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DEFINING STRATEGIC FLEXIBILITY

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ABSTRACT

This paper presents a review of the literature about the term strategic flexibility. It analyses various components and definitions of strategic flexibility and concludes by defining the term for the purpose of our doctoral research. Using previous research about strategic flexibility, this paper discusses the many components and definitions of strategic flexibility. Rather surprisingly, Strategic flexibility has been considered by research in a variety of academic disciplines such as Strategic Management, Economics, Organisation Theory and Marketing and therefore, there is a diverse array of views about how to define this term. Strategic flexibility is often discussed 'alongside' such terms as strategic choice, strategic manoeuvrability and strategic options. This paper found that previous research had developed 'operationalised' definitions based upon the specific needs of their studies. Consequently, there has not been a 'proven', agreed definition of strategic flexibility. It is suggested that this paper adds to our general understanding of the term by advancing a general definition of strategic flexibility.

Introduction

The topic of this paper is strategic flexibility. Strategic flexibility has been considered by previous research in Strategic Management, Economics, Organisation Theory and Marketing. Consequently, there is a diverse range of definitions about this term (Genus 1995). This paper examines the historical development of the term from the 1970's to recently. It synthesises the literature review and concludes with its own definition.

Strategic Flexibility - Conceptually

The conceptualisation of strategic flexibility has been described and studied by numerous authors. The notion of strategic flexibility that is probably the closest to an everyday understanding of flexibility, is the ability to do something other than that which had been originally intended (Evans 1991).

Conceptually, strategic flexibility suggests the ability to take some action in response to external environmental changes (Evans 1991; Buckley 1997; Matusik 1998; Johnson 2003) and thus can be viewed as a strategic capability (Aaker 1984; Bahrami 1992). Strategic flexibility is the ability to precipitate intentional changes and adapt to environmental changes through the continuous rethinking of current strategies, asset deployment and investment strategies (Evans 1991; Bahrami 1992; Sanchez 1995). Consequently, strategic flexibility can be conceptualised in two ways. Firstly, with regard to the variation and diversity of strategies. Secondly, by to the

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egree at which companies can rapidly shift from one strategy to another (Slack 1983; Nadkarni 2004).

Hitt (1998) conceptualises strategic flexibility ‘...as the capability of the company to proact or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage (Hitt, Keats, and DeMarrie, 1998, p.26)’. Aaker and Mascarenhas (1984) focus on substantial environmental uncertainty creating the need for strategic adaptation.

Sanchez (1995) suggests that the company’s strategic flexibility is jointly depending on the inherent flexibility of the resources available to the company (resource flexibility), Norm Roberts and Professor Gary J. Stockport 4 and on the company’s flexibility in applying those resources to alternative courses of action (co-ordination flexibility). Evans (1991) suggests strategic flexibility is a function of the event that impacted on the company, by necessity instead of choice, being used to denote the company’s deliberate or emerging capabilities to manoeuvre offensively or defensively.

Other terms that offer a similar conceptualisation include the terms ‘strategic manoeuvrability’ (Klingen 1975), ‘organisational flexibility’ (Aaker 1984; Volberda 1996), and ‘dynamic capabilities’ (Teece 1997). Aaker and Mascarenhas (1984) argued ‘organisational flexibility’ was a strategic option that could be exercised by an organisation and define ‘organisational flexibility’ as ‘...the ability of the organisation to adapt to substantial, uncertain, and fast occurring environmental changes that have a meaningful impact on the organisation’s performance (Aaker and Mascarenhas, 1984, p.74)’. The more recent studies about strategic flexibility in Strategic Management research mostly applied the concept within the context of product competition (Sanchez 1995; Sanchez 1996; Young-Ybarra 1999; Schilling 2001; Worren 2002; Raynor 2004).

Strategic Flexibility – 1970’s

Some early research about strategic flexibility include Gotcher (1977) who suggested that long range planning required flexibility. Eppink (1978) related the term ‘adaptiveness’ as the ability of the organisation to respond to unforeseen change. He added ‘...Flexibility can be seen as a characteristic of an organisation that makes it less vulnerable to unforeseen external changes or puts it in a better position to respond successfully to such a change (Eppink, 1978, p.42)’. Eppink (1978) argued strategic flexibility was necessary to compensate for strategic changes in the ‘indirect’ environment of the company that reached it via the components of its ‘direct’ environment. He suggested such changes required a high degree of unfamiliarity and could therefore be very dynamic and urgent.

In 1975, Klingen described ‘strategic manoeuvrability’ as ‘...the extent to which strategic behaviour may be realised (Klingen, 1975, p.11)’. ‘Strategic manoeuvrability’ was seen to be determined by a company’s freedom of movement, its environment and the quality of strategic control within the company. Based on this view, a company’s freedom of movement could vary from sector to sector.

