

STRATEGIC MISFITS IN TIMES OF HIGH UNCERTAINTY

IGOR GURKOV

ALEX SETTLES

Abstract

Purpose - This paper aims to address issues related to organizational design and strategy fit.

Design/methodology/approach – The paper contains a discussion of relevant issues and presentation of research which considers the relationship between organization design, strategy selection and the competitive environment a firm operates within. The research includes an analysis of a survey of top managers and an evaluation of organizational design and firm strategy to determine the existence of strategic misfit.

Findings – Misfits in strategy and structure exist as a result of Russian managerial proclivity to maintain direct control through centralization in all strategic formulations and due to high risk taking behavior of Russian managers. While organizational inertia can be seen as a clear driver of organizational structure, cultural inertia also exists and in the Russian case organizational design – strategy misfits are driven also by societal organizational culture.

Practical implications – An understanding of strategic misfits is crucial for managers so that they may recognize these disconnects early and make improvements as market or firm conditions change. The results of the analysis of Russian firms prove that in designing efficient organizations greater attention should be placed on the specific impact of societal organizational culture. In addition, practitioners in organizational design consulting should make clear whatever they attempt to eliminate misfits between existing structures and current strategy or to provoke effective stretch for implementation of intended strategies.

Originality/value – The paper provides a unique application of the connection of strategy and organization design under conditions of extreme uncertainty. This paper also extends the analysis of organizational design and strategy to firms operating in emerging markets. Rapid changes in dynamic emerging markets provide fertile testing ground for management theory and practices and this paper examines a unique set of empirical evidence.

Keywords: organization design, organizational fit, recovery strategies

Category: research paper

Introduction

In this paper we test the proposition that “strategic stretch” occurs when there existing a mismatch between organization structure and firm level strategy. Through the examination of the dynamic Russian business environment and rapid change that corporations have been involved in during the financial crisis of 2008/2009 it is clear that firms faced a strategic stretch dilemma and that strategy – structure misfits lead to serious sustainability complications for firms. Building on the methods of Burton, DeSanctis, and Obel (2006) we first test the strategy and structure misalignment and build an expanded theoretic framework to explain the interaction between competitive positioning, structure, and strategy selection. In the first section of the paper we outline theoretical framework concerning firm strategy and organizational design. In the second section we outline the data set and methodology of analysis. In the third section we examine the results and the fourth propose a framework for analysis for firms to utilize to determine the overlap between strategy selection, organizational design and competitive situation.

The connection between organizational strategy and organizational design has been well studied and the contingency model for strategic organizational design validated through theoretical and empirical research. Miles and Snow’s (1978) strategic-fit model and Mintzberg’s (1979) structuring model provide the grounding for the concept that organizational design and strategy fit are crucial to firm success. The concept of fit versus misfit has been well developed in the literature that integrates the contingency thinking and resourced-based view of the firm. Strategic fit has been connected in the literature to firm performance (Ginsberg and Venkatraman, 1985; Miles and Snow, 1994; Glaister et al., 2008).

Fit provides performance and Burton et. al (2006) tested empirically the Burton and Obel (1995) multi-contingency model for strategic organizational design and found that firms with situational misfits or contingency misfits there existed losses in return on assets compared with firms with no misfits. (Haakonsson et al. 2008) found additional evidence that misalignments between climate and leadership style are problematic for organizational performance and support the theory that managerial actions are needed to manage particular types of business climates. The indication from the theoretical literature and empirical results is that fit is crucial for firm performance and losses originate from misfits.

Previous research has incorporated the impact of business environment on the impact of strategy and organizational design on performance. (Covin and Slevin, 1989) found that performance among small firms in hostile environments was positively related to an organic structure, an entrepreneurial strategic posture, and a competitive profile characterized by a long-term orientation, high product prices, and a concern for predicting industry trends. In benign environments, on the other hand, performance was positively related to a mechanistic structure, a conservative strategic posture, and a competitive profile characterized by conservative financial management and a short-term financial orientation, an emphasis on product refinement, and a willingness to rely heavily on single customers. (Payne, 2006) analysis of the connection between organization design and performance indicate that the greater the organization's deviation from optimal organization design the lower the financial performance. Further research by (Glaister et al. 2008) found when investigating the strategic planning role of a firm and firm performance that organization structure moderates failures in the strategic planning-performance link.

