

LITERATURE REVIEW ON STRATEGIC FIT AND PERFORMANCE OF PUBLIC UNIVERSITIES IN WESTERN KENYA

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Abstract

Strategic fit is defined as an alignment and has assumed a core position in both organizational studies and strategic management research. Theoretical literature links strategic fit to desirable performance implications. Past studies have discovered poor performance in public universities in Kenya, suggesting inadequate strategic fit. Information on the role of strategic fit in performance of these institutions is unknown. The purpose of this study is to analyze the role of strategic fit in performance of public universities in Western Kenya. This paper reviews the literature on strategic fit and performance by analyzing the various perspectives of strategic fit, as well as the balanced score card method as an approach for measuring performance. This review discusses gaps in the literature and the directions that future studies may take to address these gaps.

Key Words:-Strategic fit, Performance, Balanced score card method,

Introduction

According to Ensign (2001), strategic fit is defined as an alignment and has assumed a core position in both organizational studies (Venkatraman and Presscott, 1990) and strategic management research (Miles, Snow, and Meyer, 1978). The basic proposition of the strategic fit literature is that the degree of alignment between strategy and its context has significant performance implications (Hoffer, 1975). Past studies on Strategic Fit have been done in the developed worlds' specifically focusing on profit organizations (Loius and Francois, 2007; Yan and Zajac, 2004; Hill *et al.*, 1992). Other studies have also focused on sectoral-level constraints, attributing the poor performance to reduced funding (Wangenge-ouma, 2008) and in-effective governance (Mwiria *et al.*, 2006). Past studies have attributed poor performance in public universities in Kenya to reduced funding and lack of innovation, Manyasi (2010) noted that public universities had only few computers and ineffective processes. Other challenges cited are lack of books and journals, inadequate databases for educational management and customer dissatisfaction (Chacha, 2004; Mulili and Wong, 2011). Calleb *et al.*, (2011) noted that satisfaction level with lecture rooms stood at 43% and university libraries at 47%; Kigotho (2001b) noted that student strife at public universities is blamed on poor living conditions.

Yin and Zajac (2004) in their study of fit between strategy and governance systems, posited that fit brings about superior performance and that it is significant. Loius and Francois (2007) from a contingency perspective, did a survey of 107 canadian manufacturers, analyzed data through correlation analysis and

results indicated strategic fit has positive performance outcomes for manufacturing SMEs in terms of growth, productivity and financial performance, however the study considered only profile deviation perspective of fit. Shichun Xu *et al.*, (2006) did a study on multiple perspectives of strategic fit (moderation, mediation, profile deviation, and covariation) explored their effects on firm performance. Empirical results based on 206 MNCs supported the mediation, profile deviation, and covariation perspectives, but they failed to confirm the moderation perspective. Dan *et al.*, (1994) researched on a sample of 173 acute care hospitals and results from the study indicated that adherence to an externally specified ideal strategy profile has a positive effect on firm performance. It is from these studies that strategic fit could be relevant to public universities in Western Kenya, however, Information on strategic fit and performance of public universities in Western Kenya is not known.

Concept of Strategic Fit

According to Venkatraman (1989), strategic fit is the match between related variables. Ensign (2001) also defines strategic fit as an internal consistency or alignment. Strategic fit has been an important building block in the development of strategic management theory (Drazin and de Ven, 1985). It is a core concept in normative models of strategy formulation (Andrews, 1971; Hofer and Schendel, 1978). Dess and Lumpkin (2003) assert that the strategic fit process involves management of all other internal elements within an organization to ensure that the implementation process is successful. Strategic fit has been conceptualized in various ways. Strategy formulation school of thought is interested in the fit between strategy and environmental condition which are external elements (Chandler, 1962; Hofer, 1975). The relationships here are causal ones in which the strategies must match with the external conditions if the firm is to survive and gain a competitive advantage (Porter, 1980 and 1985).

Strategy implementation school of thought focuses on the alignment between strategy and structure which are internal elements Chandler(1962). Waterman (1982) emphasize that strategy implementation is more than the fit between strategy and structure. Waterman (1982) argues that the possibility of successfully executing a strategy depends on the interaction among elements among elements in the McKinsey 7-S framework: strategy, structure, systems, skills, staff, style and shared values. In addition, the congruence among internal organizational elements should be reached if the organization is to achieve competitive advantage (D'Aveni *et al.*,2004).

