

International Journal of Scientific Research and Reviews

Implication of Strategic Fit and Sustainability on Organizational Effectiveness

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ABSTRACT

In a competitive market prompted by M&As target of synergetic gains to out-weight other competitors. The need of strategic fit lies on how to map and integrate the acquired organization to achieve survival, sustain their state and maintain its competitive advantage. The strategic fit here among other things concentrates on the fit/alliance between the organization's business strategy and its internal process. This study intends to investigate the implication of strategic fit and sustainability on organizational effectiveness. The study is based on selected communication industry and commercial banks. The study using the 4Cs – capability, compatibility, commitment and control measures the organization design (structure), employee relations, and information exchange to equate and underscore how they can boost the sustainability of the organizational effectiveness. The study adduced that through a close fit among the elements measured will provide the managers answers on the significance of strategic fit towards sustaining organizational effectiveness and competitive advantage.

KEYWORDS: Strategic Fit, Synergetic Gains, Sustainability, Organizational Effectiveness, Competitive Advantage

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INTRODUCTION

The global increase of markets and industries has dramatically transformed firms' competitive conditions and characteristics. It has stepped up foreign competition and the number of relationships between firms in different nations, forming international and global networks of strategic linkages¹. It is worthy to state that strategic fit or linkages are often popularized on what reflects as alliances, mergers and acquisitions, agreements and contracts². Strategic fit as one of the tool for due diligence in M&A process to restructure and reposition the activities of the acquirer organization to remain competitively competitive and sustain the performance of the renewed firm. Strategic fit enables an organization to operate in its particular competitive situation at peak effectiveness. It expresses the degree to which an organization is matching its resources and capabilities with the opportunities in the external environment. However, discovering the factors that result to M&A failure in the past organizations, it reset the target for strategic fit to drive competitiveness, eco-efficiency, eco-effectiveness and sustainability. This is to say that after pre-M&A and post-M&As, the new conglomerate formed fix its alliance to maintain a sustainable competitiveness and synergy. The challenges of managing strategic fit determine the extent the organization effectively run its operation and maximize it gain.

A study by researchers have shown that between 30% and 70% of alliances fail; in other words, they neither meet the goals of their parent companies nor deliver on the operational or strategic benefits they purport to provide³. By appropriately allocating resources across relationships and activities, a company can maximize its overall effectiveness where organizational effectiveness is conceptualized under a model that views firms as striving productivity and efficiency⁴. Management effectiveness depends greatly on the ability of managers to appropriately fit (or align) organizational elements with environmental opportunities and threats⁵.

Fit is defined as "the degree to which the needs, demands, goals, objectives and structures of one component"⁶. This conceptualization implies that high level of strategic fit is advantageous; therefore, an organization's fit should be maximized. The search for strategic fit has been a core concept in normative models of strategy formulation⁷. Alliances in another vein may be defined it as voluntary arrangements among two or more independent firms, involving exchange, sharing or joint development or provision of technologies, products or services. Strategic alliances have become essential in the new competitive environment shaped by the globalization of the economy, the information age and the

structural changes in existing markets and industries, or what they call the "race for the future among the world's fleetest competitors⁸.

This study discovered that certain reasons that resulted to organizations Merger and Acquisition failure to include, diversification, previous acquisition experience, excessive premium, lack of research, size, unyielding and inefficiency, poor cultural fits, poor organizational fit, poor strategic fit, striving for expansion, faulty evaluation, poor managed integration, failure to take immediate control, incomplete and inadequate due diligence, lack of proper communication and expecting result too quickly etc. Equally, the study intend to achieve the following objectives; to ascertain if strategic organization design can enhance organizational effectiveness, to ascertain if strategic fit can sustain employee relations in order to boost organizational effectiveness and to determine the extent strategic fit can boost effective information exchange to improve organizational effectiveness.

