

# STRATEGIC COHERENCE AS AN ORGANIZATIONAL ADJUSTMENT PROCESS - CONCEPT AND MEASUREMENT OF THE PHENOMENON<sup>177</sup>

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**Abstract:** *This article presents various views of organizational adjustment and coherence. The main goal is to present the author's concept of strategic coherence that will allow for dynamic balance between vertical and horizontal adjustment. Vertical adjustment is a relation between the strategy and the elements of the business model. It is measured by the cascading of goals, feedback and measurement. Horizontal adjustment refers to matching of business model's components. It is measured by creating value, capturing value and creating a synergy effect.*

**Key words:** *strategic cohesion, organizational adjustment, matching, strategic management, strategy*

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## 1. INTRODUCTION

Organization has to take into account the dynamic and non-linear changes in environment that build pressure towards specific development of company. One of strategically important determinants of development in such conditions is to ensure mutual coherence of individual areas of the organisation in terms of effectiveness of achieving objectives according to the business model assumptions. In the opinion of N. Venkatraman and J. C. Caillou, this issue can be seen in static terms, as a specific state of coherence being a result of configuration of corporate components and as a process manifested by the need to raise adequate resources of the company in response to opportunities and threats arising in its environment [1]. In this context, management should focus on ensuring the proper structure of such elements as market opportunities, skills and resources of the company, values of the organisation's members, and relationships with other entities in the environment.

In many studies, it is a priori assumed that individual components within the same organisation and in relation to the environment are coherent with each other. Thus, the issue of harmonisation of individual components, being one of the main determinants of the success of the organisation, is disregarded [2], [3]. Harmonization can be seen as some sort of desired and model state of organisation and as a result, it takes the form of constant search of a dynamic balance. The balance (equilibrium) according to A. K. Koziminski and K. Obłój covers four areas: material-internal, socio-internal, material-external and socio-external and under given conditions is the relationship between the environment and the organization and within the organization itself [4]. The obtained state of equilibrium is subject to change in time as part of exchanges between the environment entities, the top management and other participants of the organization [4]. Balance can also be seen as a condition for the functioning of the organization. In this approach,

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this will be the minimum level of adjustment in the relations between the organization and the environment, as well as in the scope of intra-organizational relationships. This is a limit value above which it is possible to manage and function the organization's subsystems. At the same time, the balance is a prerequisite for the implementation of the mission and achieving the objectives as well as the effectiveness and efficiency of management [4].

Pursuing the strategic goals (development strategy) while simultaneously ensuring the adjustment of individual elements of the organization to the environment is a prerequisite for achieving the effectiveness of the organization. This is one of key challenges for the managers and at the same time important research area that should get more attention and engagement.

Main goal of this paper is to present an author's concept of strategic coherence that will allow for establishing dynamic balance between vertical and horizontal adjustment. First type is a vertical adjustment covers relation between the strategy and the elements of the business model, which is measured by the cascading of goals, feedback and the measurement system. Second type of adjustment is horizontal and refers to individual matching of business model's components, which is measured by creating value, capturing value and creating a synergy effect.

The text is addressed to the researchers and practitioners dealing with strategic management, organization development and change management.

## **2. STRATEGIC COHERENCE IN PERSPECTIVE OF ORGANIZATION ADJUSTMENT – LITERATURE REVIEW**

Individual researchers differently perceive the issue of coherence, depending on the material scope adopted in their considerations. In the literature, the terms match, consistency, compatibility, adjustment, or cohesion are often used interchangeably [5]. Despite the pursue of many researchers to unify terminology, the problem itself is complex and multidimensional, therefore there will be distinction between concept of adjustment and cohesion, that will be explained further in the text.

Coherence links the components together [6] and it is based on the interaction of core components based on relationships and reactions between the components and the results of these interactions [7]. With regard to the organisation, coherence means “sticking” together, self-recognition of one's limits and activities linking levels of the organisation with each other [8].

Many researchers perceive coherence through the prism of situational shape of the organisation components configuration in relation to the choice environment created by the business environment. In this approach, a coherent organisation is characterised by distinctive internal capabilities fitting its place on the market [9]. In detailed approach, internal fit is understood as a coherent configuration of key activities of the organisation, whereas external fit is assessed on the basis of results of comparing the environmental conditions with a choice of the business model components [10].