Strategic choices school of thought examines the pattern of coordination or integration among strategy and structural units (Internal Elements). Overarching“gestalt” school of thought is mainly interested in an interaction effect of organizational environment and structure on organizational survival or effectiveness (Venkatraman, 1984).

Drazine and Van de Ven (1985) have examined fit through different approaches: Selection, Interaction and Systems. In the selection approach, fit is interpreted as an assumed premise underlying congruence between context and structure without looking into the impact of context. In the interaction approach, fit is understood as an interaction effect of organizational context and structure on performance. The systems approach, define fit as the internal consistency of multiple contingencies and multiple structural characteristics that have performance effects.

Venkatraman, 1989 further suggests six perspectives of fit; moderation, mediation, matching, profile deviation, gestalts and covariation. Four perspectives (moderation, mediation, profile deviation, and covariation) explicitly incorporate performance implications in conceptualizing strategic fit, whereas the other two (matching and gestalts) do not. Out of the four perspectives that incorporate performance, the researcher chooses to follow moderation and profile deviation perspectives. Venkatraman (1989) argues that researchers should either justify their choice of a particular perspective or apply a multiple-method approach because results are sensitive to the selection and a convenient choice may lead to wrong conclusions.

The mediation perspective posits the existence of an intervening factor between antecedent and outcome variables. Complete mediation is obtained when the main effect of the antecedent on the outcome variable is

not significant, whereas both the coefficients between the antecedent and the intervening variable and those between the intervening and the consequent variables are significant (Venkatraman 1990). The matching perspective is invoked for strategy concepts in which fit is a theoretically defined match between two related variables. Stated differently, a measure of fit between two variables is developed independent of any performance anchor (Venkatraman 1989). The co-variation perspective views fit as a pattern of internal consistency among a set of underlying, theoretically related variables, in this case, strategy, structure, and processes (Venkatraman 1989). Gestalts perspective states that when fit is conceptualized and specified using two variables, it is possible for investigators to invoke alternate perspectives that have precise functional forms, but when many variables are used, the degree of precision must be relaxed. It is a multivariate perspective which is defined in terms of the degree of internal coherence among a set of theoretical attributes (Venkatraman 1989).

Moderation perspective in contingency theorists assert that an interaction exists between two variables which predicts a third variable. The basic notion of moderation perspective is that there is no universally superior strategy and that the impact of the predictor variable which in this study is strategy orientation/strategic fit) on the criterion variable which is performance is dependent on the level of a third variable which is implementation practices. This perspective is relevant because most studies on strategic fit (Yin and Zajac, 2004; Loius and Francois, 2007; Shichun Xu *et al.*, 2006 and Dan *et al.*, 1994) reviewed above, reveal mixed results. The third variable could therefore be relevant to performance.

The profile deviation perspective views fit as adherence to an externally specified profile, which is identified as an ideal configuration to implement a strategy (Zajac and Kraat, 2000). Adherence to the ideal profile is expected to be associated with higher performance whereas deviation implies poor performance. This perspective is useful when the focus is on severally closely related variables (Venkatraman ,1989). Since strategic fit, strategy orientation, strategy implementation are all internally related and controllable by management.

Theoretical literature links strategic fit to desirable performance implications (Miles and Snow, 1994). Yet despite the concept's intuitive appeal, one finds relatively little explicit attention to strategic fit in most strategy literature. Information on strategic fit and performance of public universities in Kenya is not known.

Performance Measurement in Public Universities

Performance is defined as accumulated end results of all the organization's work processes and activities (Stephen and Mary, 2002). The performance of a university is measured by how effective it transforms inputs into outputs (Thursby, 2000). Balanced Scorecard measures (BSC) usage is referred to as the use of a combination of measures for assessing company performance (Kaplan & Norton, 1992). Kaplan and Norton (1992) suggest that multiple performance measures should be multidimensional in nature covering both financial and non-financial measures. The Balanced Scorecard is a widely used method to diagnose and improve on an organizations performance. Developed in (1992), the Balanced Scorecard methodology is a comprehensive approach that analyses an organizations overall performance from four perspectives: financial, customer, internal processes, and Innovation. In fact, Kaplan and Norton (1993, 2001) argue that one of the most important strengths of the Balanced Scorecard is that each unit in the organization develops its own specific or unique measures that capture the unit's strategy, beside common measures that are employed for all units (Kaplan and Norton, 1993, 2001). The Balanced Scorecard measures organizational performance across four different but linked perspectives that are derived from the organization's vision, strategy, and objectives (Atkison, Kaplan and Young, 2007).

