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Strategy/Core Asset Analysis: Aligning the Firm for Competitive Advantage

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Firms continually seek a competitive advantage in their markets in order to generate the cash necessary to survive. Our assumption is that firms do so by strongly aligning their strategic focus with their core assets. Like all management advice, this is easier said than done. In this paper we are looking to determine how firms align their strategic focus and core assets. We have found that firms that do sustain a competitive advantage are tightly aligned. On the other hand, firms that are loosely aligned are the ones that struggle the most and are generally without the means to overcome that struggle.

Introduction

No commercial enterprise will consistently achieve above average performance over the long run unless it is able to create and sustain a competitive advantage in its markets. Competitive advantage comes from the firm's ability to create and deliver value to its customers. For a firm to sustain a market advantage over time, it must have consistent access to the resources it needs to maintain and improve it market position. In other words, it must generate profits at levels sufficient to ensure continued access to capital. Creating and sustaining a competitive advantage and doing so at an acceptable profit level are the fundamental objectives of strategic management.

Firms typically engage in strategic planning to identify, analyze, select, and implement the objectives, strategies, and tactics that, in combination, have the best chance of leading them to a sustainable competitive advantage. There is a great deal written about strategic management and a variety of models have been proposed and implemented with varying degrees of success. While these models may differ from each other in significant ways, they all start with a basic analysis of where the firm stands in its competitive environment.

Economists conceptualize a firm as a collection of assets. In that vein, a firm's strategic core can be defined as a combination of assets and resources that are necessary for the firm to attain its stated objectives. This concept of the strategic core encompasses those essential elements that help a firm differentiate itself from its competitors and, therefore, collectively give it its identity and tells it where it stands in its competitive environment.

Under our definition, the strategic core includes not only traditional balance sheet assets but also less tangible but equally important assets such as the know-how residing in key personnel, focused human resource practices, and the organization's culture as its support strategy. These are all strategic assets which will help provide the firm with its competitive advantage.

All firms have a strategy, ranging from clearly defined or vaguely intuited. Inherent in a firm's strategy are its position in its market in relationship to competitors; it consistency in managing the strategy within the firm; its flexibility is adapting to market conditions when appropriate; its ability to provide a return on investment that allows the firm to progress; and its overall management effectiveness in its ability to align adequate resources and support to the strategic effort.

Alignment as a Strategic Tool

Contemporary business authorities understand the value that alignment provides to firms and the costs of non-alignment. They are urging managers to align the assets of their firms into a systemic business design that focuses on the synthesis of diverse organization attributes. Or as noted by Lei and Slocum (2005, p. 31), organizations "constitute configurations of mutually supporting parts that are organized around stable themes or strategies. These themes or strategies may be derived from leaders' visions, the influence of powerful departments/divisions, or the state of the industry. Once a stable theme or strategy emerges, a whole infrastructure emerges to support it."

As noted by Miller and Mintzberg (1983, p. 57), alignments "can be defined as commonly occurring clusters of attributes… that are internally consistent, such that the presence of some attributes can lead to the reliable prediction of others." In other words, organizations function as complex systems comprised of interdependent sub-components that are best understood when studied holistically (also Miller and Friesen, 1984). Alignment theories focus on the realized *pattern* of multiple independent variables, how the variables interact longitudinally, and how the pattern is related to the dependent variable of interest.

Contemporary business writers present many operationally-based alignment models. While their work is often rooted in both theory and empirical research, their goal is to assist managers in building functional alignments within their businesses. The most popular of these alignment models include Six Sigma, The Balanced Score Card, and Total Quality Management.

Mintzberg has long been a proponent of alignment modeling. He and his associates (Mintzberg, Ahlstrand, & Lampel, 1998) have described theoretical alignments in terms of power, structure, and change management processes. He has utilized the configuration construct to explain the relative stability of market strategies which are then interrupted by occasional and often dramatic movements to new configurations.

Slywotzky, Morrison, Moser, Mundt, and Quella (1998) note that between 1980 and 1995 billions of dollars in market value have migrated from old business designs to new ones. This can probably be said of more contemporary businesses as well. For these authors, winning in the market place is a result of defining and implementing a unique business design or alignment that opens a new cycle of value growth. Firms such as Southwest Airlines, Dell Computers, and Starbucks have become de facto standards in their markets through the implementation of unique configurations that provide an undisputed competitive advantage. The business designs presented by Slywotzky et al., integrate several "imperatives": customer priorities, operational systems, stakeholder negotiations, and sources of talent. As noted by Miller (1987) and Miller and Friesen (1984), imperatives are factors that tend to both shape and restrict the varieties of configurations over time by organizing their elements into an enduring system, are resistant to change, and typically act as lead variables during organization transformations. They provide long-term integrity, stability, and evolutionary momentum to an aligned configuration. As a result, only a small percentage of the theoretically possible alignment configurations actually occur in practice. This is an important point for us to understand as we formulate our hypothesis for this paper.