This analysis focuses on the role of top management in setting strategy and organizational design characteristics. It has been theorized that top management characteristics partially play a key role in organizational outcomes-strategic choices and performance. This “upper echelons perspective” (Hambrick and Mason, 1984) outline propositions that the types of experience of managers have predict future strategic decisions. CEOs play a key role in organizational design and (Lewin, 1994) proposed that archetypes exist with regards to CEO characteristics and organizational design. In the case of Russian firms top executives play a crucial role concerning strategic selection and organizational design and that organizational inertia dominates the framework for organizational design and change.

This paper adds to the strategic fit theory by using (Bowman and Faulkner, 1997) model of firm competitive position to determine the variation of strategic fit is explained by variations in firm level competitive position. (Bowman and Faulkner, 1997) creates a firm competitive position model based on Porter’s (1980) firm level strategy framework. The competitive position of a firm is based on competitive on price or quality (Porter 1980) and the aggregate action of market participants determine the level of success therefore the competitive position of firm is based on customer purchasing decision.

Competitive positioning, firm’s strategies, strategic type and the role of strategic misfits

Strategic misfits as “normal deviation from the norm”

Organization design forms the infrastructure for the implementation of firm strategy. The classic definition, “the design of the organization is composed of the structure, rewards, and measurement practices intended to direct members’ behavior towards the organizational goals” (Lorsch, 1975: 1). As corporate and competitive strategies are also merely the actions to ensure the achievement of organizational goals, the closest link between strategy and design of the organization is obvious, at least in theory. However, their coincidence is not assured automatically, thereby the notion of misfit has appeared immediately as the link between strategy and design was put forward. Indeed, as strategy is believed to be a more volatile and dynamic than structure, rewards, and measurement practices, usually affected by “organizational inertia,” the attempt of the organization to embark on a new strategy usually face numerous misfits with the current design. However, the reverse view may also be appropriate – the design of the organization is intentionally changed before the new strategy is implemented. Such a situation of provoked “strategic stretch” (Hamel, Prahalad, 1993) should create the necessary level of “guided disarray” in order to facilitate the development of innovative actions that may be necessary for implementation of a new strategy.

Thus, strategic misfits may be viewed as “eternal companion” of organizational life. The absolute number and magnitude of misfits may be lower in the calm periods, but they increase in crisis situations, when the search for new strategies becomes the must. At the same time, the very notion of “misfit” require the clear definition of the parameters of fits, as any pathology requires the reference to the “normal” state of an organism. Since the formulation of possible strategies of business organizations along the limited number of strategic types (Miles and Snow, 1978), there have been continuous efforts to understand which states of the main organizational characteristics may be called “normal” for a particular strategic type. Such efforts were systematized in the works of R.Burton and B.Obel (Burton and Obel, 1995; Burton and Obel, 1998; Burton and Obel, 2004; Burton et al., 2006; Burton, DeSanctis, Obel, 2006) who designed detailed algorithms of verification and measurement of strategic and organizational misfits. The major elements of organizational design (organizational structure, leadership style, organizational climate) along with other characteristics (type of information systems, preferred technologies, reward systems etc.) were presented along their optimal level for each strategic types in Miles and Snow’s (1978) typology (see Table 1).

