

Evaluation of the Effect of Organizational Environment and Structure on the Strategic Relationship of Organization's Business Level and Performance

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Received: July 24, 2015

Accepted: September 31, 2015

ABSTRACT

The purpose of this study is to investigate the effect of external environment and organizational structure on the relationship between business strategy and organizational performance. Research sample was selected among all executives of food industry in Abbas Abad Industrial Town. The sample consisted of 57 people (40 men and 17 women) of managers working there estimated using Morgan table. In data analysis chapter, in order to test the normal distribution of variables, Kolmogorov test was used and in order to examine the research hypotheses, Pearson's correlation coefficient was applied. The results of testing the first main hypothesis suggest that external environment variable limits the relationship between business strategy and organizational performance. The results of examining the second main hypothesis indicate that organizational structure limits the relationship between business strategy and organizational performance.

KEYWORDS: Business Strategy, Cost Leadership Strategy, Differentiation Strategy, Organizational Performance, Organizational Structure

1. INTRODUCTION

The word performance means function state or quality. Therefore, organizational performance is a general structure which refers to how an organizational operation is done. The most famous definition of performance is given by Neely et al. [1] "the process of explaining the effectiveness quality and efficiency of the past actions". Efficiency and effectiveness depends on various factors such as knowledge and skills of employees, working methods and procedures, internal and external organizational communications and organizational structure which organizational structure is the most important factor in performance. Today, to succeed in very changeable competitive environments, companies should offer plans and structures to ensure that organizational boundaries are more flexible and permeable and consistent with strategies [2]. Organization structure is an emanation of systemic thinking. The organization is composed of elements, the relationships between elements and the structure of relations as a whole which constitutes one unit.

Therefore, in implementation of a strategy carefully developed, the organizational structure is the main priority. If the activities, responsibilities and mutual relations chosen in accordance with the strategy are not organized, formation the strategy will be left out. If the structure and strategy are not coordinated, the result will be inefficiency and fragmented efforts [3]. The existence of a structure in accordance with the organization's goals and needs is essential because in the end, all management decisions in planning, organizing and coordinating and control are implemented on the structure. If there is problem with organizational structure, naturally, the organization may not have efficiency and effectiveness required. In the world today we are witnessing the creation of many organizations but after a while, we see that most of them are out of competition. It seems that one of the main reasons for the creation of such conditions would be the lack of a proper organizational structure to deal with problems.

Nowadays, vast competition in the market has made companies use strategies to cope with this competition. Many companies in this dynamic and incompatible environment are trying to gain a competitive advantage through developing proper competitive strategies and make the company develop and progress by increasing the competitiveness of its products. Dynamism is referred to as uncertainty and is defined as the rate of innovation change in the industry as well as the uncertainty and unpredictability of competitors and customers' actions [4]. Environmental incompatibility is defined as the degree of threat to the company given the intensity of competition and the company's main industry boom [5]. The strategy of an organization describes the way in which it could follow its goals given the threats and opportunities of the environment and its resources and capabilities [6]. The nature of a company's strategy is to link a company to the surrounding environment [7].

The nature of competition in an industry and how competitive strategies are developed by the company depends on the competitive forces in the company's market exchanges. Basically, there are three general strategies to outshine other competitors of the company facing with competitive forces; cost leadership strategy, focus strategy and differentiation strategy. In the present study, cost leadership and differentiation strategies are addressed [8].

Cost leadership strategy is to reduce costs more than competitors and find ways to throw costs out of the company and then, offer the cheapest product on the market which is called price leadership. Differentiation strategy means

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offering something that attracts different customers in the market including customers of competitors. Company's strategy is associated with selecting a product/market of a company. Cost leadership strategy is to represent the cheapest product to the market or price leadership. Among procedures to achieve cost leadership a few cases can be noted: 1. supplying raw materials from new and cheaper suppliers, 2. increasing the processes productivity, 3. increasing labor productivity, 4. increasing the production and applying frugality in scale.

Differentiation strategy means offering something that attracts different customers in the market including customers of competitors [9]. In differentiation strategy, company's activities are focused on producing a unique product or service. In this strategy, company strives to receive a price higher than usual from customers [7].

