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Managing Organizational Stretch to Overcome the Uncertainty of the Great Recession of 2008

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MANAGING ORGANIZATIONAL STRETCH TO OVERCOME THE UNCERTAINTY OF THE GREAT RECESSION OF 2008

Abstract

Purpose - This paper aims to address issues related to organizational design and strategy fit by examining the "strategic stretch" that occurs when there exists a mismatch between an organization's structure and firm-level strategy.

Design/methodology/approach - The paper contains a discussion of relevant issues and a presentation of research that considers the relationship between organizational design, strategy selection, and the competitive environment within a firm operates. This 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 because of Russian managerial proclivity to maintain direct control through centralization of all strategic formulations and because of high risk taking behaviors of Russian managers. While organizational inertia is a clear driver of organizational structure, cultural inertia also exists and in the case of Russian organizational design; societal organizational culture drives strategy misfits.

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 changes. The results of the analysis of Russian firms suggest 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 positions should make clear whenever they attempt to eliminate misfits between existing structures and current strategies develop effective stretch for implementation of intended strategies.

Originality/value – The paper provides a unique application of the connection of strategy and organizational 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; 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 exists a mismatch between organizational structure and firm level strategy. Through examination of the dynamic Russian business environment and the rapid changes in which corporations have been involved during the financial crisis of 2008/2009, it is clear that firms face a strategic stretch dilemma and that strategy/structure misfits lead to serious sustainability complications. Building on the methods of Burton, DeSanctis, and Obel (2006), we first test strategy and structure misalignment and build an expanded theoretic framework to explain the interaction between competitive positioning, structure, and strategy selection. We develop a theoretical framework concerning firm strategy and organizational design and then outline a data set and methodology of analysis to test the framework. We examine the results and propose a final framework for firms to determine the overlap between strategy selection, organizational design, and competitive situation.

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

Burton et al. (2006) empirically tested the Burton and Obel (1995) multi-contingency model for strategic organizational design and found that firms with situational or contingency misfits experience losses in return on assets compared with firms without misfits. (Haakonsson et al., 2008) found additional evidence that misalignments between climate and leadership style are problematic for organizational performance; they support the theory that managerial actions are necessary to manage particular types of business climates. Suggested by both the theoretical literature and empirical results, fit is crucial for firm performance and losses originate from misfits.

Extant research incorporates the impact of the business environment on the relationship between strategy, organizational design, and performance. (Covin and Slevin, 1989) suggest 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. Conversely, in non-hostile environments, performance was positively related to a mechanistic structure, a conservative strategic posture, and a competitive profile characterized by conservative financial management, a short-term financial orientation, an emphasis on product refinement, and a willingness to rely heavily on single customers. Payne's (2006) analysis of the connection between organization design and performance suggest that greater organizational deviation from optimal organizational design results in lower financial performance. While investigating the strategic planning role of a firm and firm performance, further research (Glaister et al., 2008) found that organizational 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 suggested that top management characteristics partially play a key role in organizational outcomes, strategic choices, and performance. This upper echelons perspective (Hambrick and Mason, 1984) suggests that types of managerial experience predict future strategic decisions. CEOs play a key role in organizational design. Lewin (1994) proposes that archetypes exist with regard to CEO characteristics and organizational design. In the case of Russian firms, top executives play a crucial role concerning strategic selection and organizational design; organizational inertia dominates the framework for organizational design and change. Results from our surveys of top executives suggest that for Russian firms, their role is crucial for initiating and implementing organizational change. In both surveys and case studies of Russian firms, it is clear that top managers are the ones that make changes and use organizational change as a means to implement other systematic goals to overcome institutional inertia and the mindsets of employees.

This paper contributes to strategic fit theory by using Bowman and Faulkner's (1994, 1997) model of firm competitive position to determine if variations in firm level competitive position explain strategic fit variation. Bowman and Faulkner (1997) developed a firm competitive position model based on Porter's (1980) firm-level strategy framework. The competitive position of a firm is based on competition on price or quality (Porter, 1980) and the aggregate actions of market participants determine level of success; therefore, the competitive position of a firm is based on customer purchasing decisions. As a theoretical advancement, we propose that top managers utilize strategic stretch as an organizational tension to redirect efforts within their corporation. As we examine the misfit between strategy and organizational design, we propose that dynamic strategic misfit causes a change in firm level action. Top managers use this stretch to implement their aspirations of adopting more dynamic strategies and organizational frameworks.