CONCEPTUAL FRAMEWORK

Strategic fit expresses the degree to which an organization is matching its resources and capabilities with the opportunities in the external environment. The matching takes place through strategy and it is therefore vital that the company have the actual resources and capabilities to execute and support the strategy. Strategic fit can be used actively to evaluate the current strategic situation of a company as well as opportunities such as M&A and divestitures of organizational divisions. A unique combination of resources and capabilities can eventually be developed into a competitive advantage which the company can profit from in a synergetic manner. A strategic fit can be defined through several perspectives, both from a target and an acquiring firm's point of view.

Also strategic fit defined as a partnership's potential, i.e. the operational and relational matching questions that arise from a partnership, as presented by researchers⁹. The two firms have an operational potential as an example, in other words they can, if collaborating successfully, achieve greater potential aims when they match each other. The basic fundamental elements of strategic fit are: act of matching, a fit, and integrating should be present as a prerequisite for the merger or acquisition to work at all. If the chain element is missing the set goals could be hard to reach. To further make it clear, firms are looking for synergistic gains; otherwise there would be no point in merging or acquiring¹⁰.

Shelton classifies acquisitions into two, related complementary fit and related-supplementary fit. The term related complementary fit means vertical integration while related-supplementary fit is horizontal

integration. A related-supplementary entity gives a partner access to new customers and markets instead of new assets and products. Related-complementary entity on the other hand brings new assets, products or skills for product markets that are already served¹¹.

It can be further argued that rival acquirers indicate that the target has value-creation potential such as management or high-quality assets beyond what is measured in the strategic fit categories. At the end, an acquirer management should look for the largest target firms with high quality assets that will let them expand to related markets or expand the existing business. Several tools have been developed; one can use in order to analyze the resources and capabilities of a company. These include SWOT, value chain analysis, cash flow analysis and more. Benchmarking with relevant peers is a useful tool to assess the relative strengths of the resources and capabilities of the company compared to its competitors. But strategic fit can also be used to evaluate specific opportunities like Merger & Acquisition opportunities. Strategic fit would in this case refer to how well the potential acquisition fits with the planned direction (strategy) of the acquiring company. In order to justify growth through M&A transactions, the transaction should yield a better return than organic growth. The differential efficiency theory states that the acquiring firm will be able increase its efficiency in the areas where the acquired firm is superior¹².

Strategic fit offer a means for companies to access new markets, expand geographic reach, obtain cutting-edge technology, and complement skills and core competencies relatively fast. Strategic position have become a key source of competitive advantage for firms and have allowed them to cope with increasing organizational and technological complexities that have emerged in the global market.

Culture in Relation to M&As Fit

Researchers suggest that cultural incompatibility between the target and acquiring firm has significant impact on why M&A operations sometimes fail to achieve the pre-defined goals. They further stated that for the best possible outcome of an M&A operation a “merger of equals” should be sought. Organizational integration has been shown to lead to synergy creation and overall merger success. Infact any acquirer who wants to be sustainable should pay special attention to the strength of organization identity, as well as cultural compatibility and strategic combination potential when deciding if a partnership should be integrated¹³.

The 4 Cs for Adequacy Assessment of Strategic Fit

In any given M&A firms, the veritable ingredients to match assessment of strategic fit in order to attain a desired sustainable competitiveness and organizational effectiveness circles under certain given theory. The following theory covers four areas of fit between two parties in what can be a partnership, merger and acquisition. There are two sets of 4 Cs; below Medcof's 1997 model as presented. In contrast to his 4 Cs are according to him less comprehensive 4 Cs developed by Brouthers, Brouthers and Wilkinson 1995¹⁴. These comprise of; complementary skills, cooperative cultures, compatible goals and commensurate levels of risk. They can be implemented similarly when speaking about partnerships Medcof argues. He continues with proposing his 4 Cs since they can be used for broader thinking in the field of long-run partnerships. Therefore this paper intend to apply the Medcof's 4 Cs to measure the extent they can help to drive the organizational effectiveness. The 4 Cs applies include;

a. Capability

The first C capability means the ability of partners to carry out their roles in the alliance. Again, not only partners should be looked at but one should also turn to the own company to evaluate the capability. Capability on the other hand addresses the question if the products are produced competently or the services rendered effectively. When looking at capability from the long-run strategy perspective, one must try to see whether a partnership firm gives the possibility to improve and/or acquire capabilities that will be of use in future activities.