Many writers and scientists in post-industrial countries have argued that company's strategy should be closely aligned with its structure. However, in companies studies in this research not only organizational structure had few effects on designing and development of their business strategies and policies, but also the lack of need to adopt efficient strategies and in accordance with circumstances of today's market and customers have drawn companies into a crisis that many of them have reached a stage of decline and their dissolution in the near future is not beyond imagination. We encounter major problems investigating the status and working conditions of many of the organizations operating in the country and the more we get closer to the smaller spaces and environments and micro-sized companies, the more the uncertainty, confusion and lack of program gets tangible. Researcher during reviewing the issues in a number of companies operating in the food market of Abbas Abad Industrial Town faced with such problems that revealed these companies lost a large portion of their market and have encountered quality decline and competitive power against other competitors. However, competition in the markets today is faced with a greater diversity and extent compared to the past. In this environment, many companies are trying to gain a competitive advantage through developing proper competitive strategies and to help the company grow and progress and access to a large part of the market by increasing the competitiveness of their products. Thus, it is hoped that the results of the present study could help managers determine and formulate the strategies in accordance with pre-determined goals in competitive conditions.

Research hypotheses are proposed as follows:

The first main hypothesis:

1. The external environment limits the relationship between business strategy and organizational performance.

Sub-hypotheses:

1.1. The external environment limits the relationship between cost leadership strategy and organizational performance.

1.2. The external environment limits the relationship between differentiation strategy and organizational performance.

The second main hypothesis:

2. Organizational structure limits the relationship between business strategy and organizational performance.

Sub-hypotheses:

1.2. Organizational structure limits the relationship between business strategy and organizational performance.

2.2. Organizational structure limits the relationship between differentiation strategy and organizational performance.

2. RESEARCH LITERATURE

1.2. Research carried out within the country

In a study entitled "the relationship between competitive strategy and organizational structure in Mellat and Refah Banks" results stated that: there was a significant relationship between competitive strategy and organizational structure but the intensity of this relationship was very weak [2]. In an article entitled "the relationship of strategic coordination between business rate strategy and marketing strategy and organizational structure" which was conducted based on the strategic reference point theory, it was shown that there is coordination between the strategy of the entry into the market phase and opportunist strategy, developing market strategy and analyst strategy, mature market strategy and defended and differentiated strategy, and declining market strategy and low-cost defended strategy based on the strategic reference points and in this condition, a better performance can be seen compared to the other states [10]. In a paper entitled "the relationship between business strategic coordination and financial strategy and organizational structure" it was shown that external coordination (vertical) between financial system strategy and business strategy, internal coordination (horizontal) between subsystems or financial system functions, external coordination between (vertical) subsystems of financial strategy systems and business strategy and the interaction effect affect the performance (ROA) and companies with higher coordination have better performance compared to the companies with medium or little coordination [10]. In an article entitled "the effect of knowledge management strategies on innovation and organizational performance" (case study: health centers of north of Fars province) it was concluded that personalizing and coding knowledge have a positive effect on innovation and organizational performance and these variables leave a positive effect on organizational performance through innovation and there is a positive and significant relationship between innovation and organizational performance [11]. In a study entitled "providing the methodology of strategic planning of research in business level of enterprises" it was indicated that increase in the level of technical and economic capabilities in the industries requires more applied research. For this purpose, it is necessary to use a proper process to formulate the research needs of organization. In this paper, a methodology of research strategic planning is

presented because formulating the research strategy requires the recognition of technologies needed for the organization. To provide this new methodology, Hacks-Maslow methodology approach along with the critical success factors approach were applied. Next, this methodology was implemented in the West Regional Power Company to develop research strategies and the results are presented [12]. In a study, the effect of Porter's differentiation strategy on organizational performance through packaging goods in the food companies of Astan Quds Razavi was investigated. The purpose of this survey study was to evaluate the effect of Porter's differentiation strategy on organizational performance through packaging goods. The research results indicate disapproval of mediatory role of packaging variable in the relationship between differentiation strategy and organizational performance. However, components such as package design and color mediate the relationship between differentiation strategy and the sale component of organizational performance [13].

