

CHAPTER 17  
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# Measuring co-alignment

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## Introduction

Traditionally, understanding how firms can outperform their competitors was the focus of researchers in the field of strategic management (Barney, 1991; Porter, 1980, 1985). Conversely, in today's dynamic and uncertain environment, strategy is about achieving sustainable competitive advantage (Olsen *et al.*, 1998). Moreover, what the literature does not offer is a comprehensive business model, developed empirically, that offers managers a blueprint to accomplishing sustainable competitive advantage. Instead, the literature offers a number of schools of thought about strategy, but little in the way of a comprehensive model (Mintzberg *et al.*, 1998). This paper attempts to address this situation using the co-alignment theory of strategy as the underpinning to this effort.

The concept of fit or alignment has been offered by scholars as a way of achieving sustainability. Researchers such as Fuchs *et al.* (2000), Powell (1992), and Olsen *et al.* (1998) view the alignment between the environment of the firm, strategy choice, firm structure, and firm performance as the primary approach to sustainability. Their conclusions resulted from a variety of research approaches across different contexts, often testing the financial consequences of organizational alignment in concert with the effects of industry market share, generic strategy, and strategic membership group.

The co-alignment theory suggests that, to gain competitive advantage, firms must identify the opportunities in the forces driving change in their environment. Firms should invest in competitive methods that take advantage of these opportunities, and allocate resources and capabilities to the competitive methods that have the ability to create the greatest value and the financial returns desired by owners and investors (Olsen *et al.*, 1998). According to Olsen *et al.* (1998), because of the complexity and the dynamism of the hotel industry's environment, the competitive methods utilized must reflect the environmental forces present. These competitive methods are value-adding dimensions of the firm's overall strategy (Olsen *et al.*, 1998).

In trying to conduct research relative to the entire co-alignment theory, the researcher is faced with many challenges. First, strategy is a dynamic process that involves decision making by executives who are subject to both objective and emotional dimensions in guiding firms forward. In addition, firms are subject to contextual forces, both internal and external, which can change the strategic direction of the business on short notice. Thus, research into the relationships among all four constructs must reflect these conditions often ruling out the

use of coarse-grained, cross-sectional, and quantitative methodologies. The researcher really must enter into the domain of the firm and study it in depth in order to understand the complexities and nuances of the situation and do so ideally over a longitudinal basis. This necessitates qualitative, interpretive research methods.

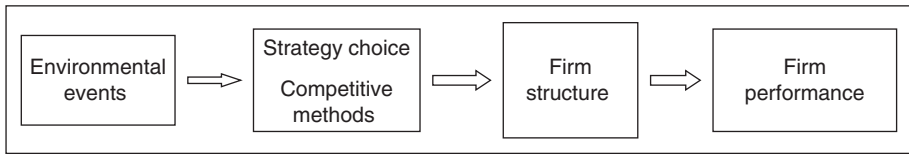
In addressing these theoretical and methodological needs, this paper reports the result of a multiple case study of five hotels testing the application of the co-alignment theory in the context of the Jamaican hotel industry. The purpose of this study was to understand the types of competitive methods used by independently owned (non-chain affiliated) hotels in Jamaica, in their bid to obtain and sustain competitive advantage, and to test whether there was co-alignment with the environment, strategy choice, and firm structure, leading to improved firm performance. Measures were also developed to actually estimate the degree of co-alignment among the firms in the research study.

## Literature review

The co-alignment approach is not new to strategic management research. In fact, it predated the positioning approach, which dominated the 1980s (Powell, 1992). Since then, the main foci of strategy research over the past two decades are the positioning concept, which is market oriented (Porter, 1980, 1985) and centres on the external positioning of the firm against its competitors, and the resource-based view (RBV), which is operational (Barney, 1991) and focuses on the execution of the strategy (Fuchs *et al.*, 2000). Although the desired end result for firms adopting one or both concepts is to gain competitive advantage, according to Fuchs *et al.* (2000), both views developed independently of each other.

Fuchs *et al.* (2000), Olsen *et al.* (1998), and Powell (1992) have attempted to address the gap between the external (marketing and positioning) and internal RBV theories on sustained competitive advantage in the literature by showing how alignments within certain elements in the organization can be a source of sustainable competitive advantage. The alignment to be achieved comes from matching the forces driving change in the environment; the strategy choices made by the enterprise, firm structure (how it allocates resources), and firm performance (Figure 17.1).

