure with performance (Case Study: Private Banks and Credit Institutions)

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Abstract

This study has been conducted to review the alignment relationship of business strategies and structure with organizational performance. Strategic alignment is an essential tool for organizing and standardization of the activities and operations of different parts of organization in order to create a unity and cohesive whole. Review on theories of strategic management determines that the strategic coordination pattern can be classified in three patterns: 1. rational pattern 2. Natural pattern 3.Comprehensive pattern (strategic reference points). Comprehensive pattern deals to typology of strategies based on strategic reference points. Strategic reference points used in this study, control (high / low) and the focus (internal / external of the organization) and business strategies based on the combination model (Miles and Snow and Porter) and organizational structure based on Daft Model and Burns & Stalker theories were classified.

Then alignment relationship of business and organizational structure with the performance was evaluated and all hypotheses were confirmed. Study population was selected from a number of banks and private institutions. Based on the results obtained from verification of hypotheses, by choosing aligned structure and business strategies, Banks can obtain the most optimal performance in the banking industry and create competitive advantage. As a result creating the following alignments lead to optimal performance in the Banks: Mechanical structure with prospector strategy , Very organic structure with analyst Strategy, Organic structure with the strategy of differentiated defender and Very mechanical structure with low-cost defender strategy.

Keywords: Alignment, Business Strategy, Organizational Structure, Performance.

Introduction:

In management science, strategy formulation is one of the critical management tasks that are basis of critical decision-making for managers to maintain the survival of organization and its boost. perhaps that the successful management is achieved from right development of strategy and its successful implementation, Ansoff as the first scientist that explained strategy in the comprehensive and meaningful form believes that, the more compatibility exists among strategies, goals and current activities of organization, larger and more regular will be rate of growth and development (H. Schmidt, 1999).

The ability of an organization in achieving its objectives is a function of compatibility among the different parts of the organization. If these components to be fit together as well, organization continues to operate effectively and if this proportion to be poor, continuing of effectiveness will be faced with problem (Eftekhari Mamghani, 2012). In this context, alignment of strategies and other elements in the organization is one of the issues that in recent years have been highly regarded and in the meantime one of the very important areas is the alignment between business strategy and organizational structure.

Coordination and alignment have such an importance that we can see management equal to coordination and main managerial tasks like planning, organizing, directing and controlling can be considered as coordination tools. According to many experts, the most important task of managers is creating and maintaining coordination among the various activities of the organization (Erabi and Haghighat Sabet, 2010). Therefore, given the competitive environment in the banking industry that has been become more severe regarding the unification of Interests rate of deposit and loans, Banks seek a competitive advantage and better performance. One of the factors influencing this objective, is alignment among the bank strategies and organizational structure. By identifying consistent patterns of business and organizational structure, based on the theory of strategic reference points, this research takes an important step. Questioning the possible alignment between business and organizational structure,has confirmed this point. So by using this results along with diagnosis of their business and organizational structure and choosing the appropriate ones, top Bank managers can improve the performance of their organization.

Theoretical basis of research:

Strategy is a planning to create mutual relationship with environmental factors that often are contradictory, to meet the objectives of the organization and determine how to reach the goal (Daft, 2014). Three levels of strategy in large companies are: 1) Corporate strategy2) Business strategy 3) Functional strategy. each level has close interaction and coordination with other levels and if the company wants to succeed, should integrate these three-level (Rezvani, 2007).

Coordination (Alignment)

Coordination means alignment, consistency and fitness with a particular direction. In other words compliance of a quality with the others. A specific way that reaches to a common goal. (Arabi, 1992)

According to systems view, relationship between components, composition way and organization of the components, emerges a property that is not available in every single component of the system and these are the results of teamwork and coordination between components. The coordination has such a great importance that the management can be considered equivalent of coordination and consider main tasks of management as the coordination tools. What managers and leaders pursue it

is monism and synergies that these two are product of coordination (Teimuri and Abroumand, 2009).