2.2. Research related conducted abroad

An article entitled "the effects of environment and organizational structure adjustment on the relationship between business strategy and organizational performance" was conducted. The focus of this study was on the manufacturing companies in the UK belonging to the electronic and mechanical engineering and responders were the executives. Both objective and subjective proceedings were used to assess performance. Unwillingness to answer according to statistics and appropriate proceedings in order to minimize the effect of variance in a traditional way was identified. The results obtained showed that environment dynamism and environmental incompatibility as moderates, affect the relationship between business strategy and performance as well as the relative competitiveness. At low environmental hostility, cost leadership strategy and at high environmental hostility, differentiation strategy of performance would lead to better performance in comparison with other competitors. In a very dynamic environment, cost leadership strategy and in a low dynamic environment, differentiation strategy could be more helpful in improving financial performance. Organizational structure runs the relationship between both strategies and sales return. However, on assets return, the energy of structure adjustment was only found in its connection with cost leadership strategy. Mechanical structure is helpful in improving the financial performance or in adoption of cost leadership or in differentiation strategy[14].

3. MATERIALS AND METHODS

In terms of research categorizing or data collection or in other words, research design, the present study is a descriptive research which describes the sample characteristics and then generalizes these features to the population. Also, it is an applied study objectively. This paper is placed in the group of case studies due to investigate the effect of business strategy conditions on the performance of food companies in Abbas Abad Industrial Town and it is considered a field research in terms of data collection method. The most important data collection tool in this research is questionnaire which researcher is modified and confirmed it according to the research model and professors comments. In order to test hypotheses, research variables include independent, dependent and control variables which are as follows:

In the present study, business level strategy, cost leadership strategy and differentiation strategy are independent variables, organizational performance is dependent variable and external environment and organizational structure are considered as control variables. Data was analyzed using spss20 software and to examine hypotheses, Pearson's correlation coefficient was used.

1.3. Determination of reliability and validity of research

To prove the validity of this research, the questions were designed with regard to the operational research model and the questionnaire was revised and confirmed in terms of content validity using the viewpoints of a number of professors and experts. To determine the reliability of the study, the questionnaire was distributed only among 20 respondents and after data collection, Cronbach' alpha coefficients was estimated. According to table 1, the number of questions, variables and reliability values of variables are as follows:

Table 1.Number of questions, variables and variables reliability

Reliability values (percent)	Variable name	Number of questions	Description
0.827	Cost leadership strategy	6	1-6
0.906	Differentiation strategy	6	7-12
0.721	Dynamism	3	13-15
0.706	External environment	2	16-17
0.764	Organizational structure	9	18-26
0.875	Evaluation of achieving goals	6	27-32
0.961	Organizational performance	9	33-41

In the end, the reliability of questions was equal to 0.913 which according to the alpha values is greater than 0.70. The results obtained indicated the reliability of the test.

2.3.The population and sampling method

The population of this study consists of all managers of factories and companies in the food industry (67 factories) in Abbas Abad Industrial Town working there during 2012 and 2013. In this research, using Morgan table and given the

number of population calculated, 57 factories were selected as sample size which their managers responded research questionnaires.

4. RESULTS

1.4. Descriptive statistics

Table 2 represents the descriptive statistics of model variables including the information about the mean, standard deviation, coefficient of skewness, medium, mode, minimum and maximum.

Table 2. Descriptive statistics of research variables

Variable type	Variable	Mean	Standard deviation	Skewness coefficient	Medium	Mode	Minimum	Maximum
Dependent	Organizational performance	4.63	1.35	-0.959	0.846	4.89	1	1
Independent	Business strategy	5.33	1.25	-0.810	-0.035	5.48	6.38	2.41
	Cost leadership strategy	5.61	1.13	-0.437	-0.889	5.77	7	3.26
	Differentiation strategy	5.15	1.50	-0.915	0.147	5.45	4.68	1.62
Control	Organizational structure	3.71	0.87	-0.521	0.784	3.66	1.24	1.24
	External environment	5.24	1.08	-0.528	-0.168	5.22	5.01	2.57

2.4. The test of normal distribution of variables:

To test the normality of variables distribution, Kolmogorov-Smirnov test was used. In this test, the null and alternative hypotheses are defined as follows:

H₀: The variable is normally distributed.

H₁: The variable is not normally distributed.