b. Compatibility

The second C; compatibility, the most important type of compatibility is the one among people or the employee. Top management as well as all other parts of the organizations which interface must be compatible. In this case culture plays a very important role. Culture is the underlying attitudes toward things as internal or external focus of the organization, task or social focus, conformity or individuality, safety or risk and ad hoc approach or planning. Incompatibility in this area can disrupt and even make the relationship unworkable. In the long-run view, the concept universal compatibility is of paramount important. In a sense, it means the ability to work well on the operational level with just about any partner.

c. Commitment

The third C, commitment, one is looking at the aspects of the theme. Firstly, it involves continuously committing resources and effort to the partnership or acquiring firm. There is pragmatic and psychological commitment. The latter relates to how dependent a prospective partner is on the acquiring firm. Pragmatic commitment involves strategic fit, compatibility and capability. A firm that has a significant strategic stake in the acquired firm is compatible with its partners and capable to play its role is said to have pragmatic commitment.

d. Control

The fourth C is control. Control in most firms is something that should be evenly shared within a partnership. One of the few exceptions is when interests of all members coincide with that of the leading firm and strong, focused leadership is needed. In such situation dominance by one firm can be preferable. Otherwise it is usually suggested that neither party should be dominant¹⁵.

Structure and Strategic Fit

Typology of strategic behavior, the organization should respond to its environment in a relatively consistent manner over time. Generally, firms trying to follow such a pattern of strategic behavior can then be seen as either pursuing a defender, prospector, and analyzer or reactor strategy. They often focus on niche markets and pay attention to improve the efficiency of their existing operations¹⁶. Accordingly, the prospector needs more mechanistic structures which require more central coordination. The analyzers need to implement a structure that ensures a balance between autonomy on the one hand and central control on the other^{17, 18}.

Finally, reactors are firms which lack any consistent forward-looking strategy. A reactor seldom adjusts its strategy or behavior unless forced to do so by pressures from the environment. They typically lack any fit between strategy and structure but mainly respond to market changes in uneven, transient ways¹⁶. In essence, the concept of fit then argues that an organization's success is independent of the focus it takes, but that it needs to stick to that focus and align accordingly. Based on empirical investigations of several other scholars in this field¹⁹, provided additional characteristics for the dimensions at issue and showed how they have strategic implications, creating opportunities and threats at industry level, and strengths and weaknesses at corporate level. They also implicitly suggested that network management could be considered another key dimension, at the corporate level. Partner fit

(strategic, cultural and organizational), especially in terms of compatibility and complementarity, was identified as a highly relevant construct in this dimension.

Information Exchange and Strategic Fit

Information exchange defines a bilateral expectation that partners will proactively provide information useful to their partner supportive of the ongoing relationship²⁰. However, to facilitate information exchange, firms must invest finite resource stocks such as time, money etc. in developing the systems necessary to select, edit and format information to be exchanged with each partner⁴. Given the finite nature of resource stocks necessary to engage in information exchange with a firm's global supply chain partners, and the cultural norm expectation of information exchange, it is theorized that a firm can enhance its performance by working toward the establishment of information exchange within its supply chain relationships.

METHODOLOGY

The research method used in this study is survey design that utilizes questionnaire as the research instrument and interview to gather data from respondents. The questionnaire was carefully structured and designed in order to achieve the objectives of the study. The researcher also provided a set of response categories after each question from which the respondents are expected to choose option that is appropriate from the response. However, in order to maintain a high degree of reliability of data to be collected through questionnaire. The researcher made the questions very clear and in a sample language so as not to confuse the respondents. Also the researcher adopted random sampling method.

The population of the study concentrates within communication and banking industry. The selected communication industries and bank was chosen all because of its international coverage. At the end the sample population for the study comprise of 300 from communication industry and 150 from bank workforces respectively. The sample size was determined as below to get the representation of the population.

N

$$N = \frac{1}{1+N} e^2$$

Where: n = sample size

N = Total number of the population

e = standard or tolerable error margin of 5% or 0.05.