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. Lorsch (1975: 1) offers the classic definition as, "the design of the organization is composed of the structure, rewards, and measurement practices intended to direct members' behavior towards the organizational goals." Since corporate and competitive strategies are also merely actions to ensure the achievement of organizational goals, the close link between strategy and design of the organization is, at least in theory, obvious. However, their coincidence is not automatically assured; the notion of misfit appeared immediately when the link between strategy and design was suggested. Strategy is believed to be more volatile and dynamic than structure, rewards, and measurement practices; Usually affected by organizational inertia, organizations attempting to embark on a new strategy usually face numerous misfits with current organizational design. However, the reverse view may also be appropriate. The design of the organization is intentionally changed before implementing the new strategy. Such a situation of provoked strategic stretch (Hamel and Prahalad, 1993) should create the necessary level of "guided disarray" to facilitate the development of innovative actions necessary for implementation of a new strategy.

Thus, strategic misfits can be viewed as an eternal companion of organizational life. The absolute number and magnitude of misfits may be lower in calm periods but increase in crisis situations when the search for new strategies becomes necessary. At the same time, the very notion of misfit requires a clear definition of the parameters of fit as any pathology requires a reference to the organism's normal state. Ever since the development of available business organization strategies within the limited number of strategic types (Miles and Snow, 1978), there have been continued efforts to understand which organizational characteristics may be called normal for a particular strategic type. Researchers systematized such efforts (Burton and Obel, 1995; Burton and Obel, 1998; Burton and Obel, 2003; Burton et al., 2006; Burton, DeSanctis, Obel, 2006) designing 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 levels for each strategic type in Miles and Snow's (1978) typology (see Table 1).

Even this oversimplified model offers advantages in consistency and visualization of potential misfits and may be considered a serious advancement. However, we note that two weak points remain in the model. The first weakness lies in quantification of strategic type. Miles and Snow based the original typology 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 typology with more observable parameters. Burton and Obel (1995) created the diagnostics of strategic types that is based on a series of parameters - concern for quality, level of product and process innovations, 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

Using parameters of competitiveness, Gurkov (2007) proposed a model that allows predicting of the Miles and Snow strategic types of a firm. Initially, a model for depicting a firm's strategy along four variables of competitiveness - level of price, level of quality, level of unit cost,; level of key competences - was developed by Bowman and Faulkner (1997). The model did so by positioning the firm in producer (competences versus unit costs) and customer matrices (perceived use value versus perceived price) but the authors did not relate the model with Miles and Snow's strategic typology. In our model, strategy types are predicted by a particular combination of relative levels of competitiveness factors including:

1. the combination of high unit costs, low competences, low quality, and low price signifies the strategic position of Reactor**.**
2. low unit cost together with low competences, low quality, and low price indicates the strategy of Defender of Costs.
3. a position of high unit costs, high quality, high competences, and high prices again marks a Defender, but a special type called Defender of Quality
4. a position of low quality and high prices marks the use of monopolistic power, thereby making the company a Defender of Market Position.
5. low unit costs, high competences, high prices, and high quality indicate the likely outcomes of an Analyzer's strategy;
6. low unit costs, high quality, high competences, and low prices signify the attempts of the firm to pursue the strategy of Prospector (see Table 1).

Generally, the higher the relationship between the relative quality and relative unit costs, the greater the chances for the firm to take the position of Analyzer or Prospector.

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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	*Group* Mutual trust – high Readiness to change - low	*Internal processes* Mutual trust – low Readiness to change - low	*Rational goals* Mutual trust – low Readiness to change - high	*Developmental* 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 (Burton, DeSanctis, Obel, 2006)

The described model of competitive positioning was tested in a large-scale survey in Russian enterprises where the proposed combination of competiveness parameters was found to predict innovativeness well (Gurkov, 2007). This model has three salient advantages. First, it enables us 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 competitiveness parameters. Thus, we may see the real strategy implemented 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 latter move may become prevalent when the macroeconomic conditions objectively worsen the strategic positions of particular segments or whole industries. The third advantage is related to easy closing of the gap between competitive and corporate strategies that are often unnecessarily separated. Indeed, all possible corporate strategies (diversification, horizontal/vertical integration) may be viewed as either measures of strategic type changes of the existing business or as change measures of the composition of the 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 implementing 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 interconnections between the parameters of current organizational design and the current and perspective positioning of companies. This means that the dynamics of fit should be re-considered as fits of dynamics. For example, a particular organizational parameter may already be inconsistent with the point of departure - the current strategic type - but consistent with the point of destination - the desired and approach by strategic actions strategic types.