The functional approach determines coherence of activities as the effect of mutual reinforcement of success factors based on creating customer value and distinguishing capabilities of the organisation. In order to create coherence, it is important to determine the

level of fit of key elements that define the functioning of the organisation, such as strategy, structure, people, and the environment [11].

An attempt to organize the concept of adjustment is presented in the diagram below (see figure 1).

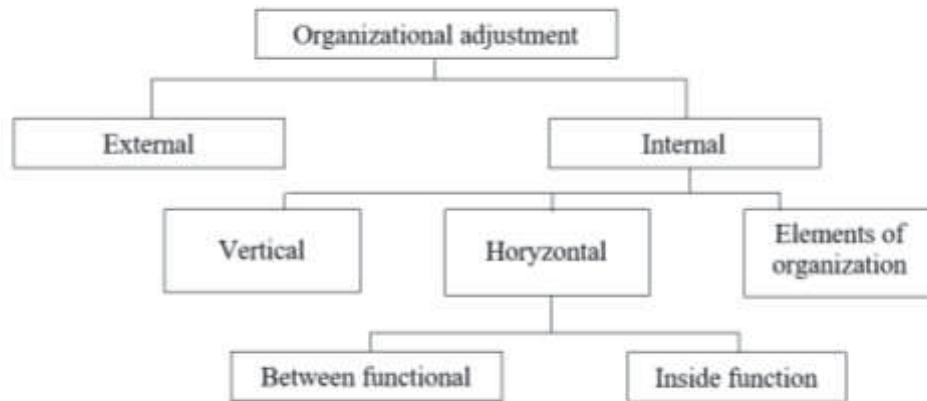


Figure 1: Types of organizational adjustment

Source: [5].

External adjustment refers to the configuration of organization elements in relation to the environment. Increasing the level of external (strategic) adjustment takes place by defining the needs and requirements of the environment, assessing the competencies of the organization and indicating the differences between actual and potential performance in the context of perceived opportunities [12]. Therefore, external adjustment is assessed on the basis of the effects resulting from the compilation of environmental conditions with the selection of the business model components [10].

The second type of adjustment - internal refers to the mutual relations of the elements building the organization and can be considered in three perspectives. The first one is adjustment of the elements of organization. Cohesion binds elements of organization together [6] and its basis is the cooperation of core components based on relations and reactions between those elements and effects of these interactions [7]. Consistency of organizational elements refers to the configuration of key activities based on selection and strengthening between components so that they are adjusted to the economic dimension of the business model [10].

Internal adjustment can also be seen as a vertical adjustment including "cascading" strategies for individual goal of processes, then objectives of teams and workplaces [13]. Therefore, if decisions made at the lower levels of the organization are consistent with decisions taken at higher levels, this means achieving vertical alignment.

The last approach includes a horizontal adjustment, which means the coordination of activities in the organization. In the process of strategy creation, it is particularly important on lower levels of organization and matching of individual functions. Going deeper into this issue, it can be indicated between functional and inside functional adjustment. First one means achieving consistency between performed functions, such as production, marketing or human resources management, in such a way to ensure a mutual complementation and support of individual functions and efficient decision-making. In contrast, inside functional adaptation is achieved through coherence of different decision areas of a particular function [5].

Despite advantages of above presented concept it can't be treated as an ultimate goal to achieve or model view of organization, because achieving highest possible adjustment can be unfavourable and inefficient. Mainly because organization have to develop and by implementing changes will create some looseness and lack of adjustment. Also some redundancy in resources foster coping with risk and expands possibilities of development, that can provide competitive advantage. Therefore in the next part of the paper there will be presented concept of strategic cohesion of organization that focus on a complementarity of business model and strategy, that is based on pursuing of a dynamic balance between vertical and horizontal complementarity.

