

# Business strategy, organizational structure, work processes: are the alignment?

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## Abstract

The development of digital creative industry in Yogyakarta Special Province (DIY), Indonesia is growing rapidly. This condition is supported by the emergence of other businesses such as hotels, culinary, fashion, furniture and other creative industries. Beside that DIY known as education city. The purpose of study is examine and analyze the level of business strategy alignment which implemented by digital creative companies in DIY and associated with organizational structure and work processes. Population in this study is leader/manager of digital creative industry company in DIY with sample size target is 200 respondent. After conduct an identification, the respondents who answered the questionnaire completely are 172 respondents. Statistical technique uses *euclidean distance (ED) regression*. The result concludes that there is an alignment between; (1) business strategy (prospector-defender) with organizational structure (organic-mechanic) and work processes (non routine-routine) both in contingency and configuration, (2) prospector strategy with organic structure and non routine work processes both in contingency and configuration, and (3) defender strategy with mechanic structure and routine work processes both in contingency and configuration.

**Keywords:** *business strategy; organizational structure; work processes; alignment.*

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## 1. Introduction

Nowadays, the globalization era makes company must be able to take the challenges and capture the opportunities. The world seems limitless and the science and technology development are unstoppable. There are many ways taken by the company to become a successful company. The automation process, education and training, quality improvement of management, and redesign the organizational structure within the company are the various ways that company can use to save from failure. However, these methods require high costs and sometimes in efficient (April et al., 2006; Kandemir, 2006). The company must be careful in designing and finding business models which implement the appropriate business strategy and should be in accordance with internal and external organization's conditions so the company does not fail. The organization of fit theory states that organizational strategy must be compatible with other factors in order to achieve improved business performance (Galbraith and Nathanson, 1978; Homburg et al., 1999). Therefore, to make an organization has an increasing performance continuously, it is necessary to have an organizational structure and work processes align with the business strategy which implemented by the company.

This study is focused on the digital creative industry which currently grows rapidly in Yogyakarta Special Region (DIY), Indonesia. The digital creative industry is a group of companies that always being dynamic and follow very high and volatile market's demand changes. Digital business in DIY is dominated by software house (21.05%), followed by commerce players (11%), fintech (10%), and digital agency (8%). However, other categories such as travel, education, game house and IoT still can be found. The startup size is majority driven by 2-5 people (36.84%) while the others are

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single player (14.04%) (<https://dailysocial.id/post/temuan-menarik-tentang-startup-di-yogyakarta-tahun-2017>, accessed on May 10, 2018). IT companies are competing each other. Every year, new IT companies appear inside and outside DIY and even from abroad. This competition should be considered as a good opportunity so that each company will be motivated to have superior performance compared to its competitors. The purpose of this study is to test and analyze the alignment between business strategy, organizational structure, and work processes of digital companies in DIY. The alignment concept uses the ideal relationship of typology that has extreme continuum differences and being analyzed from the aspect namely: business strategy (prospector Vs defender), organizational structure (organic Vs mechanic) and work processes (non routine Vs routine). The impact is if there is an alignment business strategy with contingency variables such as organizational structure and work processes, it will be able to improve business performance increasingly.

## 2. Literature review and hypotheses. Business strategy, organizational structure and work processes

Organizational strategy typology that used in this study refers to competitive strategy proposed by Miles et al. (1978) namely; prospector and defender. The prospector strategy has characteristics; always wanted to be a pioneer in the creation of new products/services, emphasize innovation and creativity, doesn't care with the efficiency, find and earn external resources expansively, and environmental uncertainty are very high. While the defender strategy has characteristics; concern with efficiency, maintain and protect market share from new competitors, require formalities and centralization, rarely to innovate and environmental uncertainty easy to predict (Muafi, 2009a). Kumar, et al. (1997) says that Miles and Snow's strategy is similar to Porter's generic strategy (differentiation and cost leadership). Prospector (Miles and Snow) is similar to Differentiation (Porter). Defender (Miles and Snow) is similar to cost leadership (Porter). Cost Leadership and Differentiation are mutually exclusive. If both are combined, there will be stuck in the middle because they are contradictory but if each strategy is combined with a focused strategy then Hybrid will occur. It does not mean that stuck in the middle conditions cannot happen. Hlavacka, et al. (2001) adds that 'Porter's generic strategies are not mutually exclusive and each strategy can be linked to other various strategies' (Muafi, 2009a, Muafi, 2009b). This study uses two typologies of organizational strategy prospector and defender because these two types of strategies have firm characteristics so they can be used to deal with the demands of external environment (Doty et al., 1993; Muafi, 2009a). The two of internal organizational variables that should have align with organizational strategy is the organizational structure and work processes within the organization.