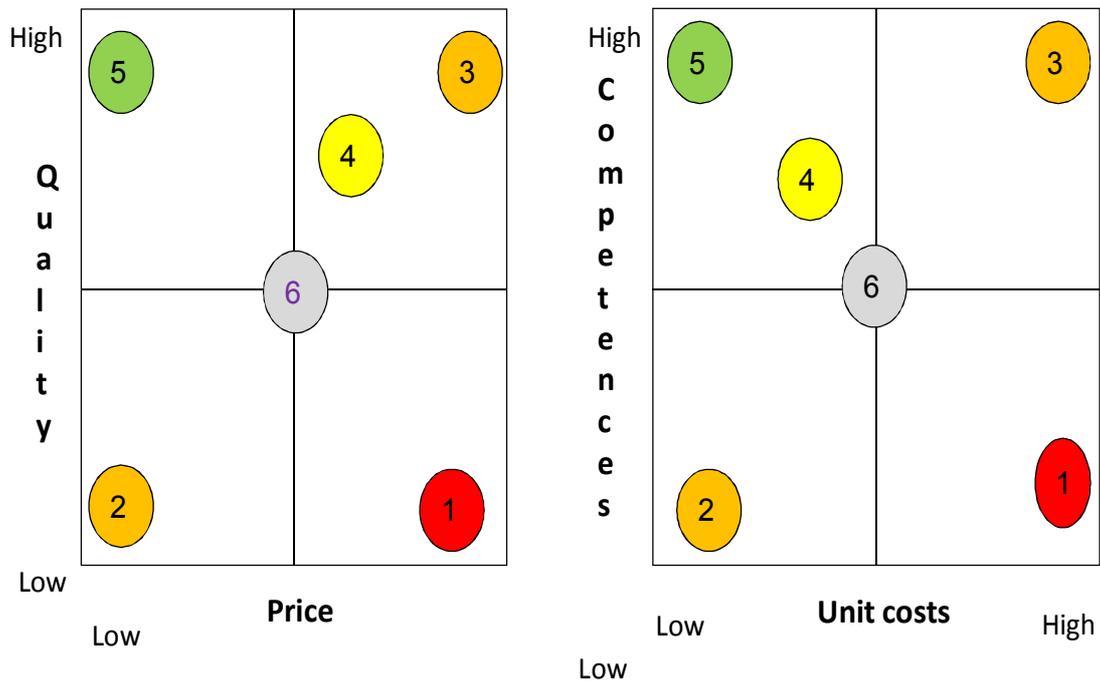
Even this oversimplified model has great advantages in consistency and visualization of potential misfits and may be considered as serious advancement. However, we should note that two weak points still remain in the model. The first weakness lies in quantification of strategic type. The original Miles and Snow's typology is based on innovativeness of the firm – its possibilities to create new market and technological opportunities (exploration) and to exploit them (exploitation). Thus, there were attempts to support the Miles and Snow's typology with more “observable” parameters. Burton and Obel (1995) creates the diagnostics of strategic types that is based on a series of parameters – “the concern for quality,” “the level of product and process innovations,” “the price level by comparison to competitors,” but the weight of each parameter in final labeling of the strategy of the firm is unclear.

Strategy types and strategic positioning – competitiveness matrixes as the link between typology of strategies and really implemented strategic actions

As early as in 1997, Gurkov proposed a model that allows predicting the Miles and Snow's strategic type of a firm using parameters of competitiveness. Initially the model for depicting the firms' strategy along four variables of competitiveness (level of price; level of quality; level of unit costs; level of key competences) was developed by Bowman and Faulkner (1997) in terms positioning of the firm in Producer matrix (competences versus unit costs) and in Customer matrix (Perceived use value versus Perceived price), but they did not relate their model with Miles and Snow's strategic typology. In our model the strategy types are predicted by a particular combination of relative levels of competitiveness factors:

- the combination of high unit costs, low competences, low quality and low price signifies the strategic position of ***reactor***,
- low unit costs together with low competences, low quality and low price means the strategy of ***defender of costs***;
- the position of high unit costs, high quality, high competences and high prices again marks the situation of a defender, but the ***defender of quality***;
- low unit costs; high competences; high prices and high quality indicate the likely outcomes of ***analyzer's strategy***;
- low unit costs, high quality; high competences and low prices signify the attempts of the firm to pursue the ***strategy of prospector*** (see Figure 1).

Figure 1. Strategic types and their competitive positioning



1 – reactor; 2- defender low costs; 3 – defender of quality; 4 – analyzer; 5 – prospector;
6 – “average firm”

Generally speaking, the higher is the relationship between the relative quality and relative unit costs, the greater are the chances for the firm to take the position of analyzer or prospector.

Table 1. Strategy types of the firm and major corresponding organizational parameters

Organizational parameters	Strategic type			
	Reactor	Defender	Analyzer	Prospector
Organizational structure	Formalization– low Centralization - High	Formalization – High Centralization - High	Formalization – High Centralization - Low	Formalization –Low Centralization - low
Organizational climate	<i>Group</i> Mutual trust – high Readiness to change - low	<i>Internal processes</i> Mutual trust – low Readiness to change - low	<i>Rational goals</i> Mutual trust – low Readiness to change - high	<i>Developmental</i> Mutual trust –high Readiness to change - high
Leadership style	Microinvolvement – high Risk propensity	Microinvolvement – high Risk aversion	Microinvolvement – low Risk aversion	Microinvolvement – low Risk propensity

Source: adapted from (Barton, DeSanctis, Obel, 2006)

The described model of competitive positioning was tested in a large-scale survey in Russian enterprises and proved that the proposed combination of competitiveness parameters predicts innovativeness extremely well (Gurkov, 2007).