Olsen *et al.* (1998) applied the co-alignment theory to the context of the hospitality industry. They developed a co-alignment



**Figure 17.1**

The co-alignment principle.

model that demonstrated the importance of the alignment with all elements of the strategic management concept. In addressing the importance of the co-alignment theory, Olsen *et al.* (1998) suggested that for organizations to be successful, they must marry their competitive methods or company's strategy with the opportunities and threats created by the forces driving change and allocate resources accordingly.

As the model suggests, the first construct is the environment of the firm. This environment is generally grouped into two categories—the remote and the task environments. The manager is expected to develop an environment scanning system to gather information about what the firm should be investing in to take advantage of the opportunities presented by these forces and avoid threats that may be posed.

The strategy choice construct refers to the competitive methods firms invest in to achieve their objective, and the choices made are based on environmental scanning activities. Also, the competitive methods chosen are the ones that generate the highest levels of cash flow for the firm (Olsen *et al.*, 1998). According to Olsen *et al.* (1998), in the hospitality industry, competitive methods are made up of portfolios of products and services designed to bring the unique resources and capabilities (core competencies) of the firm together in order to achieve competitive advantage.

The term “firm structure” in the co-alignment model refers to the ability of the firm to effectively implement its strategy. Olsen *et al.* (1998) define strategy implementation as the “the process of allocating resources on a consistent basis to the products and services that produce the highest levels of cash flow to equity and will continue to do so well into the future” (p. 206). They also suggest that before resources can be allocated, an internal analysis must be done to identify the core competencies of the firm (this is consistent with the RBV of the firm).

Firm performance is measured by both financial and behavioural measures. The assumption is that an evaluation of the firm's performance will reflect the most valuable competitive methods. Snow and Hambrick (1980) suggest that the

performance of a firm may vary according to whose viewpoint is taken, the time period observed, and the criteria used. However, it is generally agreed that cash measures are better predictors of success in hotels (Murthy, 1994). Using cash measures can depict the added value provided by each competitive method to the firm's total cash flow.

The most comprehensive studies on the co-alignment theory in the hospitality industry were published by the International Hotel and Restaurant Association in 1995 and 2000 (Olsen, 1997; Olsen and Zhao, 2000). The White Papers reported the competitive methods utilized by multinational hotel companies over two periods of time during the 1990s. They were based on secondary research and were industry-wide studies addressing generic forces driving change and firm responses to these forces. The key events in the environment were examined, the competitive methods employed identified, and their performance analysed (Olsen, 1997). Using secondary data, Olsen (1997) was able to identify the forces driving change and analysed how firms reacted to the changes and their subsequent financial performance. While inferences were made with respect to co-alignment, no actual measures of this construct were utilized.

Given the supportive evidence to date in favour of co-alignment, in both the hospitality literature and the general literature on strategy, this study set out to address the following guiding proposition:

Firms that achieve greater alignment between competitive methods and firm structure, contingent on the objective of the owners, perform better than those that did not.

Three constructs of co-alignment were used to test this proposition—strategy choice, firm structure, and firm performance. The first construct of the co-alignment theory—the environment—was taken into consideration. The assumption was made that because Jamaica is an island nation, hotels are subject to similar environmental forces emanating from the remote and task environments of the firm, and should therefore be held constant. Holding the environment constant suggested that the same forces in the remote and task environment affected all the hotels equally.

## Methodology

Five independently owned and operated resorts in five different tourist resort locations in Jamaica were used as a part of a case study to investigate a way to measure alignment. The

idea was to test whether the co-alignment model applied to different types of operations. Because of the lack of information that would allow for the isolation of the cash flow streams associated with each competitive method, matrices were used to measure the degree of co-alignment between the resort's competitive methods and the core competencies.

## Data collection

At each resort, the general manager/managing director was interviewed along with other key managers (food and beverage director, rooms division manager, human resources manager, marketing and sales director, and the financial controller). The same questions were asked at each interview. Each interview was supplemented by direct observations of managers and employees at work and their actions and reactions in regards to the implementation of the competitive methods.

Surveys were administered to current guests to capture how the guests viewed the resort and their perception of the competitive methods employed (Table 17.1). Specific questions on the resort's competitive methods were developed based on the answers received from management during the interviews. Information collected from secondary data was also used to verify information collected from the interviews.