Financial perspective focuses on desired financial results. The measures chosen for this perspective include many ratios or financial items, such as return on investment, operating income, residual income, inventory turnover and revenue growth. This perspective emphasizes the stakeholder concern about how efficient and effective the unit is at using its resources.

Customer perspective focuses on meeting customer needs, including product design, delivery, and post-sales service. Measures of customer perspective include customer satisfaction, customer retention, new customer acquisition, customer profitability, market share in targeted segments, quality, and the value added to customers through products and services (Kaplan and Norton, 1996b).

Internal business process perspective focuses on the methods and practices used inside an organization to produce and deliver products. Measures of this perspective address factors such as cycle time, new product introductions, technological capability, order response time, and capacity utilization. It emphasizes excellence at performing internal processes and in employee competencies.

Innovation perspective focuses on the future-new strategies and continuous improvement. Measures for this perspective address factors such as employee skills, Industry leadership, new patents and organizational learning. Therefore, Kaplan and Atkinson (1998) argue that the organisations must invest in continuing training programs for employees at all levels, enhancing information technology and systems, and aligning organisational procedures. It emphasizes continuous improvement and the creation of value.

Assessment can be structured around seven areas of organizational performance in higher education (Miller and Swope, 2006). The seven areas are effectiveness, productivity, quality, customer satisfaction, efficiency, innovation and financial durability (Miller and Swope, 2006).

Magutu *et al.* 2011 in a study of A survey of benchmarking practices in higher education in Kenya found out that participating in benchmarking would give Kenyan public universities a better understanding of performance. Miller (2007) outlines seven areas of performance being used by colleges and universities. These he says are effectiveness, productivity, quality, customer and stakeholder satisfaction, efficiency, and innovation. Low *et al.*, 2008 studied performance measures, the study aimed to declare the importance of performance measurement in the public-sector in terms of efficiency, effectiveness, and impact. Cross and Lynch (1992) developed a performance pyramid model to measure performance of universities. He points out the two main performance dimensions (academic and management) that are closely linked to the university goals. The two main dimensions are divided into four sub-dimensions which are research, education, finance and human resource.

Altschuld and Zheng (1995) studied measurements of performance in higher education and suggested three major approaches: input-output ratio analysis, outcome-based assessment and stakeholder-based evaluation. Although some studies have addressed the application of the Balanced Scorecard in the field of education, but in general there is a lack of academic research related to this issue (Karathanos & Karathanos, 2005). Hafner (1998) developed a BSC for educational institutions using the University of California with 9 campuses as the case. Chang and Chow (1999) stated that rather than focusing on financial measures, higher education has historically focused on academic measures.

Due to the distinction on the nature of industry and mode of profit, it is difficult to set a general indicator to measure organizational performance. Measurement of performance should be based on different purposes and use different performance indicators. Anderson (2004) insisted that the measurement of performance depends on the environment, strategies and objectives.

Implications for Future Research.

Most of the studies reviewed above bring out only one perspective of strategic fit, yet researchers state that studies done should either justify their choices of a particular perspective or apply a multiple-method approach because results are sensitive to the selection and a convenient choice may lead to wrong conclusions (Venkatraman, 1989). This study will therefore adapt both moderation and profile deviation perspectives. This is also supported by the general model implicit in contingency theory which assumes that, for organizations to be effective, there must be an appropriate “fit” between structure (Fincham and Rhodes, 2005) and/or strategy (Lee and Miller, 1996). Little attention has been given to strategic fit because of it’s elusiveness and this calls

for further research. Secondly, past studies on performance, have focused on only on one set of performance measures either financial or non-financial (Magutu *et al.* 2011; Low *et al.* 2008 and Anderson, 2004). This study will adapt the balanced scorecard measure of performance since it incorporates both the financial and non-financial measures, it is flexible and can be adapted to work in companies, public sector, and nonprofit enterprises, which calls for further research.

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