Substituting therefore:

$$N = 450$$

$$e = 0.05$$

$$: n = \frac{450}{1 + 450 (0.05)^2}$$

$$= \frac{450}{1 + 450 (0.0025)}$$

$$= \frac{450}{2.13} = 211.27$$

The approximation to the nearest whole number equal to 212, it will help for easy questionnaire administration.

The data collected were analyzed using SPSS statistical tool and Z-test for the test of hypotheses based on its scientific nature and widely used by social scientists.

RESULTS AND DISCUSSION

The measuring indicators of the 4Cs model as against the objectives of this study variables of strategic organization design, employee relations and information exchange were presented thus;

The table 1 indicates that 194(91.5%) of the respondents said that organization design of their firm is compatible of achieving organizational effectiveness. The second column outcome shows that 70 (33%) said employee relations is capable of achieving organizational effectiveness, 70(33%) said employee relations is committed to enhance organizational effectiveness, while 72(34%) said employee relations control is able to enhance organizational effectiveness. The table also shows that 150(70.8%) of the respondents said information exchange is compatible to achieve organizational effectiveness.

Table 1: Assessment of 4Cs as Against Organizational Effectiveness

Indicators	Organization Design	Employee Relations	Information Exchange
Capability	X	70 (33%)	X
Compatibility	Yes 194 (91.5%) No 18(8.5%)	x	Yes 150 (70.8%) No 62(29.2%)
Commitment	X	70(33%)	X
Control	X	72 (34 %)	X
Total	212 (100)	212 (100)	212 (100)

Source: Field Survey, 2015

Table 2: Ascertaining if Strategic Organization Design can enhance Organizational Effectiveness

		Frequency	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	15	7.1	7.1
	Disagree	25	11.8	18.9
	Undecided	4	1.9	20.8
	Agree	115	54.2	75.0
	Strongly Agree	53	25.0	100.0
	Total	212	100.0	
	Mean			3.7830
	Std Deviation			1.15611

Source: Field Survey 2015

The descriptive table shows that 15(7.1%) of the respondents strongly disagreed that strategic organization design can enhance organizational effectiveness. Also 25(11.8%) disagreed, 4(1.9%) of the respondents were undecided. While 115(54.2%) and 53 (25.0%) strongly agreed and agreed respectively that strategic organization design can enhance organizational effectiveness. The result is significant given the mean of 3.7830 and a standard deviation of 1.15611.

The null hypothesis reflects that:

Ho: Strategic organization design cannot enhance organizational effectiveness.

Then using Z-test non-parametric statistic tool to revalidate the first analysis we have the following;

Table 3: NPar Tests

One-Sample Kolmogorov-Smirnov Test		
N		212
Normal Parameters ^{a,b}	Mean	3.7830
	Std. Deviation	1.15611
Most Extreme Differences	Absolute	.367
	Positive	.176
	Negative	-.367
Kolmogorov-Smirnov Z		5.342
Asymp. Sig. (2-tailed)		.000

Decision Rule

If $Z_{\text{cal}} > Z_{\text{critical}}$, reject the null and accept the alternative hypothesis, otherwise vice-versa.

RESULT / DECISION

The calculated Z-value is 5.342. This value is greater than the critical Z-value of 1.96 (2-tailed test at 95% level of significance). Therefore, the null hypothesis is rejected and the alternative hypothesis accepted. The result is significant as the Z-value = 5.342 and the p-value ($0.000 < 0.05$). Hence, Strategic organization design can enhance organizational effectiveness.

The table 4 shows that 10(4.7%) of the respondents to a very small extent said that strategic fit can sustain employee relations in order to boost organizational effectiveness. Also 15(7.1%) said to a small extent, 9(4.2%) of the respondents were undecided. While 135(63.7%) and 43 (20.3%) said to a large extent and to very large extent respectively that strategic fit can sustain employee relations in order

to boost organizational effectiveness. The result is significant given the mean of 3.8774 and a standard deviation of 0.97069.