Coordination patterns

A. Rational patterns

In rational planning, Strategy is developed based on formal processes and rational decisions and like waterfall, these strategies, falls down from the top in levels of the organization to the lower levels of policies to comply with the objectives of the organization. The relationship between the strategies of organization level with lower levels has a one-sided and top-down relationship (Bamberger, 2002).

B. Natural Patterns

In order to criticize of the rational patterns, natural patterns mostly were formed. Proponents of natural systems, challenge rational view of organizations and believe that we cannot merely consider an organization a mean to reach specific target (Scott, 2003).

In natural pattern for the development of marketing strategies, along with strategies of higher levels, the situational or institutional factors are also involved. Some scholars like Kolary and McDaniel (1987), Sud Harshan (1995) Cravens (2000), Wilson and Kaligan (2005), as well as Walker and colleagues (2003) have followed the natural pattern in strategy formulation.

Patterns of Comprehensive Business Strategy Formulation Using Strategic Reference Points

Strategic Reference Points are points for coordination that if all the organization elements and systems coordinate themself with it, an overall coordination is created. In other words, the reference points are location or points that all measurements, Selection and comparisons are measured by it (Teimuri and Abroumand, 2009). Organizations select strategic reference points in order to achieve strategic coordination or to take actions and appropriate operations (Fiegenbaum and others, 1996).

Types of Business Strategies Based on Strategic Reference Points

Two common framework for business strategies are: Miles and Snow's typology that focus on the rate of tends to change the product-market and Porter's typology focusing on customers and competitors.

Although the Michael Porter and Miles and Snow categories receive many receptions and researches have also justified them, none of them is a complete method. Therefore, these two methods have been combined and a comprehensive view of the business strategies is presented.

Combined Model:

Prospectors: these businesses are often the first entrants into the market with new products and services. They do not hesitate to enter new market sectors where an opportunity has appeared. They always pay attention to new needs, new markets and new customers. Analysts: these businesses are rarely the first entrants in the sector emerged in market with new products or services. They cover market activities consistently and as followers hit the market with better targeting strategy, more benefits for customers and lower total costs for them.

Differentiated defenders: These businesses try to maintain a relatively stable territory through heavy guard of their product-market position. They are rarely pioneer in offering new product. or service, instead, as far as possible, concentrate on the quality of production. Their prices are typically higher than the industry average; they always pay attention to the internal selected

territory. Then try to maintain it with better quality. Low cost defenders: These businesses try to maintain a relatively stable territory through intensive protection of their product market position. They rarely are pioneer in offering new product or service, instead, as far as possible, concentrate on the efficiency of production. They focus on increasing market share in existing markets by providing products with best prices or lowest prices (Mostafavi, 2011).

	Internal Focus	External
Low Control High	Differentiated Defender	Analyst
	Low Cost Defender	Prospector

Organizational Structure

In one definition the organizational structure is a way or manner by which the activities of the organization is divided, organized or coordinated (Mousavi, 2011).

1. The very mechanical structure: is a type of organizational structure, which quietly considers process. The processes are highly controlled and delegation of authority rarely occurs. Span of control is small and there is no relationship with the environment.
2. The mechanical structure: mechanical structural is a structure that mostly focuses on processes and continuously the tasks are done with high division of labor in routin and mechanical ways and has not focus on cooperation and teamwork and more focuses on organizational performance with respect to profitability. Span of control is relatively small and the amount of control over the executive affairs is still high.
3. The organic structure: is a kind of structure that sees organization as a live being. Key members of organization are staff and after organization development process of mechanical stage, decisions are made affairs through staff as groups with problem solving committees are formed.
4. Very organic structure: In this structure organization evolution has reached its peak and is able to adapt itself with national and international environment, with True and continuous changes. Internal control is minimized; organization openly interacts with environmental factors. Specific structure for the organization cannot be imagined (Mousavi, 2011).