The model has also three visible advantages. First, it enables the researcher to deal not only with “pure” strategic types, but also with “average firms” that, contrary to all strategists’ suggestions are “struck in the middle.” Second, it allows us to evaluate “strategic trajectories,” i.e. implemented or intended strategic actions, along the parameters of competitiveness. Thus, we may see the really implemented strategy either as efforts to strengthen the existing strategic position (to maintain the strategy type) or to alter the competitive position (up to the complete change of the existing strategy type). The later move may become prevalent when the macroeconomic conditions objectively worsen the strategic positions of particular segments or whole industries. The third advantage is related with easy closing the gap between competitive and corporate strategies that are often unreasonably separated. Indeed, all possible corporate strategies (diversification, horizontal or vertical integration) may be viewed as either the measures to changes the strategic types of existing business, or as the measures to change the composition of corporate portfolio (to get rid from reactor, to limit the number of defenders, to augment the share of analyzers and, in some cases, prospectors). The particular ways of implementation of corporate strategies (organic growth, acquisitions, and divestitures) may be viewed merely as technically appropriate means to achieve the expected outcomes – the desired change of the shares of various strategy types in a corporate portfolio.

Thus, we may find the interconnections between the parameters of current organizational design and the current and perspective positioning of company business(es). It means that the “dynamics of fit” should be re-considered as “fits of dynamics” – a particular organizational parameter may be already inconsistent with the point of departure – the current strategic type, but consistent with the point of destination – the desired (and approaching by strategic actions) strategic types.

Re-positioning of Russian companies after the financial crisis

In the recent article (Gurkov, 2009a) the consequences of the recent financial crisis for the Russian firms were presented as the major repositioning of Russian companies along all the four measures of competitiveness. The 30% devaluation of the local currency versus Euro and American dollar in October-December 2008 that make imported components more

expensive; the sharp raise of the cost of capital as the possibilities to use foreign credits disappeared virtually overnight and the fall in capacity utilization – all those factors provoked raise in unit costs. As the absolute prices remained mostly stable, perceived prices (the percentages of (the percentage of total expenditure needed for purchase of a specific good or service) increased. This not only led to the further erosion of demand from both firms and households but also had a profound impact on the third measure of competitiveness – the perceived use value (quality). It is commonly believed that price and quality are closely interconnected in shaping consumer choice. Usually marketing research deals with particular aspects of quality that justify the price demanded. However, we should see the reverse relationship as well – the level of perceived price justifies the demand for goods' and services' particular features.

Thus, as perceived prices are increasing, customers are eager to demand increases in quality. In such conditions, even if the absolute product characteristics remain the same, customers are inclined to see the perceived use value as deteriorating. We should recall here the hidden source of all particular measures of company competitiveness – the company's competences. During times of rapid change in economic environment, the key element of a company's competences is innovative capabilities. In an earlier study we presented the very slow path of accumulation of innovative capabilities by Russian firms. We have seen that such actions as 'pricing for new products', 'achieving the necessary quality levels for new products' and 'selecting the qualified workforce' became more difficult in 2000–04 (Gurkov 2006). That trend was extended in later years (Gurkov 2009b). Thus we may expect further erosion of companies' competences during the current rapid and unpredicted changes in market conditions.

The above reasons make clear the general drift of competitive positioning of Russian– the rise of unit costs, the rise of perceived prices, the fall in perceived use value and the fall in company competences (see Figure 2).