Table 4: Determining the extent Strategic Fit can sustain Employee Relations in order to boost Organizational Effectiveness

		Frequency	Valid Percent	Cumulative Percent
Valid	Very Small Extent	10	4.7	4.7
	Small Extent	15	7.1	11.8
	Undecided	9	4.2	16.0
	Large Extent	135	63.7	79.7
	Very Large Extent	43	20.3	100.0
	Total	212	100.0	
	Mean			3.8774
	Std Deviation			.97069

Source: Field Survey 2015

The null hypothesis reflects that:

Ho: Strategic fit cannot sustain employee relations in order to boost organizational effectiveness

Then using Z-test non-parametric statistic tool to revalidate the first analysis we have the following;

Table 5: NPar Tests

One-Sample Kolmogorov-Smirnov Test		
		.
N		212
Normal Parameters ^{a,b}	Mean	3.8774
	Std. Deviation	.97069
Most Extreme Differences	Absolute	.390
	Positive	.247
	Negative	-.390
Kolmogorov-Smirnov Z		5.677
Asymp. Sig. (2-tailed)		.000

Decision Rule

If $Z_{\text{cal}} > Z_{\text{critical}}$, reject the null and accept the alternative hypothesis, otherwise vice-versa.

Decision

The calculated Z-value is 5.677. This value is greater than the critical Z-value of 1.96 (2-tailed test at 95% level of significance). Therefore, the null hypothesis is rejected and the alternative hypothesis accepted. The result is significant as the Z-value = 5.677 and the p-value ($0.000 < 0.05$). Therefore, strategic fit can sustain employee relations in order to boost organizational effectiveness.

In table 6 above indicates that 3(1.4%) of the respondents said at very small extent that strategic fit can boost effective information exchange to improve organizational effectiveness. Also 4(1.9%) said at small extent, 6(2.8%) of the respondents were undecided. While 161(75.9%) and 38 (17.9%) said at large extent and very large extent respectively that strategic fit can boost effective information exchange to improve organizational effectiveness. The result is significant given the mean of 4.0708 and a standard deviation of 0.63819.

Table 6: Establishing the extent Strategic Fit can boost Effective Information Exchange to improve Organizational Effectiveness

		Frequency	Valid Percent	Cumulative Percent
Valid	Very Small Extent	3	1.4	1.4
	Small Extent	4	1.9	3.3
	Undecided	6	2.8	6.1
	Large Extent	161	75.9	82.1
	Very Large Extent	38	17.9	100.0
	Total	212	100.0	
	Mean			4.0708
	Std Deviation			.63819

Source: Field Survey 2015

The hypothesis reflects that:

Ho: Strategic fit cannot boost effective information exchange to improve organizational effectiveness.

Then using Z-test non-parametric statistic tool to revalidate the first analysis we have the following;

Table 7: NPar Tests

One-Sample Kolmogorov-Smirnov Test		
N		212
Normal Parameters ^{a,,b}	Mean	4.0708
	Std. Deviation	.63819
Most Extreme Differences	Absolute	.395
	Positive	.365
	Negative	-.395
Kolmogorov-Smirnov Z		5.745
Asymp. Sig. (2-tailed)		.000

Decision Rule

If $Z_{\text{cal}} > Z_{\text{critical}}$, reject the null and accept the alternative hypothesis, otherwise vice-versa.

Decision

The calculated Z-value is 5.745. This value is greater than the critical Z-value of 1.96 (2-tailed test at 95% level of significance). Thus, the null hypothesis is rejected and the alternative hypothesis accepted. The result is significant as the Z-value = 5.745 and the p-value ($0.000 < 0.05$). However, strategic fit can boost effective information exchange to improve organizational effectiveness

CONCLUSION

Based on the research outcome, we conclude that the organizations can achieve synergy and sustain their organizational effectiveness by integrating the element of 4Cs capability, compatibility, commitment and control with the appropriate organization design, good employee relations and effective information exchange.

RECOMMENDATIONS

The following suggestions were made for continuous improvement.

1. There organizations should adopt total reward system to motivate the employee in order to maintain high performance.
2. There is need for the organizations to make use of good visionary and competent leader to sustain their competitive advantage.
3. There should be intent to embrace effective communication strategies and imbibe the culture of change in order to fit-in with the dynamic environment.

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