The changing business environment requires organization must be able to design their organizational structures efficiently and effectively. This is important because it involves individuals and groups behavior within the organization. Robbins (1990) and others authors (Steers, 1977, Muafi, 2009a, Szczepańska-Woszczyna, 2014, Pacana and Ulewicz, 2017) recommend when managers design an organizational structure, there are several points to consider, including; job specialization, departmentalization, chain of command, span of control, centralization, and formalization. The change of business strategy in the company requires company to make adjustment with organizational structure and other contingency variables that affect the achievement of business performance (Muafi, 2009a, 2009b, Kovács, 2017, Shpak, et al., 2017). The previous studies have concluded that companies that have organic structure will be alignment with the prospector strategy, and companies with mechanical structure will be alignment with the defender strategy, which will enhance the company's performance (Muafi, 2009a, Robertson and Chetty, 2000). The mechanical structure emphasizes the importance of achieving high-level production and efficiency, formality, the low specialization of the labor force, and the presence of centralization. While the organic structure emphasizes the importance of achieving adaptation, flexibility, specialization of labor amount and high-level centralization. This organization's design relies less on existing rules and procedures (Robbins, 1990; Robertson and Chetty, 2000; Muafi, 2009a). Chandler (1962; Kavele, 2012) says that the organizational structure should follow the organization's strategy because the organization's strategy is the direction to achieve the goal and must be supported by the organizational structure. The organizational structure must be integrated with the company's strategy to achieve the organization's vision, mission, and goals.

Related with work processes, Garcia (2014) simply defines a "process is a series of actions or activities that combine to achieve an end or outcome". Work processes is very important process in the process of creating the internal value of a product/service which offered by the company. The working process include product design and delivery, customer support, supply chain management, business, and support from multiple processes. This condition requires core competencies of the organization in order to have a relative success compared to competitors who are all oriented to customers, stakeholders and stockholder value ([http://www.baldrige21.com/BALDRIGE\\_GLOSSARY/BN/Work\\_Processes.html](http://www.baldrige21.com/BALDRIGE_GLOSSARY/BN/Work_Processes.html), accessed on May 10, 2018). According to Ringrose (2018, in <https://www.promapp.com/resources/10-best-management-practices-for-work-processes/> accessed on May 10, 2018), there are some management practices that can conduct to improve the work processes, such as; (1) design and document core processes, (2) monitor and control the control process to ensure service standards to be consistent; (3) monitor and control the control process to ensure the service standard system to be consistent (eg quality, work environment, health & safety; (4) anticipate or adapt to changes, (5) take corrective action when problems occur; (6) prevent recurrence of problems when there are process changes; (7) analyze the process regularly and make changes which aimed at continuous improvement; (8) communicate the process changes to all employees who involved in the process; (9) involve the customers, suppliers, and/or partners in designing and analyzing processes; and (10) use the external data to compare performance with other organizations.

Garcia (2014) adds that when the work processes is consistent or systematic, the characteristics of the result will be more predictable and controlled. If this condition occurs, the work processes performance quality will be easily guaranteed, so it will be able to improve the growth and sustainability of the company's business. Working process requires different tasks and expertise/skills. Garcia (2014) suggests that work processes in business should be mapped. It is important because it will be useful for; (1) understand the entire flow process, if no one has a complete view, (2) facilitate new employees, (3) identify improvement in response to external or environmental threats, (4) identify improvement of project targets which need to be improved, (5) understand the stakeholders, market share, or supply chain impacts in strategic planning, (6) provide insight into new functions about how work is conducted, (7) identify quality control issue to understand better and improve the process, and (8) require mapping process from organizational functions and processes on merger and acquisition activities.

Kandemir (2016) concludes that the outcome of the work processes relies heavily on the tasks assigned to the employees. Managers must select employee's competency to fit their workload to minimize the average duration of a work process while keeping employees below the workload threshold to prevent errors caused by overloading. This is important for organizations to improve performance, manage excessive workloads, and produce a satisfactory environment for employees, without modifying the structure of a work processes itself (Kandemir, 2006; Kamrani et al., 2012, Smolağ, et al., 2015, Ďuríková and Seková, 2016). Valle et al. (2000) divides the work processes with two extreme approaches namely routine and non-routine work processes. Routine work processes is characterized; repetitive and predictable, cooperation and interdependency, demand quality standard, require to take decisions involving risk, application of little expertise and skill. While non-routine work processes characterized; creative and innovator, long term results, autonomy, undemanding, no risk, considerable expertise and skill needed. Valle et al. (2000) conclude that routine work processes tend to adopt mechanical training models that use defender's strategies, whereas non-routine work processes tend to adopt organic training models that employ prospector's strategies.