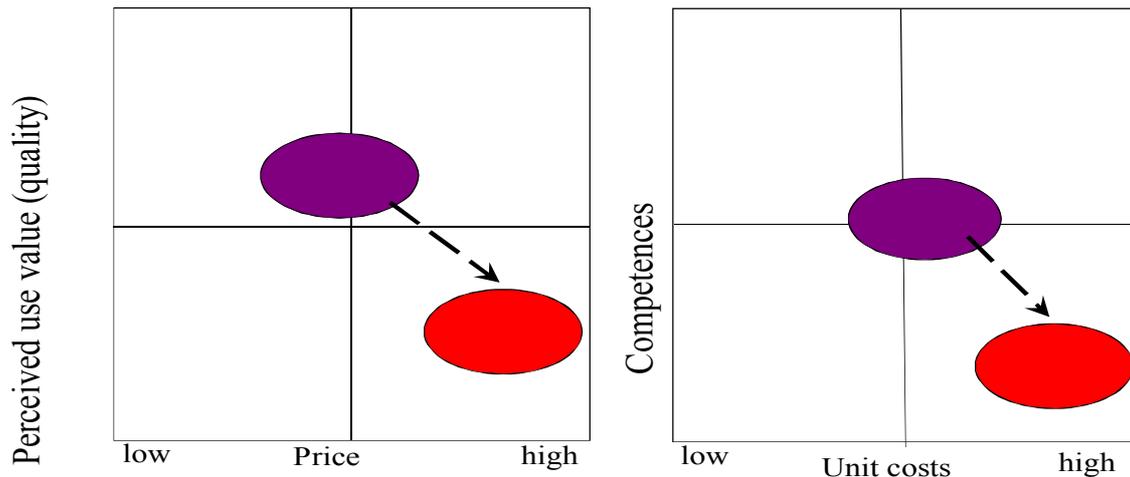


Figure 2. Repositioning of Russian companies in the aftermath of the financial crisis

Companies trapped in the combination of high costs, low quality and high perceived prices have not much time for selection of strategic pathways. Prolonging the situation provokes further erosion of competitive position and endangers the very existence of a company. Thus, if for some reasons a company's owners see no opportunities to alter the situation, they should move quickly out of business by partial or complete selling of assets, orchestrating bankruptcy proceedings or even complete liquidation. If the owners opt to continue in business, they will face two options. The first, obvious option is to pursue 'cost leadership' (in Porter's term). To do so the company must find ways to save not just on total but on unit costs and make more appealing price offers. The problem here is that massive cost reduction is usually accompanied by compromises on quality, so the company enters the spiral of further downgrading and moves on towards the very low end of the quality scale.

The second option is to embark on a differentiation strategy (again in Porter's terminology). Here the company must invest in competences and by doing so try to improve quality up to the level that corresponds to the increased perceived price. The danger here is that investment usually leads (at least initially) to an increase in unit costs. As such increases are not covered by the corresponding increases in absolute price, the company will face further

deterioration in profitability of sales before any positive effects of the investment will take place.

The options outlined for coping with the crisis are depicted in Figure 3 as strategic trajectories along the four dimensions of competitiveness (perceived price, perceived use value, unit costs and company's competences). It is easy to see that Trajectory 1 directs the company towards the strategic type of reactor, Trajectory 2 directs the company towards the position of prospector.

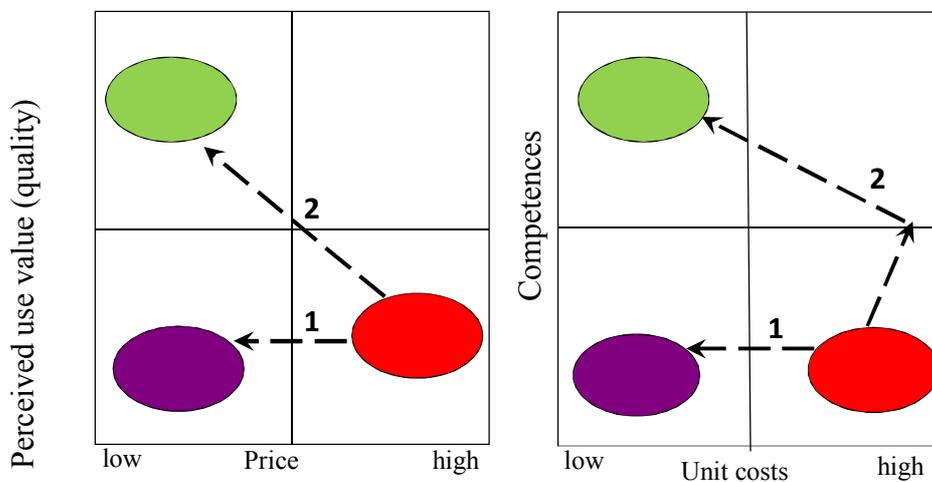


Figure 3. The choice between cost leadership (Trajectory 1) and differentiation (Trajectory 2)

Thus, our research task was to understand which strategic trajectories are currently taking place in Russian firms and how the characteristics of organizational design are altered towards the desired strategy type. We drew the following propositions:

- during the last months of 2008-2009 the majority of Russian companies experienced re-positioning of their business;
- during 2009 the companies made the choice in their recovery strategies either along Trajectory 1 (regaining cost leadership position) or Trajectory 2 (moving towards prospector's position);

- as the choice has been made, the organization design will be adjusted accordingly the desired strategy type and there will be moderate misfits between the desired strategic type and the current organizational design;
- a great part of organizational design characteristics will not depend on desired organizational types, but represent the generic features of the “national model of organizational design.”