Repositioning of Russian companies after the financial crisis

In an article from Gurkov (2009a), the consequences of the recent financial crisis for Russian firms were presented as a major repositioning of Russian companies along all the four measures of competitiveness. The 30% devaluation of the local currency versus the Euro and American dollar from October to December 2008 made imports more expensive; the sharp cost of capital rise, the possibility to use foreign credit that disappeared, and the fall in capacity utilization all provoked raises in unit costs. As absolute prices remained stable, perceived prices (the percentages 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 consumers, it 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, the reverse relationship should be considered as well – the level of perceived price justifies the demand for particular features of goods and services.

As perceived prices increase, customers are eager to demand an increase in quality. Even if the absolute product characteristics remain the same, customers are inclined to perceive deteriorated use value. Recall here the hidden source of all particular measures of company competitiveness - the company's competences. During times of rapid economic environmental change, the key element of a company's competences is innovative capabilities. In an earlier study, we noted the slow path of Russian firm innovative capabilities accumulation. We observed that such actions as pricing for new products, achieving the necessary quality levels for new products, and selecting a qualified workforce became more difficult between 2000 and 2004 (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 unpredictable changes in market conditions.

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

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Companies trapped in the combination of high costs, low quality, and perceived high prices do not have much time for selection of strategic pathways. Prolonging the situation provokes further erosion of competitive position and endangers the very existence of a company. If for whatever reason a company's owners see no opportunities to alter the situation, they should move quickly out of business by partially or completely selling assets, orchestrating bankruptcy proceedings, or even completely liquidating the company. If the owners opt to continue in business, they face two options. The first and 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 unit costs as well 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 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 try to improve quality up to a level that corresponds to the increased perceived price. The danger here is that, at least initially, investment leads to an increase in unit costs. Since such increases are not covered by corresponding increases in absolute price, the company faces further deterioration in profitability of sales before any positive effects of the investment can be realized.

The options outlined for coping with this crisis are shown in Figure 3 as strategic trajectories along the four dimensions of competitiveness (perceived price, perceived use value, unit costs, and company competences). It is easy to see that Trajectory 1 directs the company toward the strategic type of Reactor while Trajectory 2 directs the company toward the position of Prospector.

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Our research task was to examine which strategic trajectories are currently taking place in Russian firms and how these firms alter organizational design characteristics toward the desired strategy type. We drew the following propositions:

- during the last months of 2008 and early 2009, the majority of Russian companies experienced repositioning of their business;
- during 2009, the companies made a choice in their recovery strategies to move along Trajectory 1 (regaining cost leadership position) or Trajectory 2 (moving toward Prospector's position);
- once the decision is made, the organization design will adjust according to 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, database, and data analysis

We used two major research instruments to combine organizational diagnosis with the current business performance and strategies being implemented to deal with the recession. For organizational diagnosis, we used the questionnaire implemented in the diagnostic software Organizational Consultant version 7.0 from Burton, DeSanctis, and Obel (2006). The questionnaire was translated into Russian and the pilot study for the

questionnaire was carried out in 2007 through 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 approximately 60 questions.

For descriptions of the current business performance and measures taken to deal with the recession, the original instrument 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 from December 2008 to 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 readiness report of the firm to implement various anti-crisis measures (the list of measures were comprised of 22 possible measures from company liquidation and bankruptcy to establishing subsidiaries and acquisition of new firms), and the assessment of popularity of the same measures in a particular industry. That questionnaire included 130 questions.

Since both questionnaires needed to be administered simultaneously - possibly a serious time burden for extremely busy top corporate executives - the survey was administered through an executive education program. Therefore, respondents were 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 a DBA (Doctor of Business Administration) program at the Academy of the National Economy at the Government of Russia. Three main reasons were behind the choice of that program and particular group of students. First, unlike DBA programs in American and European business schools, Russian DBA program (there are only two such programs in Moscow) primarily target medium and large company CEOs who aim to systematize their experience and update their knowledge to the last management trends. We expected that the majority of students in the program occupy positions of CEO. Second, we decided to contact the second year students, the group of executives who began the program in the fall of 2009. We assumed that top executives who opt in the midst of the crisis to embark on a time-consuming and expensive program are the persons inclined to serious anti-crisis measures in their companies. Third, as the initial, diagnostic part of the course, the survey was organically included in a course titled Strategy in Crisis Times. Each respondent expected and received intense feedback on descriptions of his/her particular situation. We expected serious attitudes toward the survey and frankness in answering the questions.