## Matrices

To test the degree of co-alignment between the resorts' competitive methods and core competencies, information collected at interviews, direct observations, secondary data, and comments listed on the guests' surveys were entered into matrices to show the relationships and assess the alignment. Each entry into each cell reflected whether or not the evidence gathered in the research process demonstrated alignment. If the evidence was present, it was assigned a point value of 1, and each cell had the potential of four points (one point for supportive evidence found in each of the following: for appearing in the interviews, secondary data, guest survey comments, and direct observations). Points received were divided by the total possibilities (Table 17.2 for an example of the matrix used) in each matrix as determined by the list of competitive methods and core competencies identified for each hotel. If a hotel was in perfect alignment it would have four points in each cell, one from each source of information. The total points possible in each cell were then divided into

**Table 17.1** Constructs, Propositions, and Research Questions on Co-Alignment

Proposition	Constructs	Sub-Proposition	Questions
Firms that achieve greater alignment between competitive methods and firm structure, contingent on the objective of the owners, performed better than those that did not.	Strategy choice	The forces driving change in a firm's industry determine the strategy choice/ competitive methods.	<ol style="list-style-type: none"><li>1. How are competitive methods chosen?</li><li>2. What competitive methods are used to gain competitive advantage?</li><li>3. What is the relationship between the strategy choice, firm structure, and firm performance?</li></ol>
	Firm structure	Firms that are in alignment should allocate resources to the implementation and development of core competencies that support the competitive methods chosen.	<ol style="list-style-type: none"><li>4. What investments are made to best utilize the competitive methods?</li><li>5. What resources, human or material, are allocated to the competitive methods?</li><li>6. How are the resources aligned so that there is no compromise in achieving the mission of the hotel?</li><li>7. What core competencies are identified?</li><li>8. How do the contextual and process variables affect implementation and expectation of the competitive methods?</li></ol>
	Firm performance	Firms that are in alignment with the environment, strategy choice, and firm structure should find a higher level of performance.	<ol style="list-style-type: none"><li>9. How does management evaluate investment decisions that support the competitive methods?</li><li>10. How is the success of the competitive methods measured?</li><li>11. What cash flow is generated from each competitive method?</li><li>12. What return on invested capital is utilized by the hotel?</li><li>13. How do guests, relative to the competitive methods employed, perceive the hotel?</li></ol>

**Table 17.2** Example of Competitive Methods and Core Competencies Matrix

Core Competencies	Competitive Methods		
	“Green Hotel”	Physical Product	Quality Service
Guest comment cards	<i>Used to improve or correct greening policy. (1)<sup>b</sup></i>	<i>Comments or recommendations are used to improve the physical structure and landscape. (1)<sup>b</sup></i>	Ratings for each department are circulated each month. Positive and negative comments are discussed in department meetings and used as tools for training. (1)
Information technology	<i>Incorporated in the system. (1)<sup>a</sup></i>	<i>Facilities are wired for easy access in all areas. (1)<sup>a</sup></i>	Used effectively for repeat guest history, preferences, and other features that help to recognize the repeat guest. (1)
Training and development	Training is continuous for all employees in recycling, reusing, and reducing.  <i>There is a monthly EMS training in each department. (2)<sup>b</sup></i>	<i>Maintenance and grounds training are similar to the staff members who have direct contact with the guests. (1)<sup>b</sup></i>	There are three levels of training: new employees, line staff, and supervisory and management staff. The objective is to manage the customer service process, both internally and externally.  <i>Monthly training for all employees in the delivery of customer service.<sup>b</sup></i>  <i>Highly motivated and competent staff. (3)<sup>c</sup></i>

<sup>a</sup>Observation.<sup>b</sup>Secondary data.<sup>c</sup>Guests' comments.



the points earned in each cell to obtain a percentage of total possible. A score of 100% would indicate perfect alignment.

Prior to this attempt to assess alignment between strategy choice and structure, little was revealed in the literature as to what percentage of alignment would be necessary to support the proposition that firms would perform better if they were properly aligned. The process of using four separate sources of evidence with respect to the alignment between competitive methods and core competencies provided content validity and placed a rigorous standard on the measurement of alignment.

## Measuring co-alignment in hotels

Measuring co-alignment in hotels involves collecting information from internal sources, external sources, and guests. The following method can be used to determine alignment between the firm's core competencies and the competitive methods that have been implemented.

To measure co-alignment, the following steps are suggested:

*Internally*, collect the following information that the company uses to market to its employees, its customers, and other stakeholders.

1. Mission of the company—does the mission reflect your goals?
2. Strategic plan
3. Employee manual
4. Training material
5. Brochures
6. News letter
7. Advertisement
  - a. TV
  - b. Newspapers
  - c. Magazines
  - d. Internet
8. Outcomes of internal self-studies, that is, balanced score-card, six sigma, and process reengineering
9. Websites
10. Supervisory observations
11. Quality control systems
12. Intranets
13. Job descriptions
14. Performance evaluation systems
15. Decision-making processes
16. Compensation systems
17. Budgets and the budgeting process

18. Annual reports
19. Minutes of management meetings
20. Production systems

The purpose of this exercise is to verify that the messages you are sending to all stakeholders are in line with your competitive methods and that you are allocating resources to the competitive method that has the greatest value to the company.