	Internal Focus	External
Low Control High	Organic	Very Organic
	Very Organic	Mechanical

Organizational Performance

Performance is measurable results, decisions and actions of the organization that represents the success and achievements obtained. Performance approximately also involved any competitive purpose and immaterial excellence such as reliability, flexibility, quality and speed.(Biyazi Tahraband and others, 2009).

performance is a function of several factors, including growth, competitive strength point, innovation, profitability, use of resources, attention to owners, attention to customers, attention to staff (Mostafavi, 2011)

Competitiveness can be considered as an important factors that leads to the desired performance of an organization. In fact, a mediator performance that is effective in achieving the company's goals. In many texts of management, competitiveness on the basis of various indicators and criteria is measured. In this study ratio of sale growth rate to the industry is defined.

Applied Principles of Research

Arabi and Rezvani (2007), in a study entitled "Strategic relationship between business and marketing strategies and organizational performance" concluded that the market entrance strategy with prospector strategy, the growing market strategy with strategy of analyst, strategy of mature market with differentiated defender strategy, market strategy declining low-cost defense strategy ,lead to better performance.

Dehghan (2006) in a study entitled "Formulation of marketing strategy based on strategic reference point's" introduces two dimensions as strategic reference points: intensity of competition and the market focus .

In " coordination between the organization strategy and strategy by using strategic reference points" Teimouri and Abrumand (2009)concludes that the very mechanical structure with a defensive strategy and the mechanical structure with the reactive strategy, organic structure with analyst strategy, very organic structure, are aligned with prospective strategy and by creating a harmonious relationship between strategy and structure productivity and performance can be increased.

Rahnavard and Nikzad (2009) in "create alignment between organizational elements by use of strategic reference points and its relationship with organizational performance" concluded that there is a positive correlation between the alignment and organizational performance.

Skafi (2005) in a study entitled "organization based on, the strategic reference points", the pattern of coordination between organizational structure, strategy, technology, organizational culture based on the model of strategic reference points has been proposed.

Shoham and Feigen Baum (1999) in "Extending the Competitive Marketing Strategy Paradigm The role of Strategic reference points theory", classified strategic reference points in the three interior dimension (target and devices) external (customers, shareholders, competitors) and time (past , present, future) and called the competitive environment created by these dimensions as srp and indicated that the strategic choice behavior of marketing strategies is based on the balance between risky and risk-averse behavior.

Bamberger and Meshulam (2000) in a study entitled Human Resource strategy (formulation, implementation and effects) by using combined research; has examined Previous patterns of human resources strategy carefully and proposed a combination of 2 spectrum of control and market focus (internal or external), 4 types of strategies, including secondary, contracting, promissory, fatherly in an integrated pattern.

Hypotheses

Main hypothesis

Alignment of business strategies and organizational structure leads to optimal performance of organization.