Table 3. Test of normal distribution of variables hypothesis

Indicators		Cost leadership	Differentiation	Organizational structure
Normal parameters	Mean	5.6102	5.1499	3.7077
	Standard deviation	1.13463	1.50384	0.87082
Zkolmogorov-Smirnov		0.971	1.185	0.527
Significance level		0.302	0.120	0.944
Indicators		External environment	Organizational performance	Business strategy
Normal parameters	Mean	5.2360	4.6299	5.3346
	Standard deviation	1.07838	1.34844	1.25087
Zkolmogorov-Smirnov		0.874	1.152	0.839
Significance level		0.430	0.141	0.482

According to the results of table 3, since significance of all variables is greater than $\alpha=0.05$, thus, the null hypothesis indicating the normality of distributions are not rejected and these variables are normal.

3.4. The results of testing the second main hypothesis

External environment limits the relationship between business strategy and organization performance.

H₀: External environment doesn't limit the relationship between business strategy and organizational performance.

H₁: External environment limits the relationship between business strategy and organizational performance.

Table 4. Partial correlation coefficient between business strategy and organization performance

Control variable		Business strategy	Organizational performance	External environment
business strategy	Correlation coefficient	1	0.338	-0.101
	Significance level	--	0.010	0.454
	Degree of freedom	0	55	55
Organizational performance	Correlation coefficient	0.338	1	0.389
	Significance level	0.010	--	0.003
	Degree of freedom	55	0	55
External environment	Correlation coefficient	-0.101	0.389	1
	Significance level	0.454	0.003	--
	Degree of freedom	55	54	0
External environment	Correlation coefficient	1	0.411	
	Significance level	--	0.002	
	Degree of freedom	0	54	
Organizational performance	Correlation coefficient	0.411	1	
	Significance level	0.002	--	
	Degree of freedom	54	0	

According to table 4, the correlation between business strategy and organizational performance without controlling the effect of external environment variable is equal to 0.338 and is significant at 5% level. By controlling the effect of external environment variable, the correlation between business strategy and organizational performance will be equivalent to 0.411 which is significant at 5% error level. Hence, it can be observed that the impact of external environment limits the relationship between business strategy and organizational performance, so, the above hypothesis is confirmed at 5% error level.

1.3.4.The results of testing the first sub-hypothesis

External environment limits the relationship between cost leadership strategy and organization performance.

H₀: External environment doesn't limit the relationship between cost leadership strategy and organization performance.

H₁: External environment limits the relationship between cost leadership strategy and organization performance.

Table5.Partial correlation coefficient between cost leadership strategy and organization performance

Control variable		Organizational performance	Cost leadership	External environment
Organizational performance	Correlation coefficient	1	0.231	0.389
	Significance level		0.084	0.003
	Degree of freedom	0	55	55
Cost leadership	Correlation coefficient	0.231	1	-0.074
	Significance level	0.084		0.586
	Degree of freedom	55	0	55
External environment	Correlation coefficient	0.389	-0.074	1
	Significance level	0.003	0.586	
	Degree of freedom	55	55	0
organizational performance	Correlation coefficient	1	0.282	
	External environment		0.035	
	Significance level	0	54	
Cost leadership	Correlation coefficient	0.282	1	
	Significance level	0.035		
	Degree of freedom	54	0	

According to table5, the correlation between cost leadership strategy and organizational performance without controlling the effect of external environment variable is equal to 0.231 and is not significant at 5% level. In other words, there is no relationship between cost leadership and organizational performance. But by controlling the effect of external environment variable, the correlation between cost leadership strategy and organizational performance will be equal to 0.282 which is significant at 5% error level. Hence, it can be observed that the effect of external environment led to the lack of relationship between cost leadership strategy and organizational performance. Thus, the above hypothesis is confirmed at 5% error level.

2.3.4.The results of testing the second sub-hypothesis

External environment limits the relationship between differentiation strategy and organizational performance.

H₀: External environment doesn't limit the relationship between differentiation strategy and organizational performance.

H₁: External environment limits the relationship between differentiation strategy and organizational performance.

