

## **IMPROVING ORGANIZATIONAL PERFORMANCE THROUGH STRATEGIC FIT OF IT-BUSINESS STRATEGIC ALIGNMENT**

**Herman Shah Bin Anuar**

Othman Yeop Abdullah, Graduate School of Business, Universiti Utara Malaysia

[herman@uum.edu.my](mailto:herman@uum.edu.my)

**Md. Kamruzzaman** 

Othman Yeop Abdullah, Graduate School of Business, Universiti Utara Malaysia

[poranbhai@gmail.com](mailto:poranbhai@gmail.com)

### **Abstract**

*Understanding different organizational elements (such as strategy, structure, processes, function and environment), their mutual encouragement and creating resemblance among them is an important determinant of organizational performance. The necessity of creating a fit among these elements and creating such complex relationship, raises the question of how to enhance overall organizational performance by aligning different organizational elements. This study will analyze the issue and influence of strategic fit on organizational performance. The strategic fit among elements of an organization can be evidenced by the degree to which strategy, structure, processes, function and environment complement one another. The elements reinforce each other and this can result in a cycle of mutual cause and effect that tightens the relationship among them and produce organizational performance. This paper aimed to give some additional insights into creating strategy-structure fit and to prove once more its contribution and importance for organizational performance. This paper investigated fit through strategy, structure and strategy implementation process fit, as well as performance and offers an in-depth theoretical and empirical view of strategic fit and raises some additional questions which could be further analyzed in future research on this subject.*

**Keywords:** Strategy, Strategic Fit, Organizational Performance, Organizational Elements

## INTRODUCTION

Strategic "fit" reflects the degree of alignment which exists between strategy, structure, processes, function and environment. So the "appropriateness" of the various elements could be called as strategic alignment. Prior researches have discovered that the greater performance is associated with high degrees of alignment among the elements such as; as strategy, structure, processes, function and environment. It is important to discover strategic fit more closely.

Many theorists emphasize that organizations need to have interdependent and mutually supportive strategy, structure and processes in order to be successful (e.g. Xu et al., 2006; Garengo and Bernardi, 2007; Roberts, 2007; Cunliffe, 2008; Aagaard, 2016). This high mutual reinforcement leads to a high degree of fit that strengthens organizational effectiveness and creates superior performance (Burton and Obel, 2004; Hsieh and Chen, 2011).

If organizational elements doesn't mutually fit each other, there are chances of administrative issues and uncertainty. Solving the administrative issues and uncertainty, it requires to continue innovation by empowering formulation and implementation processes in the organization. In the idyllic organization, management requires to construct an administrative system (structure, process and function) that could efficiently direct and monitor the organization's current activities, and besides that, allow the system to become entrenched that future innovation activities will not be endangered. The development of appropriate structure, process and functions the strategic decisions made in the adjustment process.

Many empirical studies suggest that there is a connection between the existence of the fit and increased effectiveness of the firm (e.g. Olson et al., 2005; Xu et al., 2006; Andrews et al., 2009; Camuffo and Wilhelm, 2016). This study will test strategy, structure, process, function and environment on organizational performance through strategic fit. Our goal was to give a theoretical overview of the characteristics of the five elements and its influence on performance, as well as to give the overview of different approaches in the studies on fit.

## LITERATURE REVIEW

There are two concepts of fit, internal fit between organizational strategy and structure on one side, and external fit between strategy and environment of the organization on the other side, have been extensively analyzed in the existing literature. What is common to all of these is that to understand the performance of a fit, it is necessary to evaluate the organizations important elements which are as interconnected to each other, these elements with respect to activities, policies and organizational structures, capabilities, and resources (Siggelkow, 2001).

According to Porter (1996), fit refers to the network of closely related elements and activities that emerged in a specific organizational context and thus present an important obstacle for imitation by competitors. In addition to helping the firm to manage their resources more effectively, fit enables synergy effects throughout the firm, improved procurement, allocation and use of resources and increased earning capability. It also helps an organization to reduce operational costs, take advantage of new opportunities such as internationalization (Hsieh and Chen, 2011; Swoboda, 2016), and to respond to environmental changes. A useful metaphor for thinking about the importance of the fit is observing different elements of the organization as puzzles that give a complete picture and fulfill its purpose only when they properly fit together (Aleksic, 2012).

Attaining IT-business alignment is one of the crucial issues in information systems (IS) management. IT-business strategic alignment is explain by Henderson and Venkatraman (1993) as the fit between business infrastructure and business strategy with IT infrastructure and IT strategy in organizations. Strategic alignment supports organization to use their IT infrastructures to support their business infrastructure and strategy to exploit the impact of their IT investments, achieve harmony between IT and business, and increase organizations' performance, competitive advantage, profit margins and growth (Alter, 2005; Byrd, Lewis and Bryan, 2006; Henderson and Venkatraman, 1993; Nelson and Coopriider, 1996; Pearlman and Baker, 2005; Tan and Gallupe, 2006).

Despite the significance of alignment, relatively small number of organizations that effectively aligned their IT strategy with business strategy (Rosa, 1998; Luftman, Papp and Brier, 1999). Many researchers have been intrigued by this phenomenon and explored the fundamental mechanisms that lead to strategic alignment and performance (Chan, Sabherwal and Thatcher, 2006; Hu and Huang, 2006; Reich and Benbasat, 2000).