Subsidiary Hypotheses

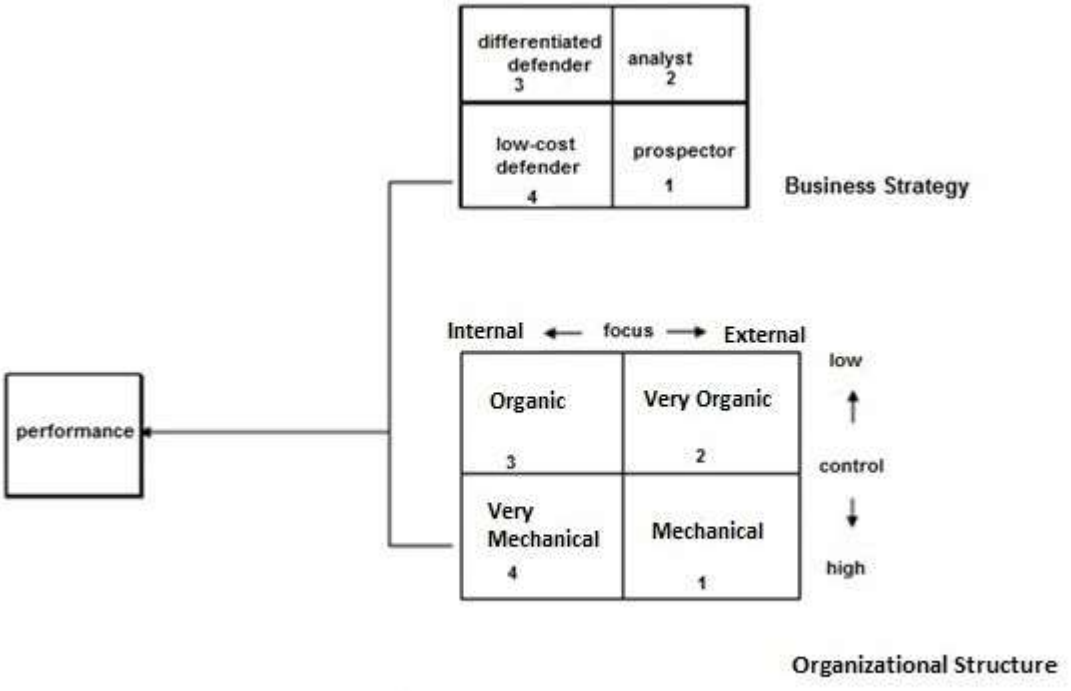
Organizational structure (mechanical) is aligned with business strategy (prospector) and leads to optimized performance.

Organizational structure (very organic) with business strategy (Analyst) is aligned and leads to optimized performance.

Organizational structure (organic) is aligned with business strategy (Differentiated Defender,), and leads to optimized performance.

Organizational structure (very mechanical) is aligned with business strategy (Low Cost Defender) and leads to optimized performance.

The conceptual model



Research Methodology

Society and the statistical sample

The statistical population of this research includes all banks and financial institutions and private credit (including 19 banks and financial Institute) in the country. However, information of 15 banks was accessible, so sampling population of this study consists of 15 banks from banks collection and

private credit institutions. Because of homogeneity of competitive environment and laws governing them, private banks are selected, which can in turn confirm the accuracy of research results. The sample population (respondents) includes: board members, executive directors, deputies, affecting decision-making in the banks and financial and credit institutions .On average, 9 individuals for each organization. As a result, the total population of this study consists of 135 people. Finally, the sample population includes 103 respondents. Size of the sample was estimated according to Morgan sample formula:

$$n = \frac{z^2\ NP\ (1-P)}{d^2(N-1) + Z^2 P(1-P)}$$

Finally 104 business and organizational structure questionnaires were analyzed.

Methods and Data Collection

The previous research results and relevant contents were collected via library and Internet . Members and survey respondents are primary sources and information published by bank and private institutions center is used as the secondary source. Type of structure and business strategies were extracted from questionnaire which were answered by respondents in presence of the researcher. To identify the type of business strategy, the standardized questionnaire of Olson, Slater and Hult (2005) revised by Rezvani (Rezvani, 2007) has been used. A questionnaire based on Daft and Burns & Stalker theories has determined the type of organizational structure. This questionnaire has been used by Mohammad Mousavi Jad. Performance was measured based on data released by industry from Association of Private Banks and Credit Institutions.

Method and Statistical Techniques

In this study, to analyze demographic characteristics and test hypotheses, SPSS software was used

Reliability and Validity

In this research, standardized questionnaires of Olson, Slater, Hult (2005) and the organizational structure questionnaire of Mr. Mousavi Jad 's research has been used .But again, the reliability of them by using content validity has been examined. this is in order to ensure that the terms are used in way inferring the applied strategies and creates a common understanding. Business Questionnaires were previously used in the investigation of Mr. Rezvani and its reliability has been measured. Questionnaire reliability of organizational structure was also measured and again. Cronbach's alpha was obtained 0.93.