In November 2009, we collected completed questionnaires from 18 CEOs. The size of their companies ranged from 7 to 15,000 employees. The CEOs managed companies in production, services, and in wholesale and retail trade. The questionnaires included detailed questions on strategic measures under consideration or planned for immediate implementation by the companies. Consequently, respondents worried that if such information was revealed or made known to direct competitors, the results might seriously impede the courses of action of the firms. Therefore, scientific use of the data collected was allowed only under conditions of strict confidentiality of company names 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 in the aftermath of the financial crisis. For the observed companies, the data confirmed that proposition. Over the twelve months after the first part of the financial crisis (September 2008), significant increase in unit costs (10 percent 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 percent) fall in both current sales and order backlog.

Besides individual performance difficulties, the competitive landscape had changed. The modal perceived level of competition has moved from moderate to strong (2-tailed significant difference was 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 revealed significant changes in the overall business environment; the environment became more uncertain and hostile. To deal with environmental hostility and to surpass competition, the surveyed companies embarked on two independent sets of measures. The fist set (observed in 50% of the surveyed companies) consisted of development acceleration and market launch of new products. In the majority of cases, this was accompanied by additional investment in research and development (correlation 0.54 between the two actions). The second set consisted of such interconnected measures as saving on equipment maintenance, 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 of two largely independent courses of actions and thus prove our second proposition - the

choice 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 Miles and Snow (1978) model defines the strategic actions not in terms of the relatively objective parameters of a firm's competitiveness but in the subjective terms of the attitudes toward the environment such as exploration of new markets and technological opportunities to outpace competitors and exploit newly discovered opportunities. The sets of recovery measures mentioned above clearly distinguish between explorers and exploiters. The real composition of the selected companies demonstrated extremely clear distribution. Among the 18 companies surveyed, 9 demonstrated strong preference for exploration; the same number (9 companies) showed strong inclination toward exploitation. The relatively high proportion of explorers proves that we were right in addressing DBA students as members of the advanced cohort of the Russian industry leaders.

The current competitive positioning of explorers and exploiters was less spectacular, proving that it is easier to embark on than to implement the recovery strategies. Only 4 among the 9 would-be prospectors have shown superiority in the level of quality over the level of unit costs. At the same time, 5 among the 9 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 of a 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 strong 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 differences 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 in high mutual trust and high-risk propensities of top managers. The greater deficiency of Russian would-be prospectors is low preference for delegation of Russian managers.

In general, we have proven 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 observed organizational characteristics with prescribed ones for the desired strategic types. At the same time, our forth 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.

We tried to discover possible variance in firms' organizational characteristics depending on various external parameters. We found that the type of ownership (defined as sole proprietorship, joint-stock company, or public ownership) is not statistically significant in describing variances in formalization, risk propensity, and some other characteristics. The main type of firm activity (defined as industry, service, and wholesale of retail trade) is also not statistically significant in explaining variance in organizational characteristics. However, the size of the company measured by number of employees (cf. volume of sales) demonstrated statistically significant differences in three organizational characteristics. First, smaller companies (we used the cut point of 150 employees that split the sample into two almost equal parts) demonstrated greater use of inspiration as motivation techniques while larger companies more relied on control. Second, managers of smaller companies had a higher propensity to risk. Third, smaller companies had a lower proportion of rules and procedures in writing.

Discussion

We need to address the question of validity and reliability in this study. The sample used was a small sample of Russian top executives. The selection process was biased

because of self-selection. Due to the difficulty of surveying top managers in Russia, use of DBA students 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 sufficient for the analyses. The executives surveyed are managers of different sized companies involved with various lines of business. In the analyses, we were able to determine that neither firm size nor use of specific, major technologies impeded the implementation of the identified strategic trajectories. Thus, we considered the results sufficiently representative to enable us relevant interpretation.

The most important result was the prevalence of the development of 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 observed in the majority of the surveyed companies was quite surprising. At the same time, developmental climate during the period surveyed strongly contradicts an unwillingness to delegate. Unwillingness to delegate results from a moderate 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, and launching new product of programs all while promotion and rewards of personnel in their departments continued to remain low.