Table 6.Partial correlation coefficient between differentiation strategy and organization performance

Control variable		Organizational performance	Differentiation	External environment
Organizational performance	Correlation coefficient	1	0.357	0.389
	Significance level		0.006	0.003
	Degree of freedom	0	55	55
Differentiation	Correlation coefficient	0.357	1	-0.087
	Significance level	0.006		0.518
	Degree of freedom	55	0	55
External environment	Correlation coefficient	0.389	-0.087	1
	Significance level	0.003	0.518	
	Degree of freedom	55	55	0
organizational performance	Correlation coefficient	1	0.426	
	External environment		0.001	
	Significance level	0	54	
Differentiation	Correlation coefficient	0.426	1	
	Significance level	0.001		
	Degree of freedom	54	0	

According to table 6, the correlation between differentiation strategy and organizational performance without controlling the effect of external environment variable is equal to 0.357 and is significant at 5% level. By controlling the effect of external environment variable, the correlation between differentiation strategy and organizational performance will be equal to 0.426 which is significant at 5% error level. Therefore, it can be seen that the effect of external

environment limits the relationship between differentiation strategy and organizational performance. Thus, the above hypothesis is confirmed at 5% error level.

4.4. The results of testing the second main hypothesis

Organizational structure limits the relationship between business strategy and organizational performance.

H₀: Organizational structure doesn't limit the relationship between business strategy and organizational performance.

H₁: Organizational structure limits the relationship between business strategy and organizational performance.

Table 7. Partial correlation coefficient between business strategy and organization performance

Control variable		Business strategy	Organizational performance	Organizational structure
Business strategy	Correlation coefficient	1	0.338	0.106
	Significance level		0.010	0.434
	Degree of freedom	0	55	55
Organizational performance	Correlation coefficient	0.338	1	0.669
	Significance level	0.010		0.000
	Degree of freedom	55	0	55
Organizational structure	Correlation coefficient	0.106	0.669	1
	Significance level	0.434	0.000	
	Degree of freedom	55	54	0
organizational structure	Correlation coefficient	1	0.361	
	business strategy		0.006	
	Significance level	0	54	
Organizational performance	Correlation coefficient	0.361	1	
	Significance level	0.006		
	Degree of freedom	54	0	

According to table 7, the correlation between business strategy and organizational performance without controlling the effect of organizational structure variable is equal to 0.338 and is significant at 5% level. By controlling the effect of organizational structure variable, the correlation between business strategy and organizational performance will be equal to 0.361 which is significant at 5% error level. Therefore, it can be seen that the effect of organizational structure limits the relationship between business strategy and organizational performance. Thus, the above hypothesis is confirmed at 5% error level.

1.4.4. The results of testing the first sub-hypothesis

Organizational structure limits the relationship between cost leadership strategy and organizational performance.

H₀: Organizational structure doesn't limit the relationship between cost leadership strategy and organizational performance.

H₁: Organizational structure limits the relationship between cost leadership strategy and organizational performance.

Table 8. Partial correlation coefficient between cost leadership strategy and organization performance

Control variable		Organizational performance	Cost leadership	Organizational structure
Business strategy	Correlation coefficient	1	0.231	0.669
	Significance level		0.084	0.000
	Degree of freedom	0	55	55
Cost leadership	Correlation coefficient	0.231	1	0.005
	Significance level	0.084		0.970
	Degree of freedom	55	0	55
Organizational structure	Correlation coefficient	0.669	0.005	1
	Significance level	0.000	0.970	
	Degree of freedom	55	55	0
Organizational performance	Correlation coefficient	1	0.306	
	Significance level		0.022	
	Degree of freedom	0	54	
Cost leadership	Correlation coefficient	0.306	1	
	Significance level	0.022		
	Degree of freedom	54	0	

According to table 8, the correlation between cost leadership strategy and organizational performance without controlling the effect of organizational structure variable is equal to 0.231 and is not significant at 5% level. In other words, there is no relationship between cost leadership and organizational performance. By controlling the effect of organizational structure variable, the correlation between cost leadership strategy and organizational performance will be equal to 0.306 which is significant at 5% error level. Hence, it can be seen that the effect of organizational structure leads to the lack of relationship between cost leadership strategy and organizational performance. Thus, the above hypothesis is confirmed at 5% error level.

2.4.4. The results of testing the second sub-hypothesis

Organizational structure limits the relationship between differentiation strategy and organizational performance.

H₀: Organizational structure doesn't limit the relationship between differentiation strategy and organizational performance.

H₁: Organizational structure limits the relationship between differentiation strategy and organizational performance.