Testing Hypotheses:

To select the appropriate statistical test (parametric and non-parametric) the following two conditions about all performance data, were controlled. Normality (Kolmogorov-Smirnov test) Being randomly of data (by runs test) If both condition was establish One-way anova parametric test and otherwise the Kruskal-Wallis nonparametric test has been used. Performance associated with organizational structure is classifies into 4 groups (mechanical – very organic- organic – very mechanical). To test the first hypothesis , after examining performance data of Banks with mechanical structure,(both normality and randomness), we use parametric test. Considering the fact that we search for a group (in terms of business strategy) with the highest average performance, One way anova and Tukey test are used. Results shows that the average performance of banks with the first strategy type (prospector) is higher. In other words, banks with mechanical structure with

prospector business strategy, have better performance, so the first hypothesis was also confirmed. To test the second hypothesis , after examining performance data in banks with very organic structure,(both normality and randomness), we use parametric test. Considering the fact that we search for a group (in terms of business strategy) with the highest average performance, One way anova and Tukey test is used. Results shows that the average performance of banks with the second strategy type (analyst) is higher. In other words, banks with very organic structure with analyst business strategy, have better performance, so the second hypothesis was also confirmed.
To test the third hypothesis, after examining performance data in banks with organic structure,(both normality and randomness), we use parametric test. Considering the fact that we search for a group (in terms of business strategy) with the highest average performance, One way anova(parametric test) along with LSD and Tukey are used.
Results shows that the average performance of banks with organic structure (differentiated defender) is higher. In other words, banks with organic structure with differentiated defender business strategy, have better performance, so the third hypothesis was also confirmed.
The fourth hypothesis after controlling performance data of banks with very mechanical structure (both normality and randomness) and non parametric Kruskal- Wallis test , shows that the banks with the fourth type of business strategy (low-cost defender) that have very mechanical structure, have better performance So fourth hypothesis was confirmed.

Research findings

Demographic characteristics of the statistical sample

Table 1: Distribution of respondents' demographic factor to business questionnaire and organizational structure

Demographic factors		Frequency	Percentage
Age	30 to 40 years	13	12.5
	40 to 50 years	61	58.6
	Older than 50 years	30	28.9
Gender	Female	3	2.8
	Man	101	97.2
Level of education	Associate Degree and Bachelor's Degree	8	6.7
	MA	58	55.7
	PHD and higher	38	37.6

Data analysis

1. Based on business strategy questionnaire , type of business strategy over the past year was determined.

2. Based on organizational structure questionnaire ،structure types of the banks and credit institutions was determined.
3. The average performance of each bank and credit institution was determined.
4. Performance data was classified in 4 groups (mechanical-very organic-organic-very mechanical).
5. Within each group,(classified based on the structure), business strategy with the highest performance was determined.

Conclusion:

According to the results obtained from the testing hypotheses, prospector business strategy is aligned with mechanical organizational structure. Analyst business strategy is aligned with very organic organizational structure. differentiated defender strategy is aligned with organic organizational structure and Low cost defense strategy is aligned with very mechanical organizational structure and this alignments lead to optimized performance. Therefore, for a higher performance, private banks and credit institutions are to determine organizational structure and then choose aligned business strategy . Also using the prospector strategy of business with mechanical structure is suggested which is concentrated on the strict control , high recognition and maintaining the status quo and also pay more attention to external factors, competitive resource market and external factors.

Also use of the analyst business strategy with very organic organizational structure is proposed which has restricted control, flexibility and acceptance of change and also pay more attention to external factors, competitive resource market. Business strategy of differentiated defender and organic organizational structure with low control, flexibility and acceptance of change and focus on internal factors, human resources and internal capabilities is suggested . Choosing business strategy of low-cost defender is suggested for the banks with very Mechanical structure, which is characterized with very severe control, high recognition and maintaining the status quo and also their attention more to internal factors, Human resources and organization abilities.

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