*H1. By contingency, the higher the level of business strategy alignment (prospector-defender) and organizational structure (organic-mechanic), the higher the business performance, vice versa (bivariate fit).*

*H2. By contingency, the higher the level of business strategy alignment (prospector-defender) and work processes (non routine routine), the higher the business performance, vice versa (bivariate fit).*

*H3. By configuration, the higher the level of business strategy alignment (prospector-defender) with organizational structure (organic-mechanic) and work processes (non-routine), the higher the business performance, vice versa(multivariate fit).*

*H4. By contingency, the higher the alignment level of the prospector strategy and the organic structure, the higher the business performance, vice versa (bivariate fit).*

*H5. By contingency, the higher the level of alignment of the prospector strategy and non routine work processes, the higher the business performance, vice versa (bivariate fit).*

*H6. By configuration, the higher level of alignment of prospector strategy with organic structure and non routine work processes, the higher the business performance, vice versa (multivariate fit).*

*H7. By contingency, the higher the level of alignment of the defender strategy and the mechanical structure, the higher the business performance, vice versa (bivariate fit).*

*H8. By contingency, the higher the level of alignment of the defender strategy and the routine work processes, the higher the business performance, vice versa (bivariate fit).*

*H9. By configuration, the higher the level of alignment of the defender strategy with the mechanic structure and the routine work processes, the higher the business performance, vice versa (multivariate fit).*

### 3. Research methods

This study was conducted on digital creative industry in DIY Province, Indonesia. The number of digital creative companies in the DIY region is huge and always growing. The population in this study is the overall leader/manager of digital creative company in DIY. The sample size is targeted to 200 leaders/managers and chosen purposively. After the identification, the total of respondents who answer the questionnaire completely is 172 leaders/managers. This study uses a system approach by analyzing the effect of ideal type alignment of business strategy variables (BS) (prospector Vs defender), organizational structure (OS) (organic Vs mechanic) and work processes (WP) (non-routine Vs routine) related with business performance (BP) (Van de Ven and Drajin, 1985; Muafi, 2009a; Muafi, 2009b; Selto and Renner, 1995). The business performance in this study is based on the perception of the leaders/managers on the company's performance which they lead compared to the average industry of similar companies with indicators; ability to gain profit in the long term, sales growth, job satisfaction, organizational capability, work adaptation and service quality. Statistical technique using euclidean distance (ED) regression and one way Anova with SPSS software. The uniqueness of the ED regression is the greater the ED score means the alignment between the variable is smaller (the distance between the variables is closer) so that it will negatively affect the performance, and vice versa. In this case, the number of regression coefficients sought is negative and significant. While, one-way Anova is used to analyze the differences of business strategy group between prospector and defender. The scale of measurement of organizational structure variable and work processes is using semantic scale with score 1-7. This scale is recommended for two different typologies (Cooper and Schindler, 1997, Muafi, 2009a, Muafi, 2009b). For business performance, researchers are using Likert scale with score 1 (very low) to 7 (very high). The result of the whole respondents is organizations that used the prospector strategy (code 1) was 111 companies (mean score  $\geq$  3.5), while the rest (average score  $<$ 3.5) of 61

organizations using defender strategy (code 2). The result of calculation with one way Anova is significant F value (sign = 0.000), it means there is significant difference between group of prospector strategy and defender. The results of validity and reliability test item questionnaire of all variables are valid and reliable.

#### 4. Research results

Majority the leaders/managers have Bachelor degree (52%), the business form is CV (53%), have 5-10 employees (61%), and using their own funds for establishment and management (56%).

##### *Regression Analysis for Overall Strategy (Prospector and Defender)*

The result of t test in Table 1 turns out to conclude that the significance <0.01 so that hypothesis to 1 till 3 is accepted.

Table 1. Overall strategy test results (Prospector and Defender n = 172)

Regression Equation Model	Coefficients (B)	Std Error	t	Sign	Decision
Y = a + b dist (OS.BS)+e	-.591	.069	-8.57	0.001	H1 accepted
Y = a + b dist (WP.BS)+e	-.367	.051	-7.19	0.000	H2 accepted
Y = a + b dist (OS.WP.BS)+e	-.441	.038	-11.60	0.002	H3 accepted

Similarly, the t test results in Tables 2 and 3 yield the same conclusion that the significance <0.01 so that the hypothesis to 4 to 9 is accepted.