Table 9. Partial correlation coefficient between differentiation strategy and organization performance

Control variable		Organizational performance	Differentiation	Organizational structure
Organizational performance	Correlation coefficient	1	0.357	0.669
	Significance level		0.006	0.000
	Degree of freedom	0	55	55
Differentiation	Correlation coefficient	0.357	1	0.159
	Significance level	0.006		0.237
	Degree of freedom	55	0	55
Organizational structure	Correlation coefficient	0.669	0.159	1
	Significance level	0.000	0.237	
	Degree of freedom	55	55	0
Organizational performance	Correlation coefficient	1	0.341	
	Significance level		0.010	
	Degree of freedom	0	54	
Differentiation	Correlation coefficient	0.341	1	
	Significance level	0.010		
	Degree of freedom	54	0	

According to table 9, the correlation between differentiation strategy and organizational performance without controlling the effect of organizational structure variable is equal to 0.357 and is not significant at 5% level. By controlling the effect of organizational structure variable, the correlation between differentiation strategy and organizational performance will be equal to 0.341 which is significant at 5% error level. Hence, it can be seen that the effect of organizational structure had effects on the relationship between differentiation strategy and organizational performance. But it didn't limit their relationship. Thus, the above hypothesis is not confirmed at 5% error level.

5. DISCUSSION AND CONCLUSION

The present study examines the moderator effect of external environment and organizational structure on the relationship between business strategy and organizational performance. The results of the first main hypothesis and the second sub-hypothesis suggest that external environment limits between business strategy and organizational performance. Also, the results of the first sub-hypothesis indicate that without control of the effect of external environment variable, there will be no relationship between cost leadership strategy and organizational performance. But through the control of the effect of this variable, the relationship between cost leadership and organizational performance will be limited.

The results of the second main hypothesis indicate that organizational structure limits the relationship between business strategy and organizational performance. Also, the results of the second sub-hypothesis show that there is no relationship between cost leadership strategy and organizational performance without controlling the effect of organizational structure but if the effect of organizational structure is controlled, the relationship between cost leadership strategy and organizational performance will be limited. The results of the second sub-hypothesis suggest that organizational structure has a significant influence on the relationship between differentiation strategy and organizational performance but it doesn't limit the relationship between these two variables.

1.5. Suggestions based on research results

1. According to the results of the first main hypothesis, it is recommended that companies since the establishment and before planning and determination of their own mission and macro strategies on the market know and analyze environmental changes and complexities such as political relations between countries and international exchange market and treaties, laws and circulars such as sanctions affecting production and presentation of the products really well and adopt the main business strategies (which have logical and necessary stability to avoid short-term fundamental changes) in various fields with required awareness of the situation and environmental conditions and even predicting the possible future events and crises such as tightening the sanctions or increasing the level of relations in the environment and market.

2. Regarding the second main hypothesis, it is suggested that introducing barriers against business and holding training courses for managers who do not have enough administrative experience be considered in order to achieve goals and strategies including gaining competitive advantage and expanding resources, adopt scientific and applied plans in accordance with the organization's internal and external situation, facilitate the process of information flow, transfer of knowledge and determine managers' responsibilities, recognize managers' skills and how resources are distributed and their decision-making styles in conditions with lack of certainty in decision making, creating policies that would prevent leaving the implementation of strategies to subordinates. According to the first sub-hypothesis, it is recommended that in organizations' structure some policies better be adopted that encourage managers to provide raw

materials at low prices to increase production, exploit the companies' process and human resources, identify cost drivers, use the knowledge on cost drivers in order to lower costs, considering re-engineering of implementation and coordination of work, finding opportunities and situations to contribute to the company's other business units. According to the results of the second sub-hypothesis, it is recommended that corporate executives provide models and policies to determine their organizational structure to achieve better performance which subsequently, they could offer practical solutions to managers in order to enhance product market, customers' satisfaction, top quality and competitiveness including the use of technological leadership, using creative and innovative procedures, considering characteristics that increase the efficiency of goods.

2.5. Suggestions for future research

1. Investigating the relationship between business strategy and performance with the moderating role of sanctions in public and private companies;
2. Investigating the effect of technology management on the relationship between cost leadership strategy and corporate performance;
3. Evaluation of the effect of knowledge management on the relationship between differentiation strategy and financial performance of companies.

3.5. Research limitations

1. Different companies' atmosphere in the region;
2. Existence of moderator variables despite apart from the structure and environment such as inflation and economic sanctions;
3. Limited statistical applied software;
4. Lack of attention in a number of respondents to answer the questions.

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