Unique alignment configurations allow firms to avoid imitation and capture a lasting mind share of customers and investors. In this construct, the organizational alignment becomes the distinct point of strategic differentiation. One has to note the power of these alignments and ask why the business designs of Southwest Airlines, Dell Computers, and Starbucks have not been successfully replicated, even though the world's business community is fully aware of these models. The difficulty of imitation of a socially complex alignments may be a partial answer.

Strategic Alignment Imperatives

For an alignment model to be strategic, it must serve as a means of gaining or sustaining competitive advantage for its user. For the purposes of this research, we chose to focus on market approach, organization culture, and employee know-how (i.e., knowledge, abilities, and personality traits), as our imperatives. The centrality of these variables for organization success has been strongly advocated by Collins (2001) and by Collins and Porras (1994).

Strategic Mission Imperative: A firm's mission ought to express its vision, either implicitly in its goals or explicitly in a clear statement of purpose. Explicit vision statements are often high minded but lacking in connection to the actual operational management of the firm's assets. The strategic mission must make that connection in a clearly articulated manner. It should provide a statement of vision that tells it readers what business the firm wants to be in the future. The vision should be a picture that provides some

detail. It should state long-term goals and determine how to measure progress towards those goals. It should suggest a business model that provides the firm with a distinctive competitive advantage in its markets.

Market Approach Imperative: The market approach determines how to best add value for the firm's customers. McNally and Speak (2002, p. 4) identify the meaning of brand as "perception or emotion, maintained by a buyer or a prospective buyer, describing the experience related to doing business with an organization or consuming its products and services." To an even greater extent, the brand should represent a company's unique assets. Otherwise the firm may be considered as an industry follower or a commodity business. The firm must determine the means by which is chooses to create that perspective. They can do so by excelling in one of the three market dimensions of best total cost, best product, or best total solution as define by Treacy and Wiersema (1995).

Employee Know-How and Values Imperative: Collins reminds managers that in a good-to-great organizational transformation, people are not your most important asset; the *right* people are (2001). He urges that firms create an environment where the right people would thrive. Aligning employee know-how and work values (e.g., beliefs regarding customers, how to compete, etc.) with market approach is essential but often neglected. For example, the best total cost market approach would call for know-how and work values that reflect efficiencies. The best product approach needs creators or innovators. The best solutions approach demands good communications skills and customer-orientation values. In other words, the firm's market approach and culture should align with human resource policies and employee know-how and work values.

Human resource managers often push for best practice models where the firm that has the most HR programs is thought to be best at managing human assets. Certain practices may work better in certain alignments. Participative management programs may have a lesser impact in a call center than they would in a fabrication plant. Incentive bonuses would be more valuable in sales oriented unit then they would be in a treasury department of a company. In other words, a systems or configuration paradigm may be more useful in advancing and sustaining organization competitive advantage than a universal or best practice model (Becker and Huselid, 2003).

Predicting Alignment Configurations and Organizational Effectiveness

The theoretical work on alignment has had a significant impact on management practice. The concepts presented by Treacy and Wiersema (1995), Mintzberg, et.al. (1998), and Slywotzky, et.al., (1998) have influenced managers over the past decade. While they have provided numerous vivid case studies, in general, they have not generated empirical work to support their theoretical assumptions.

Our research is an attempt to provide empirical support for the theoretical valuation of strategic configurations. We are most concerned about the relationship of market approach to employee know-how and organization culture and the resultant impact on firm performance. Return on Investment and Market Position determine the overall effectiveness of the firm's alignment. When a firm can understand the strengths and weaknesses of it alignment configuration, it can develop effective business activities to improve that alignment and work towards a more secure competitive advantage in its markets.

Hypothesis

All firms have a strategic core composed of assets. However, for some, the core is tightly defined and there is a high congruence or alignment between the business strategy itself and the assets that drive strategy. For others there tends to be a more loosely defined core and a weaker alignment between the firm's strategy and it core assets. Firms of the first type are rigorously and intensely focused on their core business objectives and, as a result, they deploy and manage their strategic assets in ways that both help define those objectives and closely support them. Firms of the second type, on the other hand, are far less rigorously focused on their core business objectives. It could be because the objectives themselves are relatively unclear, insufficiently specified, or not relevant enough. It could simply be that they are not as rigorously and intensely integrated into the firm's operations as they might be. As a result, the deployment and management of strategic assets will tend to be more haphazard and driven more by considerations related to assets themselves than the direct impact they can have on the attainment of business objectives. This results in a lack of strategic intensity with weakly defined strategic focus.