Methodology: Research instruments, data base and data analysis

We used two major research instruments to combine organizational diagnosis with the overview with the current business performance and strategies being implemented in order to deal with the recession. For organizational diagnosis we used the original questionnaire implemented in the diagnostic software Organizational Consultant (version 7.0) from Burton, deSanctis, Obel 2006. The questionnaire was translated into Russian. The pilot use of that questionnaire was carried out in 2007-2009. The pilot study demonstrated good understanding of all questions by respondents – Russian executives -- as well as high relevance of the questionnaire for description of organizational parameters, again confirmed by respondents. This questionnaire included around 60 questions.

For description of the current business performance and measures taken in order to deal with the recession the original instruments was used. The instrument was developed at the end of 2008 and was successfully used in a series of surveys of Russian executives, carried out in December 2008-January 2010 (Gurkov, 2009a). That instrument consisted of several sets of questions that provided for the assessment of the current performance, competitiveness and competitive conditions prior to the crisis (prior to the summer of 2008); the assessment of the same parameters at the time of survey (post-crisis); the report of the readiness of the firm to implement various anti-crisis measures (the list of measures comprised 22 possible measures, from company liquidation and bankruptcy for establishing subsidiaries and acquisition of new firms); and the assessment of popularity of the same measures in particular industry (line of business). That questionnaire included 130 questions.

Since both questionnaires needed to be administered simultaneously which can be a serious time burden for extremely busy top corporate executives the survey was administered through an executive education program. Therefore was not randomly sampled from the population of Russian executives or firms. Among the various training programs available

we choose to administer the survey among participants of DBA (Doctor of Business Administration) program of the Academy of the National Economy at the Government of Russia. Three main reasons were behind the choice of that program and the particular group of students. First, unlike DBA programs in American and European business school, Russian DBA program (there are only two such programs in Moscow) primarily target CEOs of medium and large-size companies, who aim to systematize their experience and update their knowledge of the last management “fads”. So, we expected that the absolute majority of students occupy the positions of CEO of their companies. Second, we decided to contact the second year students – the group of executives who began their program in the fall of 2009. We supposed that top executives who opt in the midst of the crisis to embark on a time-consuming and expensive program are the persons inclined towards serious anti-crisis measures in their companies. Third, as the survey was organically included into the course “Strategy in Crisis Times” as the initial, diagnostic part of the course and each respondent expected (and received) an intensive feedback on description his/her particular situation, we expected very serious attitudes towards the survey and frankness in answering the exacting questions.

In November 2009, we collected filled questionnaires from 18 CEOs. As the questionnaires included detailed questions of strategic measures under consideration or planned for the immediate implementation; and the respondents worried that such information, being revealed and got known by the direct competitors might seriously impede the course of actions of the surveyed firms, the scientific use of the data collected was allowed under conditions of strict confidentiality of companies’ name and the family names of the respondents.

Economic dynamics, strategy types of organizational misfits

General economic dynamics in 2008-2009 and applied recovery strategies

The first step in our analysis was empirical verification of the first proposition – the massive repositioning of Russian companies at the aftermath of the financial crisis. Unfortunately (for the observed companies) the data confirmed that proposition. Over the twelve months after the first blow of the financial crisis (September 2008) the significant increase in unit costs (10 percentage points or more) was experienced in the majority of the surveyed firms. Moreover, in a quarter of cases the firms were forced to reduce prices. Nevertheless, the price reduction had limited positive impact on sales dynamics. The

majority of companies reported a serious (more than 10 percentage points) fall in both current sales and order backlog.

Besides individual performance difficulties, the whole competitive landscape had changed. The modal perceived level of competition has moved from “moderate” to “strong” (2-tailed significance of difference is 0,02). Several respondents stressed that competition became extremely strong.

Thus, we not only confirmed our first proposition about the mass strategic repositioning of Russian companies, but also observed significant changes in the overall business environment – the environment became more *uncertain and hostile*. To deal with environmental hostility and to surpass the competition the surveyed companies have embarked on two independent sets of measures. The first set (observed in 50% of the surveyed companies) consisted in acceleration of development and market launch of new products, accompanied in the majority of cases by additional investments in R&D (correlation 0.54 between the two actions). The second set consisted of such interconnected measures as saving on maintenance of equipment, saving on administrative expenses, revision of supply schemes, and reduction of headcount (correlation between all those measures are above 0.60).