Table 2. Prospector strategy test results n = 111

Regression Equation Model	Coefficients (B)	Std Error	t	Sign	Decision
Y = a + b dist (OS.BS)+e	-.411	.081	-5.07	0.003	H4 accepted
Y = a + b dist (WP.BS)+e	-.225	.023	-10.22	0.000	H5 accepted
Y = a + b dist (OS.WP.BS)+e	-.247	.041	-6.02	0.000	H6 accepted

Table 3. Defender strategy test results n = 61

Regression Equation Model	Coefficients (B)	Std Error	t	Sign	Decision
Y = a + b dist (OS.BS)+e	-.122	.052	-2.35	0.005	H7 accepted
Y = a + b dist (WP.BS)+e	-.247	.033	-7.48	0.000	H8 accepted

#### 5. Discussion

It is known that the whole hypotheses is accepted. The findings proved that there is alignment between business strategy both prospector and defender with organizational structure and work process. It is indicated generally that these findings support the contingency and configuration approach. This result also supports the research and opinion of Delaney and Husehild (1996; Richardson and Thompson, 1999; Priyono, 2004) that is 'a successful strategy relies on external or vertical and internal/horizontal compliance' which must complement and encourage each other. In the implementation of business strategy (prospector and defender) it turns out the company has been consistent in designing the organizational structure and work processes that exist. Business performance will increase when organizational structure both organic and mechanic in accordance with selected business strategy. It also applies to non-routine and routine work processes. It is proven that the growth of digital industry in DIY is increasing from year to year, there are even foreign companies that compete in the industry. This indicates that its market share is still wide open for both new players (start up) and old players.

Further, both the prospector and defender strategy respectively, it was found that there is a match between the prospector strategy with organic structure and non routine work processes, vice versa. This result supports Robertson and Chetty's finding (2000, Muafi, 2009a; Valle, et al., 2000). It should be remembered that the configuration model in organizational fit theory says that "if there is a corresponding relationship between organizational strategy, organizational structure, system and organizational culture, it will be able to reduce internal barriers for the organization to have superior performance" (Galbraith and Nathanson, 1978; Priyono, 2004). Similarly, it was found that contingency with the choice of organic structure and non routine work processes has been in accordance with the prospector strategy that has been implemented by the company. It is reasonable given the level of intense competition makes them have to act quickly and aggressively without considering the formalization, rules, procedures that exist, and the centralization of authority. However, in a different perspective, it was found from the interview's results with some of the leaders of the company that the tightness of the existing level of competition makes them need to be careful in making decisions related to business run. They remain guided by high-level production and efficiency, formality, rules and centralization because they generally fund their own business (self-funded = 56%), business stages are still in the level of product development (51%) rather than market development, and have not been dare to follow the trend because they still have business as usual principle (52%). These results reinforce study findings from Jogja start.up (<https://dailysocial.id/post/temuan-menarik-tentang-startup-di-yogyakarta-tahun-2017>, accessed on May 10, 2018). The results also reinforce the study findings of Valle et al. (2000) that routine mechanical structures and work processes are

more subject to them because they are in line with the defender business strategy which implemented. They are more concentrate on systematic and routine work processes as well as patterned and align with the employee skills. All are oriented for long-term profit improvement, sales growth, job satisfaction, organizational capability, work adaptation, and service quality.

## 6. Theory and managerial contributions

This study has contribution to theory namely; (a) the organization needs to approach the ideal type of configuration and contingency between the business strategy-the contingency variable (organizational structure-work processes) so that further can improve the overall business performance, (b) the organization needs to be consistent in implementing the strategy by considering other factors in internal management organization to achieve more business performance and (c) difference strategy election will influence difference perception of company leaders to contingency variable which influenced it. While this study gives managerial contribution, such as; (a) management should pay attention to strategic issues affecting the company's business strategy to boost its performance. The strategic issues must be identified and analyzed then adapt with their business strategy, so as it can improve their business performance, and (b) need to design the right organizational structure and work processes so that the company can be more effective and efficient in operating and oriented to the achievement of its business performance.

## 7. Limitations and future research

This study does not distinguish the form of business entity so that sometimes the perception of respondents to the variable still requires detailed explanation and intensive mentoring because the level of leaders / managers education diverse so it can confusing in perceiving the submitted questionnaire. Besides that, this study uses static approach because it does not examine the strategy change from time to time, so it is necessary to consider the dynamic approach using longitudinal study although it requires high cost and long time (Priyono, 2004). In the framework of organization fit theory, there are many other variables that can be considered in models such as environmental uncertainty, HR practices, organizational culture, role behaviors, and other contingency variables.

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