*Externally*, collect the following information that is available in the media (secondary information) about the company:

1. Travel writers' articles
2. News articles
3. Internet blogs
4. Assessments by third parties such as TripAdvisor.com and J. D. Powers and Associates
5. Entries on Utube or MySpace
6. Customer guides like Michelin, Mobil, and AAA

Identify what others are saying about your company and how the company is perceived by the media. Is it in line with the competitive methods?

*The guests* will always give feedback on their stay. Collect information from the following sources:

1. Comment cards
2. Guest complaint logs
3. Guest surveys (if available)

What do the guests identify as value to them? Are they the same as your competitive methods? The guests should identify the same values that you are selling to them. The comment cards will reflect what they liked best and where their expectations were not met. Guest complaint logs will identify where you have the greatest challenges and where you should allocate your resources.

After collecting the above information, use a matrix to show the relationships and assess the alignment (Table 17.2). In the first column, list the core competencies of the firm and on the first row list the firm's competitive methods. The next step is to match each item of information with the (horizontally) core competency identified and with the (vertically) competitive methods, by entering the information in the matrix cell. Assign a value of 1 to each entry. Each cell has a potential of one point for each item of information used in the analysis, from the internal information, the external information, and

the guests. The final step is to add the points in each cell and divide by the total possibilities. The total will identify the percentage of alignment. A score of 100% will indicate perfect alignment.

Table 17.1 shows an example of the co-alignment between the core competencies at one resort. In this matrix, the total possible score equalled 36 points (nine cells by four reflecting all the sources used in this example) and the total score earned was 12. The percentage of alignment was 33.3%, signifying a small degree of alignment between the core competencies and the competitive methods.

The steps outlined above are designed to assist managers in testing for co-alignment between the firm's competitive methods (strategies) and the core competencies. The matrix will identify where there is alignment within the company and whether the resources allocated are adding value. It will also identify the areas where resources need to be allocated.

This method to test for alignment requires managers to be cognizant of what they are telling their employees, what message are they sending about the company, and how others perceive them. It will also tell managers whether what they perceive as value is in fact perceived as value to their guests through the impact of guest comments.

## Conclusion

Using five resorts to test alignment revealed several important issues to be addressed by the management in a competitive environment:

1. Scanning is a concept that has limited scope in the managers' conceptual skills portfolio. The only evidence of scanning was the focus on the competition, although no consistency was found, and the customers, through the use of comment cards.
2. Even in the best-performing firms, the degree of alignment is low—37%. This confirmed the complexity of hospitality enterprises that provide hundreds of products and services that can be and are often combined in unique ways. It also demonstrates that reaching perfect alignment is a rather significant accomplishment, and maintaining it is perhaps nearly impossible. Thus the low performance by Resorts A, B, and C suggests that managers can be modest in their objectives regarding alignment, while keeping in mind the longitudinal aspect of keeping things in alignment.

3. In resorts A, B, and C where some alignment was found, only basic accounting systems are used which do not allow for the tracking of investments made in competitive methods. Managers, therefore, can only use “gut instincts” on what create value and is not capable of explaining why the alignment was reached.
4. Managers have little understanding of the evaluation process with respect to investments in competitive methods. Therefore, they rely on accounting data which do not give immediate feedback.

## Recommendations

Because of the lack of recorded information that would validate alignment, based on the investment of resources, matrices were developed as a method to measure alignment. Using the information gathered from management, observations, guests, and secondary sources, it was possible to test alignment between the competitive methods, as stated by management, and competitive methods, as recognized through the different sources investigated. The matrices were used to measure the alignment and confirmed the relationship between co-alignment and performance. However, the case studies suggest that much still needs to be done to improve upon the achievement of co-alignment within hospitality establishments.

The following recommendations for managers within hospitality establishments are drawn from the study of the five resorts:

1. Managers who wish to gain sustainable competitive advantage cannot rely on conventional wisdom when making decisions on strategic choice and the allocation of resources, but should instead strive to examine environmental trends that have the potential of positively affecting their establishment.
2. Given that reaching perfect alignment is a significant accomplishment, although difficult to achieve, managers must constantly monitor their performance by ensuring that their competitive methods are visible to guests and observers, and must be at the forefront of their decision to invest their resources.
3. To ensure the creation of business value by the competitive methods, the use of discounted cash flow methods should be used as the dominant metric for assessing value. This would allow for a more accurate measurement using operating statistics.

Using the matrix approach will assist managers in identifying alignment between core competencies and competitive methods.

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