Thus, we were able to distinguish among the actual implemented recovery measures two largely independent courses of actions and thus to prove our second proposition -- the choice really made in 2009 between Trajectory 1 (regaining cost leadership position) or Trajectory 2 (moving towards prospector’s position).

Selected strategic trajectories and organizational misfits

The initial model of Miles and Snow (1978) defines the strategic actions not in the terms of the relatively objective parameters of firm’s competitiveness but in the subjective terms of the attitudes towards the environment such as exploration of new market and technological opportunities in order to outpace the competitors and exploitation of newly discovered opportunities. The above mentioned sets of recovery measures clearly distinguished between “explorers” and “exploiters”. The real composition of the selected companies demonstrated extremely clear distribution. Among the 18 companies surveyed nine companies demonstrated strong prevalence of exploration; the same number (nine

companies) showed the strong inclination towards exploitation. The relatively high proportion of “explorers” has proved that we were right in addressing DBA students as the member of the “advanced cohort of the Russian “patronat.”

The current competitive positioning of explorers and “exploiters” was less spectacular, proving that that it easier to embark on than to implement the recovery strategies. Only four among the nine “would-be-prospectors” have shown the superiority of the level of quality over the level of unit costs. At the same time, five among the nine “would-be-defenders” are currently demonstrating the features of reactors – the assessment of quality versus direct competitors is lower than the assessment of unit costs.

The next step of the analysis consisted in comparison of would-be-defenders and would-be-prospectors with the theoretically prescribed characteristics of defenders and prospectors (see Table 2).

Table 2. Companies selected among recovery strategic trajectories and their organizational characteristics

Organizational characteristics	Defender		Prospector	
	Prescribed characteristics	Observed characteristics	Prescribed characteristics	Observed characteristics
Organizational structure	Formalization – high Centralization - high	Formalization: high – 4; medium –5 Centralization: high – 2; medium - 7	Formalization – low Centralization - low	Formalization: medium– 9 Centralization: medium - 9
Organizational climate	Mutual trust – low Readiness for change - low	Mutual trust: low – 4; high - 5 Readiness for change : low – 6; high - 3	Mutual trust – high Readiness for change - high	Mutual trust: low – 1; high - 8 Readiness for change: low – 3; high - 6
Leadership style	Readiness to delegate authority– low Attitudes towards risks – risk aversion	Readiness to delegate authority – - low - 7 - medium - 2 Attitudes towards risks – risk aversion -6 risk neutrality - 3	Readiness to delegate authority – high Attitudes towards risks – risk propensity	Readiness to delegate authority - - medium - 9 Attitudes towards risks – risk aversion - 1 risk neutrality - 2 risk propensity - 6

The results of our analysis were quite decisive. Russian “*would-be-defenders*” showed good correlation with the prescribed characteristics in *leadership style* (risk aversion and low preference for delegating authority) and organizational climate (low readiness to change). Organizational structures of “*would-be-defenders*” demonstrated greater difference with prescribed characteristics – centralization and especially formalization are insufficient to ensure the functioning of the company as a “well-tuned machine.”

Russian “*would-be-prospectors*” demonstrated good congruence with the prescribed characteristics of organizational structure and organizational climate, especially high mutual trust and high risk propensity of top managers. The greater deficiency of Russian “*would-be-prospectors*” is low preference for delegation of Russian managers.

In general, we have proved our third proposition – although the current competitive positioning of Russian *would-be-defenders* and *would-be-prospectors* only partially corresponds to the characteristics of the desired competitive type, we observed good coincidence of actually observed organizational characteristics with prescribed ones for the desired strategic types. At the same time, our fourth proposition also demonstrated to hold since two important organizational characteristics, namely, medium formalization and high risk propensity were uniform features of Russian firms, non-respective to the actual or prospective positioning.

Discussion

First, we should address the question of validity and reliability of our study. The sample we were able to survey was a small sample of Russian top executives and selection process was biased due to self selection. Due to the difficulty of surveying top managers in Russia the use of DBA student is one means to gain insight into the Russian management process. Due to the detailed nature of the survey process such a sample was deemed to be sufficient for our analysis. The surveyed executives are managers of companies of different size and lines of business. In our analysis we were able to determine that neither firm size nor use of specific major technologies impede the implementation of the identified strategic trajectories. Thus, we considered our results sufficiently representative to enable us their interpretation.