### **3. STRATEGIC COHERENCY – CONCEPT FRAMEWORK**

Strategic coherency concept is based on the following assumptions:

- strategic coherence is perceived by two approaches: 1) dynamic as an organization's activity aimed at continuous adaptation to changes caused by environment, as a result of which an optimal level of adjustment of organizational elements is sought that allow execution of strategy. Fulfilling one set of strategic goals, will trigger implantation of another set of goals that will cause a reconfiguration and loosening of organization's elements. This process consist of alternate repeating phases of achieving high coherency and mismatching of organization's elements 2) static as a configuration of organizational elements that, by coherence and cause-and-effect relationships, determine certain efficiency level of organization in given configuration. Hypothetically if organization would function in complete stable environment there would be possible to achieve certain level of organizational adjustment that will ensure maximum efficiency of its action. However, due to constant changes it is impossible to achieve this state and always exist mismatch efficiency gap.
- therefore optimal level of coherence of organization elements (including business model elements), allows for simultaneous maximization of the effectiveness of the organization's objectives and effectiveness in given operating conditions,
- elements of the business model that are subject of complementarity are: key resources, operational activities, value propositions, distribution channels, customer segments, key partnerships, customer relationships, revenue streams and cost structure,
- developing of the strategic coherence is determined by the simultaneous coexistence of two types of adjustment (see Fig. 2):
  - a) Vertical, between strategic goals, strategic processes and strategic projects broadly understood as a strategy and its implementation witch each of the components of the business model. Strategy is a bundle of actions that ensure the achievement of the organization's goals. Vertical adjustment is evaluated by: 1) the ability of cascade strategic goals on the level of business model components, 2) the ability of creating feedback from the ongoing operations to manage them and eliminate dysfunctions 3) the ability of providing comprehensive information based on measurement system about three areas: achieved goals, financial result and business model elements condition to provide information for a strategic management process. Triangulation of information sources ensures comprehensive view about strategy implantation state. Vertical adjustment is measured for relation of strategy and business model elements by three (cascading, feedback and measurement system) variables. Level of adjustment is based on the managerial assessment on a scale of 1 to 10. Where 1 means the lowest level of adjustment between business model elements and

strategy, and 10 is a full match. Then, based on arithmetic average of the above three features, the vertical adjustment is determined.

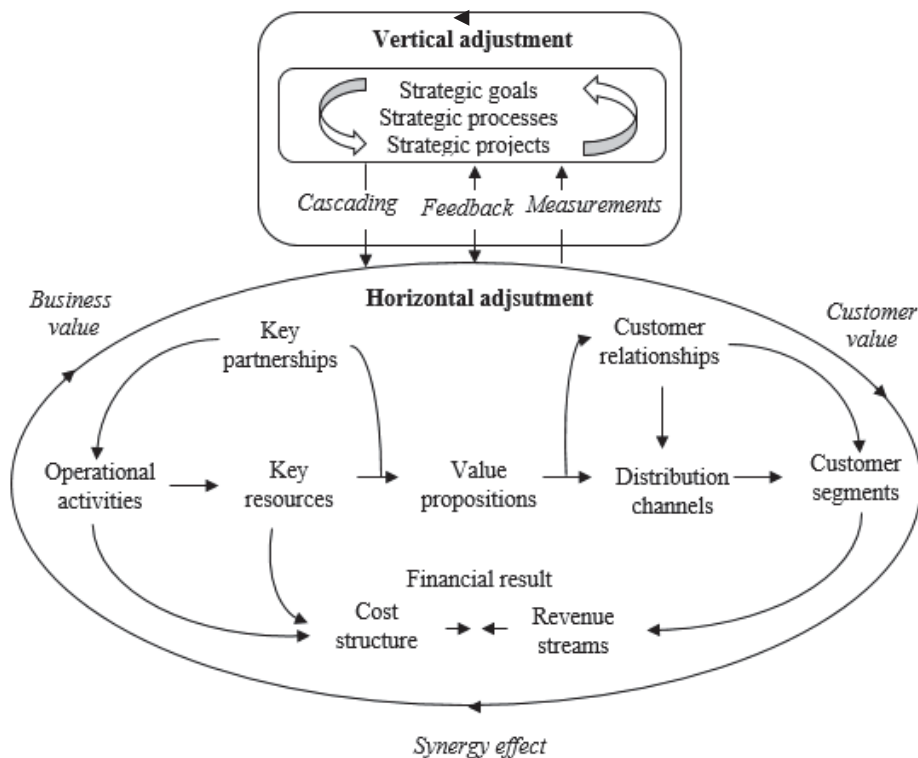


Figure 2: Model of strategic coherence  
Source: [own preparation].