As stated above in a quotation from Newman, only a small percentage of the theoretically possible alignment configurations actually occur in practice. We wanted to see from our data what percentage of firms we have studied actually exhibit theoretical alignment configuration. We assume, with Newman, that

it will be a small percentage. In this paper we are working from the hypothesis that firm ought not to be equally distributed among the four pure strategic types. It is difficult to identify the true winners and losers in the strategic process. We hypothesize that the majority of firms would be found in Quadrants I and III where they exhibit either a distinctive competitive advantage or that they are so generally misaligned that they are in a constant state of struggling to survive.

There are two other pure types of strategic types in this model. The first shows well define core assets but a weakly defined strategic focus. Firms of this type amass high quality skills and resources that ought to provide them with a competitive advantage. However these firms lack a unified direction that would best utilized its resources. As a result of the lack of strategic focus, talent and resources are wasted. The second shows a well defined strategic focus but a weakly defined set of core assets. These firms lack the resources to make their strategic plan work for them. We often hear anecdotes about the great strategic plan that was developed and then put on the shelf. These plans are more ambitious than the strength of the assets available. (See Figure #1)

We are most interested in seeing how Quadrants I and III are populated; given these are the purest theoretical alignment configurations we can define.

General Sample and Data Collection Methods

Requests for participation in our study were sent to 840 organizations taken from the Reference USA database in two separate waves three months apart. Those requested came from the following industries: healthcare, financial services, manufacturing, wholesale/retail, information technology, food processing, and services. A total of 120 firms were selected within each industry where sufficient information existed to identify a contact person and mailing information. In addition, a call was made through the University of St. Thomas College of Business for local participants. We recognize that these two approaches produced a convenience rather than statistically random sample. However, we found this a more useful approach for attracting participation in the study.

Participating firms were mailed a packet of six surveys: business environment, market approach, culture, know-how, human resource practices, and organizational effectiveness. This study focused on market strategy, culture, and employee know-how. The survey instructions requested that the contact distribute the surveys as follows: employee know-to the human resource manager; culture and effectiveness to senior executives; and business environment and market approach to the marketing manager. A total of 326 packets were received: 90 from the Reference USA database (11% response rate) and 236 from the local request. However, seven packets contained a great deal of missing data and so were removed from the sample. Finally, an additional 12 packets had sufficient missing data to be excluded from the cluster analysis. The firms added locally were chosen from a population taking advanced management courses within the St. Thomas MBA executive programs and were screened by senior faculty members. The industry break-down of the sample was as follows: manufacturing—15.3%; retail/wholesale—19.9%; finance/insurance/real estate—14.7%; transportation/communications—2.8%; agriculture/mining/construction—7.7%; services—35.0%; and government/nonprofit—4.6%. While the sample is clearly convenience in nature, we believe it is representative of the general U.S. business population.

Finally, two or more individuals in the participating firms completed 65% of the packets. In the remaining 35%, the HR contact completed the surveys after consultation with others in the organization.

The market strategy survey was comprised of 21 items suggested by Treacy and Wiersema (1998). The culture survey contained 24 items across six topics: information sharing, risk-taking, teaming, focus-on-rewards, competition, and results orientation. Our intention was to look at items commonly used in culture measurement (Cummings and Worley, 2005). The employee know-how survey was comprised of 24 items suggested by Treacy and Wiersema (1998) and intended to reflect the market strategies of operational excellence (i.e., efficiency), product leadership (i.e., creativity), and customer intimacy (i.e., customer solution orientation). Finally, a total of 18 organization effectiveness items were developed based on Quinn and Rohrbaugh (1983), and supplemented by items dealing with resource acquisition (people and capital), position in the market, maintaining customers, and overall financial performance.