In the analyses, we were able to determine that during the last months of 2008 and 2009, the majority of Russian companies surveyed experienced a repositioning of their business due to an increase in uncertainty and hostility of their environment. Top managers responded to the strategic misfit that arose because of changes in the external business environment. The strategic changes made after the September 2008 crisis and throughout 2009 were based on two possible choices: either regaining cost leadership position or moving toward what we term a prospector's position of seeking new opportunities for product differentiation. Once the strategic choice top managers make about adjusting the organizational design to fit the desired strategy type was made, there will be only moderate misfit 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.

Organizations are reflections of their top managers. As Hambrick and Mason (1984) explained in their upper echelon theory, the leadership qualities, management styles, personal backgrounds, and experience of top management have a significant impact on organizational design and strategy selection. Our analyses extend this upper echelon idea by including aspirations of the top managers to create organizational change with misfits and

strategic stretch. The Great Recession of 2008 created a unique moment for analyses of firm repositioning through reformulation of strategy and organizational change. The financial crisis unfroze organizations and managers have been forced to change their strategies. To reach a point of recovery, we propose that top managers have used misfits of strategy and organizational design to pull companies toward this new position. Time will tell which firms have successfully utilized this moment for repositioning.

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 represents 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 executives play in setting limits for organizational change. Top executive cultural and historical predications of formalized decision-making and centralized organization of Russian managers dominate organizational design even when this results in a strategic misfit.

Conclusions and suggestions for further studies

Our analyses suggest that greater emphasis should be placed on incorporating the specific parameters of national organizational culture in organizational examinations. In developing their applied tools for organizational analysis, Burton, Obel, and their associates have acknowledged this idea. For example, the latest versions of Organizational Consultant software (version 9.0 and subsequent) have incorporated a complement of questions on national culture that follows Hofstede's (1980) parameters such as power distance, uncertainty avoidance, masculinity, and individualism. However, for the purpose of applied organizational examinations and discovering the real misfits, further work on national organizational culture should be done. For example, our research on Russian companies demonstrates the coexistence of high uncertainty avoidance and high-risk propensity of top executives. Much work also needs to be done on tuning of centralization parameters and formalizations that are 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 traditional strategy literature (Porter 1980, Covin and Slevin 1989, Zajac et al. 2000, Burton et al. 2006, Payne, 2006, Haakonsson et al. 2008) focuses its attention on eliminating strategy and organizational design misfits to improve firm performance. We propose a different approach for times of high uncertainty and in conditions of culturally

induced organizational inertia. The second conclusion is related to the 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 new, more innovative strategy types. In such situations, both top managers and consultants face clear dilemma - either eliminate the misfits between the current strategy and organization or design organizations that better correspond to the desired strategy types by temporarily creating new misfits. By clarifying this issue, we will be capable of assisting organizations in mastering deep strategic changes.

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Notes:

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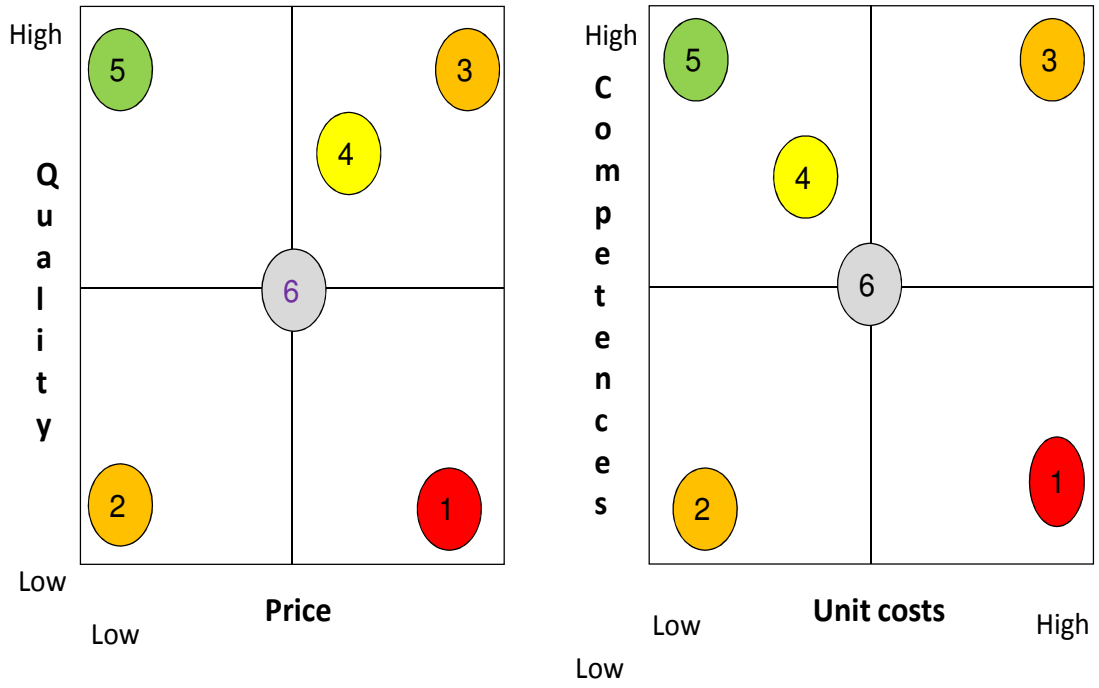
Figure 1. Strategic types and their competitive positioning