Strategic Flexibility – 1980’s

Despite the more specific definitions of strategic flexibility outlined earlier, the term has been widely used in the General Management literature. In 1980 Porter’s seminal work ‘Competitive Strategy’ was published and he took a more deterministic view of strategy that still ‘dominates’ the Strategic Management literature today. Porter (1980) refers to ‘strategic choice’ where the company has a finite selection of strategies to choose from, based upon study of its external environment. Porter (1980) also strongly supports a ‘single best option’ approach to strategy. This was based upon the need to make strategic choices between options having varying

degrees of strategic and financial risk (Porter 1985).

Harrigan (1986) extends Porter's argument to consider how a company may not be able to take advantage of all of the strategies that it is able to identify. This view does not change any of the fundamental assumptions Porter made about the nature of competition and the way in which companies interact with their environment to gain a sustainable competitive advantage. Sustained competitive advantage exists when competitors are unable to duplicate the benefits of the strategy (Barney 1991; Barney 2001). Suggesting a broader view than earlier work such as Klingen (1975), Anderson (1985) argues that strategic flexibility is about a company's ability to restructure itself internally as well as their relationship with the external environment including competition originating from almost anywhere, even from outside a company's industry.

The 1990's Onward

As mentioned earlier, definitions often suggest that strategic flexibility means the ability to take some action in response to environmental changes (Evans 1991; Buckley 1997). Sanchez (1995) identified 'resource flexibility' and 'coordination flexibility' as capabilities contributing to strategic flexibility. Strategic flexibility also came to be viewed as a capability (Aaker 1984; Das 1995; Grewal 2001). As a capability, strategic flexibility is influenced by internal and external conditions of the company.

Strategic Flexibility - Externally

The environment can include external factors such as regulatory, economic, political and social changes affecting the company's primary and secondary task environments (Achrol 1999). A more deterministic strategy approach indicated that changes in the company's environment resulted in the reassessment of strategy among a given array of strategic alternatives (Porter 1980; Porter 1985; Harrigan 1986; Parnell 1994; Parnell 2003). Thus, strategic choice was based on how a company evaluated its position in the environment. Porter's identification of low cost, differentiation and focus as to generic strategies for achieving sustainable competitive advantage (Porter 1980; 1985) is the basis of many strategy studies.

Strategic Flexibility - Internally

Burnes (1992) identified three types of strategy according to the level of strategic decision making. Firstly, Corporate level strategy was described as being concerned with the direction, composition and coordination of the various business units within a large and diversified organisation. Then, Business level strategy related to the operation and direction of individual business units within a group of companies. Finally, Functional level strategy related to individual business functions.

This internally driven strategic flexibility split into three levels is similar to Krinjnen's (1979, cite Volberda, 1997) division of the strategic decision making process into: the strategic level - strategic policy, economic, social goals, product market mix; the organisational level - organisational structure, decision making and communication processes, and finally, the operational level - production volumes. Sanchez (1995) argued that two critical components of strategic flexibility were 'resource flexibility' and 'coordination flexibility', which are both controlled from a company's internal environment. This conceptualisation of strategic flexibility implies an inward focus on the company's internal environment and different strategic options are possible depending on the nature of the change and the internal company influence.

Earlier contributions on strategic flexibility suggested that strategic flexibility depended jointly on what has been termed resource flexibility and the company's flexibilities in applying those resources to alternative courses of action (Sanchez 1995; 1996; Pauwels 2004). The resource

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based view of sustainable competitive advantage recognised the importance of the difference between companies based on their resource endowments (Foss 1996).

The competence based view of the company came to the forefront of Strategic Management literature with Prahalad and Hamel's 'The Core Competence of the Corporation' (Prahalad 1990). Core competences were identified as '...the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies' (Prahalad and Hamel, 1990, p.82). This differs from the resource based view, which focuses on those assets and capabilities that produce a sustainable competitive advantage (strategic assets).

Defining Strategic Flexibility

The various definitions of strategic flexibility has tended to reflect the different perspectives taken by Strategic Management researchers. Consequently, there are differences in both the meaning and application of the term. Nevertheless, strategic flexibility provides a means by which companies can become more successful and this suggests that companies select, develop and modify strategic choices in order to cope with a continually changing environment. Thus, strategic flexibility can be described as the strategic choices available to a company and the company's ability to take advantage of those choices.

Strategic flexibility has no commonly agreed definition. That is why, as mentioned earlier, the various definitions of strategic flexibility by different researchers relate to a number of different perspectives. See Table 1 below.