The first most important result, in our view, is the prevalence of developmental organizational climate not only in “would-be-prospectors” but also in companies of other strategic types. Since the high risk taking propensity of Russian managers is a well-known, the high mutual trust diagnosed in the absolute majority of the surveyed companies was quite surprising. At the same time developmental climate during the period surveyed strongly contradicts to unwillingness to delegate. Unwillingness to delegate is resulted in medium level of centralization – in most of observed companies the ability of middle managers to make decisions related to purchasing supplies and equipment, establishing evaluation procedures for their departments, launching new product or programs; promotion and rewards of the personnel in their departments continued to remain *low*.

In our analysis we were able to determine that during the last months of 2008-2009 the majority of Russian companies surveyed experienced a re-positioning of their business due to the increase in uncertainty and hostility of their environment. Top managers responded to the strategic misfit that arose due to changes in the external business environment. The strategic changes made post September 2008 crisis throughout 2009 were based on two possible choices either regaining cost leadership position or moving towards what we term a prospector’s position of seeking new opportunities for product differentiation. Once the strategic choice we supposed that top managers would adjust the organization design to fit the desired strategy type and there will be only moderate misfits between the desired strategic type and the current organizational design. In our analysis this was true of cost-leaders but prospectors failed to delegate and retained overly centralized structures.

The overwhelming evidence on this analysis and previous work (Gurkov 2006, 2007, 2009a) was that in the case of Russian firms the dominate component of organizational design represent the generic features of the “national model of organizational design.” The top echelon framework of Hambrick and Mason (1984) and the CEO archetype propositions of Lewin (1994) are apparent in the role that top executive play in setting the limits for organizational change. Top executive cultural and historical predication of formalized decision making and centralization organization of Russian managers dominate organizational design even when this results in a strategic misfit.

Conclusions and suggestions for further studies

Our analysis suggests that greater emphasis should be placed on incorporating the specific parameters of national organizational culture in organizational diagnosis. This postulate

has been acknowledged by R.Burton, B.Obel and their associates in developing their applied tools for organizational analysis. For example, the last version of Organizational Consultant software (version 9.0) has incorporated a battery of questions on national culture that follows Hofstede's parameters (power distance, uncertainty avoidance, masculinity, individualism). However, for the purpose of applied organizational diagnosis and discovering the real misfits the further work on *national organizational culture* should be done. For example, our research in Russian companies demonstrated as a usual fact the coexistence of high uncertainty avoidance and high risk propensity of top executives. Much work also needs to be done on "tuning" of parameters of centralization and formalization that are also crucial for identification of contingency misfits. The comparative international analysis reveals that level of formalization differs dramatically even between neighboring countries (see CRANET, forthcoming). Again, strategy, leadership and climate misfits should be adjusted to the "reference" prevailing levels of centralization and formalization in a given country.

The second conclusion is related to the very notion of strategic misfit in times of high uncertainty, where the current competitive positions of many companies deteriorate and in order to recover the companies are trying on the new, more innovative strategy types (as we have seen in our study in Russian companies). In such situations both top managers and consultants face clear dilemma – either to eliminate the misfits between the current strategy and organization, or to design organizations that better correspond to the *desired* strategy types, by temporarily creating new misfits. By clarifying this issue we will be capable indeed to assist organizations in mastering deep strategic changes.

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Autobiographical note:

Igor Gurkov,

Affiliation: University Professor, Department of General Strategic Management, State University – Higher School of Economics, Moscow

e-mail: gurkov@list.ru

Contact details: Russia, 101000, Moscow, Myasnitskaya, 20, State University – Higher School of Economics

Brief professional biography: Professor Gurkov has worked since 1994 at the Higher School of Economics, Moscow. He teaches organizational design and methods of management studies for graduate students and strategy for executive programs. He is author of three textbooks on strategy, several monographs and research papers, including “Management Development in Russia”, International Labour Office, Geneva, 1997. Most his research papers may be downloaded from www.gurkov.ru

Alexander Settles,

Affiliation: Professor, Department of General and Strategic Management, State University – Higher School of Economics, Moscow

e-mail: asettles@hse.ru

Contact details: Russia, 101000, Moscow, Myasnitskaya, 20, State University – Higher School of Economics

Brief professional biography: Alexander Settles has taught at the State University – Higher School of Economics since 2006. He is currently a professor of corporate governance and strategic management. He was the center director at the Corporate Governance Center at the Higher School of Economics. He was at the University of Delaware, USA from 1996 to 2004 and received a Fulbright Award for the 2005-2006 academic year.