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

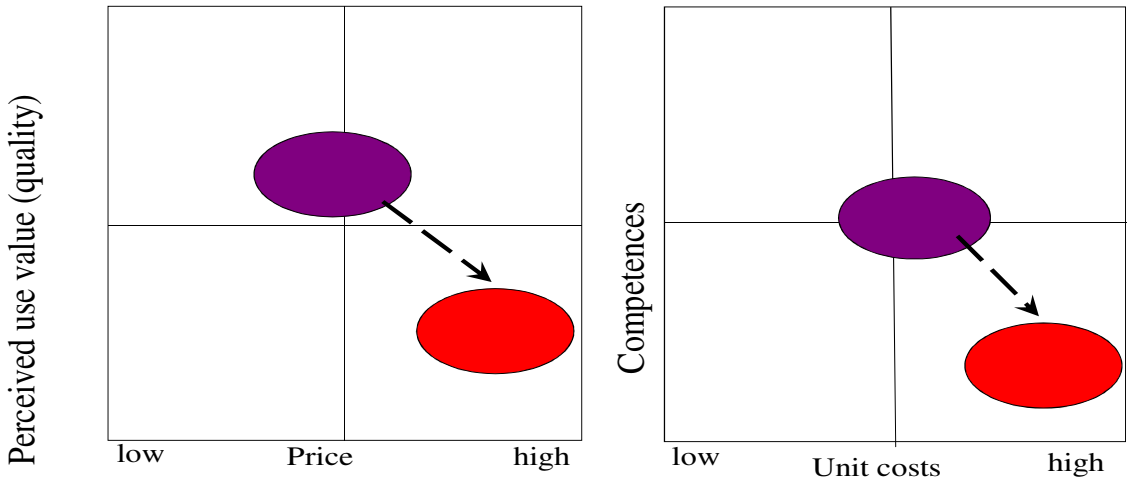


Figure 2. Repositioning of Russian companies in the aftermath of the financial crisis

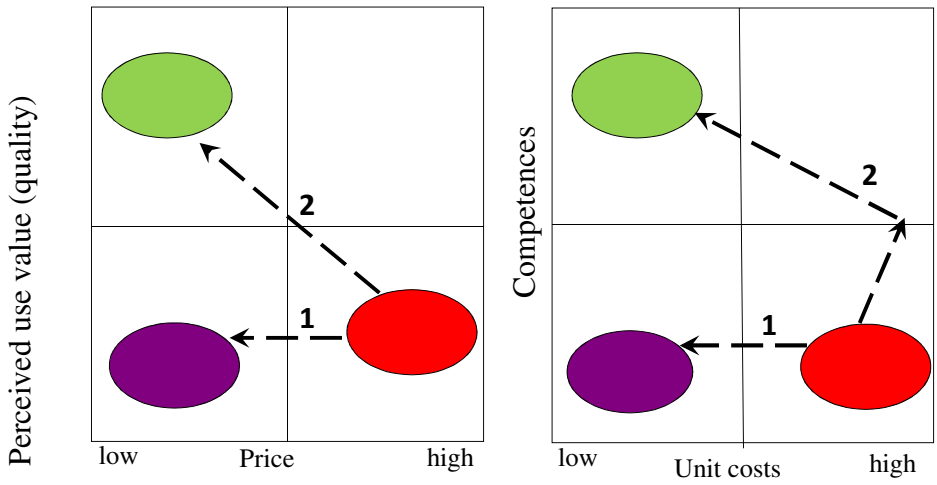


Figure 3. The choice between cost leadership (Trajectory 1) and differentiation (Trajectory 2)