Sub-scales were developed within each construct (market strategy, employee know-how, organization culture, and organization effectiveness) by factor analyzing the survey items using a principal components solution with a varimax rotation (SPSS-X, 1988). Three dimensions emerged for market strategy, three for employee know-how, six for culture, and five for organization effectiveness. The

dimension raw scores were converted to standard scores with a mean of 50 and a standard deviation of ten. (Sheppeck and Militello, 2006)

The emergence of distinct alignment configurations was tested by clustering the 12 dimension scores (organization effectiveness not included) for each company. A group structure was obtained using the Ward complete linkage method. This method is a rigorous approach that requires all members of a cluster to show a strong resemblance to all other members of the cluster (Aldenderfer and Blashfield, 1984). Visual inspection of tree-plots was used to define the final number of clusters. Five clusters were obtained using this method (see Figures 2-6). To simplify portrayal of the configurations, five score bands were constructed. One-half a standard deviation above and below a dimension mean was labeled as "moderate." One-half a standard deviation below that was "low" and a second one-half standard deviation below that was "very low." A similar procedure was used to identify the "high" and "very high" ranges above the dimension mean. Our methodology for creating alignment clusters can be found in our previous work. (Sheppeck and Militello, 2006)

Results

In order to determine a useful categorization of alignment configurations, we isolated a set of variable from our research set in order to attempt to discover how alignment configurations are distributed. (Sheepeck and Militello, 2006) We used ROI and Market Position as independent variables through the application of a simple ANOVA calculation of the variables surveys from our 326 organizational respondents. We were able to determine the distribution of firms as follows:

- 32 firms fell clearly into the category of *Well Defined Strategic Focus and Well Defined Core Assets;*
- 31 firms fell clearly into the category of *Weakly Defined Strategic Focus and Weakly Defined Core Assets.*

Those firms that fell into Quadrant I showed respondent scores significantly higher than those that fell into Quadrant III. The scores of Quadrant I firms have a far lower standard deviation than those in Quadrant III. (See Table 1)

The power of alignment is clearly shown in these figures. Those that have that power will be most likely continue to sustain a competitive advantage. Those that are weakest in alignment configuration differ greatly among themselves.

Although we did not conduct a full analysis of the other two quadrants, we did calculate the number of survey respondent firms that fit these pure types. Quadrant II, *Weakly Defined Strategic Focus and Well Defined Core Assets*, had 20 firms populate the quadrant. Quadrant IV, *Well Defined Strategic Focus and Weakly Defined Core Assets,* had 25 firms populate the quadrant. Further research would demand a closer look at the four pure types and building a theory about the behaviors of the 218 firms in our date base that do not fit into pure types.

Conclusions

Our study provided mixed support for our hypotheses. Only approximated one-third of our respondent firms fit into a theoretical alignment configuration. Yet the distribution among the four quadrants was not strongly differentiated. In a past study, we found the struggling-to-survive alignment configurations occurred with great regularity in for-profit organizations. In their pure, theoretical form they occur as regularly as those firms that are aligned-for-competitive-advantage. This lack of distinctiveness strongly supports Porter's (1984) notion that creating clear and differentiated market approaches is not the norm but rather the exception for many firms. These firms may not describe themselves as "stuck" but they exhibit a sense of frustration in trying to find ways to grow. It is possible that many apply standard management practices to foster growth, such as price cuts, outsourcing, and facilitated planning. Yet, these practices may not be working for them. Uncovering misalignments and adjusting them may be a productive way to become "unstuck".

Our results did show that if firms align market approach, employee know-how, and culture in complementary ways they will experience above average performance. This advantage may be truly sustainable. Clarity alignment between strategic focus and core assets with the low standard deviation scores may indicate a more concise model for sustaining a competitive advantage. There may be a best way to gain and sustain an advantage in a market. The higher standard deviations from firms in Quadrant

III indicate the struggle endemic to firms unable to figure things our. Without the assistance from a well defined strategic focus, they may never discover how to gain an advantage.

These findings may be helpful to managers in that they reinforce that notion that a merely intuitive approach to strategic focus will not gain much for the firm, especially if the core assets are not well defined as well. The process of "making do" or "struggling to survive" may insure survival but nothing more. Our findings may be a call for strategic focus in every firm. That strategic focus must be realistic in its demand for commensurate resources. Idealized, big picture strategies might be fun to create. However the strategist must align those big ideas with available or realistic resources. The strategic direction must also have a focus that is technologically feasible and operationally viable. The strategic focus must also be disciplined in ways that make it understood and consistent.

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Figure 1

Core Assets

Strategic Focus	Well defined	Weakly Defined
Well Defined	*Quadrant I:* Aligned for Competitive Advantage	*Quadrant IV:* In Need of Resources
Weakly Defined	*Quadrant II:* Wasting Talent	*Quadrant III:* Struggling to Survive

Table 1
Configuration Differences on Overall Effectiveness

Based on a 1 to 7 scale with 7 being very high

Variables	Mean	Sd.
Quadrant I (N= 32		
• ROI	6.17	.77
• Market Position	6.56	.84
Quadrant III (N=31)		
• ROI	3.91	1.18
• Market Position	4.58	1.88