## Strategy

Palmer and Markus (2000) found that firms prefer to use an IT strategy that matches their Business Strategy as the unavailability of statistical report or data that would back up Strategic Alignment Performance which was thought of as a match between IT and Business Strategy. After investigating strategic alignment performance relationship for firms. So we generate first hypothesis below;

H1. There will be positive relationship between IT-business strategies and strategic fit on organizational performance

## Structure

Requirement of processing information is the determinant of organizational effectiveness and its structural relation which has been made cleared by Long et al (2012) . He also added that the structure of the organization must be designed in such a way that insures coordination of work to open channels of communication which should be built into the structure that assures every individual in the department. Csaszer (2008) was also in the affirmation that organizational performance is also shaped by organization structure. So therefore, we suggest our second Hypothesis;

H2. There will be positive relationship between IT-business structure and strategic fit on organizational performance

## Process

Performance of Product quality and new product frequency, reputation, prestige all these performance measures are theorized to be aggravated by the positive association of performance of organization and alignment which has been exhibited in a recent study by Chan et al. (2006) According to Cragg, King and Hussin (2002) those firms possessing lower level alignment performed poorly compared to the firms with higher level alignment.

H3. There will be positive relationship between organizational process and strategic fit on organizational performance

## Function

In recent days organizational performance is affected by the dynamic business environment that brings in many external and internal challenges for the organization to cope up with (Kaliappen & Hilman, 2013). These challenges are alarming for organization to consider about alignment between strategies which can produce better performance. Therefore, it is important for organizations to get accustomed to the best and specific business strategy and functional strategy to practice for betterment of performance to find out the best strategy that fit's the organization.

H4. There will be positive relationship between IT-business function and strategic fit on organizational performance

## Environment

From DeSarbo et al. (2004) and Slater et al. (2006) we can see that the strategic management literature properly documents the firm's performance which is impacted by competitive strategies and competitive environment. It has been discussed and debated that positive effects

of alignment on performance of organization can be enhanced or mitigated by organizational factors and environment. Yet, in the alignment research, they are rarely considered as major components and the conceptualizations of these factors and their roles are diverse. Clearly, without integrating these factors into alignment models, the suggestions we can get from these models would not be complete at best. In this study, we attempt to fill this significant gap in the alignment research.

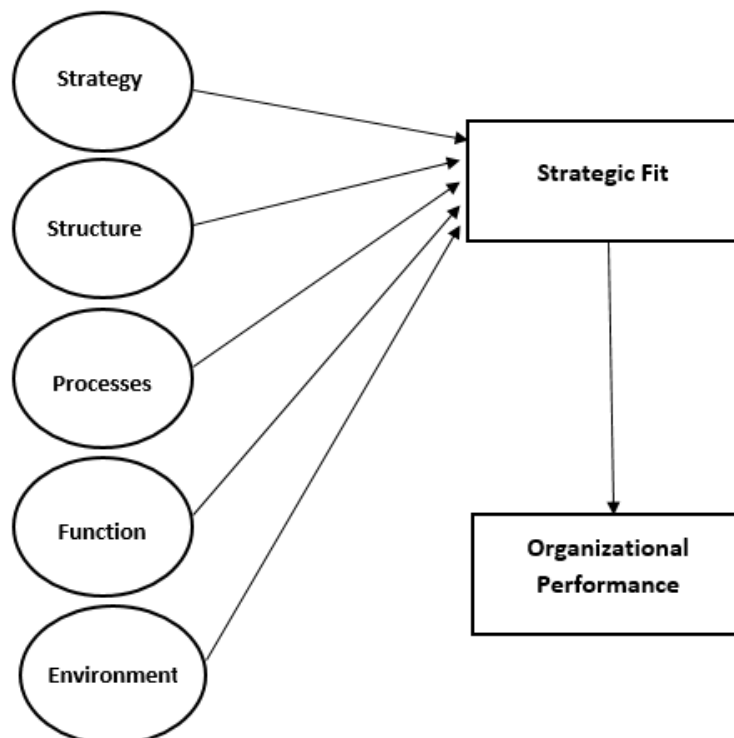
H5. The effect of strategic fit on organizational performance will differ across different dimensions of environmental uncertainty.

### Strategic Fit on Organizational Productivity

We concur with the extant studies that strategic alignment is an important goal to endeavor and should have positive effects on organizational performance, and in line with that, further investigation of the alignment process could have significant theoretical and practical contributions. Yet, in the current literature of alignment studies there seem to be this underlying assumption that strategic fit will lead to measurable organizational performance, without considering many significant contextual factors.

H6. There will be strong relationship between strategic fit and organizational performance

Figure 1. Conceptual Research Model



## Significant of the study

The goal of this study is to achieve higher level of organizational performance through strategic fit. The five core elements (*strategy, structure, processes, function and environment*) in the model are expected to test the new conceptual model, therefore, further examination is needed over a longer period of time. This framework could be utilize in a comparative research between banking, insurance, services, and any other industries.

This study will examined several hypotheses, and offers empirical support for the acceptance of some of these hypotheses, more overviews on the application of the theoretical premises in construct the research model will be needed to improve the alignment theory. This is to say, in future research, a more generalized research model that compensates for the limitations of current study, by adding further influential variables to the model and also adding in the body of knowledge.

## CONCLUSION

Finally, the core organizational elements (such as strategy, structure, processes, function and environment) and their conjoint reinforcement among them is key factor of organizational performance. The necessity of creating fit among these elements requires dynamic process of adjusting to maintaining an effective alignment with the organizational environment, while managing internal independencies is enormously complex at several organizational level. But the complexity of the adjustment process can be penetrated by improving fit between organization's elements. This article presents a conceptual framework that managers and academicians can analyze an organization as an integrated and dynamic whole that accounts the interrelationships among strategy, structure, process, function and environment to enhance organizational performances.

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