b) Horizontal adjustment is a mutual complementarity manifested in relations between elements of the business model. Horizontal adjustment is based on creation and maintenance of: 1) value added for business, 2) value added for the client and 3) the synergy effect. Value added for business is profit achieved from selling company's product. Managers tend to maximize profits, however at the same time firm must also provide value for its customers. Value for customer can be defined as delivering value proposition that are better than offered by main competitors. To achieve this company must differentiate its products and implement innovations, that by investment, decrease financial result. Finally, synergy effect determine how efficient business and customer value is created within given configuration of business model elements.

Horizontal adjustment is measured separately for each of the three listed characteristics (business value, customer value and synergy effect). Horizontal adjustment values are determined based on the managerial assessment on a scale from 1 to 10, analogical like a vertical adjustment.

- The optimal level of strategic coherence is set by fit of vertical adjustment to horizontal adjustment. Application of the strategic coherence concept is based on procedure: 1) estimate an average value for elements creating vertical adjustment, 2) repeat this process for horizontal adjustment, 3) estimate average for horizontal and vertical adjustment then read the value of the strategic coherence based on the left column of



below table. For example if vertical adjustment value is 6 and horizontal adjustment value is 9, the average strategic coherence is 7,5 that is interpreted as a high level of coherency.

Strategic coherence (average value of vertical and horizontal adjustment)	Levels of strategic coherence
10-9	Total coherence
8-7	High coherence
6-5	Moderate coherence
4-3	Low coherence
2-1	Lack of coherence

Table 1: Levels of strategic coherence

Source: [own preparation].

- Process of creating strategic coherence is started by setting strategic goals, processes and projects. Then those elements define border conditions for establishing business model components and relation between them. By operating, business will deliver financial result and information feedback, that allows to verify strategy and redesign it if needed, so the process can be started again.

#### 4. SUMMARY

Main goal of this paper was to present an author's concept of strategic coherence that will allow for establishing dynamic balance between vertical and horizontal adjustment. Described model can be useful tool to assess and manage strategy implementation in dynamic changing conditions in perspective of achieving optimal efficiency of undertaken actions and engaged resources of organization.

However applying measurement of organization's strategic coherence can encounter some barriers and limitations. First one is that many of assessed elements are typical for well-developed organization. For instance not every small company possess defined and formalized strategic goals, processes and project or measurement system. Second one is that evaluation horizontal adjustment (between elements of business

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##### **Research topics:**

- Head of the scientific project financed from the National Science Center "Improvement of the processes of open innovation and strategic renewal of the enterprise" in 2017-2019 with the number 2016/21 / D / HS4 / 00696.
- A member of a scientific project financed from the National Science Center entitled "Global and local dimension of business networks" in the years 2013-2016 with the number 51104-48
- Innovation management
- Process approach
- Strategic management

##### **Participation in projects for the practice:**

- Improving the competences of students in the field of Finance and Business Accounting and UEP Management", Project financed with EU funds, 2017
- "Art of Collaboration", Project financed from EU funds, 2011
- Restructuring carried out in over thirty organizations, including Volkswagen, Komputronik, F-Secure, Aquanet, City Hall of Poznań, Almi Decor, Pl Europe, eXant

**Membership in organizations and associations:** EIASM, IMP Group, PTE, TNOiK.

model) requires the involvement of many top and medium level managers and can be time consuming and complicated to implement.

Those limitations can be a base for further development of presented concept. In particular it refers to proposing detailed measures or questionnaire for assessment of individual criteria of horizontal adjustment (business value, customer value, synergy effect) and vertical adjustment (cascading, feedback, measurement system). This will allow to eliminate the errors during interpretation and ensure the objectivity of the measurement. Another interesting area is to propose a strategic coherence maturity concept ensuring insight into activities that allow building and maintaining desired level of organization matching. This concept can include characteristics of individual levels of strategic coherence with proposing best practices, key success factors and main barriers.

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