Table 1: Strategic Flexibility Definitions

Author & Year	Definitions
Ansoff (1965)	"Flexibility can be measured by two proxy objectives: external flexibility achieved through a diversified pattern of product-market investments, and internal flexibility through liquidity of resources" (p.65); "not putting all of one's eggs in a single basket" (p.65)
Eppink (1978)	"Flexibility makes an organisation less vulnerable to or better able to respond successfully to, unforeseen environmental changes". (p. 10) "Flexibility can be seen as a characteristic of an organisation that makes it less vulnerable to unforeseen external changes or puts it in a better position to respond successfully to such a change (p. 42)."
Aaker and Mascarenhas (1984)	"The ability of the organisation to adapt to substantial, uncertain and fast-occurring (relative to required reaction time) environmental changes that have meaningful impact on the organisation's performance" (p.74).
Harrigan (1985)	"The ability of firms to reposition themselves in a market, change their game plans, or dismantle their current strategies when the customers they serve are no longer as attractive as they once were" (p.1).
Kogut (1985)	"Flexibility is gained by decreasing the firm's dependence on assets already in place" (p.27)
Galbraith (1990)	"The ability to shift or replicate core manufacturing technologies quickly and effectively between different facilities, both domestically and internationally" (p.56).
Evans (1991)	"Capability to modify strategies" (p.77).
Bahrami (1992)	"The ability to precipitate intentional changes, to continuously respond to unanticipated changes, and the ability to adjust to unexpected consequences of predictable changes" (p.36).

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Author & Year	Definitions
Hayes and Pisano (1994)	"The capability to switch gears-from, for example, rapid product development to low cost-relatively quickly and with minimal resources"(p.78)
Das and Elango (1995)	"The ability of an organisation to respond to changes in the environment in a timely and appropriate manner with due regard to competitive forces in the marketplace" (p.62).
Upton (1995)	"Whether one is referring to products, production volumes or manufacturing processes, flexibility is about increasing range, increasing mobility, or achieving uniform performance across a specific range" (p.76).
Sanchez (1997)	"the condition of having strategic options that are created through the combined effects of an organisations co-ordination flexibility in acquiring and using flexible resources". (p. 71)
Lau (1996)	"Strategic flexibility refers to a firm's ability to respond to uncertainties by adjusting its objectives with the support of its superior knowledge and capabilities" (p.11).
Lei, Hitt and Goldhar (1996)	"Strategic flexibility suggests that firms will need to become more adept at responding to competitor moves while engaging in opportunistic searches for under-served or unlocated market segments and niches" (p.512)
Buckley and Casson (1998)	"Ability to reallocate resources quickly and smoothly in response to change" (p.23)
Hitt, Keats and DeMarie (1998)	"The capability of the firm to proact or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage" (p.27).
Matusik and Hill (1998)	"A firm's ability to respond quickly to changing market conditions" (p.682).
Volberda (1996)	"Flexibility is the degree to which an organisation has a variety of managerial capabilities and the speed at which they can be activated, to increase the control capacity of management and improve the controllability of the organisation" (p. 361).
Volberda (1998)	"a firm has to develop flexible capabilities for speed and surprise. These capabilities derive from broad knowledge bases, generalisable resources, and core competencies that can be applied in various ways." (p. 89)
Volberda (1999)	"Strategic flexibility or non-routine steering capacity consists of managerial capabilities related to the goals of the organisation or the environment". (p. 103)
Young-Ybarra and Wiersema (1999)	"The flexibility to modify the alliance and the flexibility to exit the alliance relationship when the alliance is performing poorly" (p.440)
Grewal & Tansuhaj (2001)	"strategic flexibility represents the organisational ability to manage economic and political risks by promptly responding in a proactive or reactive manner to market threats and opportunities". (p. 72)
Johnson, Lee, Saini and Grohman (2003)	"the firm's intent and capabilities to generate firm-specific real options for the configuration and reconfiguration of appreciably superior customer value propositions" (p. 77)
Shimizu and Hitt (2004)	"Strategic flexibility can be defined as an organisation's capability to identify major changes in the external environment (e.g., introduction of disruptive technologies), to quickly commit resources to new courses of action in response to change, and to recognise and act promptly when it is time to halt or reverse such resource commitments" (p. 45)
Combe and Greenley (2004)	"is used to denote the ability of the firms to respond and successively adapt to environmental change" (p. 1458) "the extent to which new and alternative options in strategic decision making are generated and considered". (p. 1458)

Defining Strategic Flexibility

Based upon the above, it is clear that any definition of strategic flexibility must combine both the external and internal perspectives. Therefore, for the purpose of this doctoral research, strategic flexibility is about:

- the ability to manage strategic risk
- the ability to respond to environmental change i.e. both opportunities and threats
- the ability of a company to use its resources in both a pro-active and a reactive way

Combining the above, this paper defines strategic flexibility as ‘...a company’s ability to manage strategic risk through its ability to respond to both opportunities and threats in its environment through using its resources in both a pro-active and a reactive way.’

Conclusion

This paper has presented a review of the literature about the term strategic flexibility. It has considered research which has conceptualised the term and the paper has also presented a historical discussion. Broadly, there have been two distinct approaches or perspectives to defining strategic flexibility – external and internal. The definition presented in this paper has attempted to ‘unify’ these two approaches in order to provide a common platform for Strategic Management researchers as well as for researchers from other academic disciplines such as Economics, Organisation Theory and Marketing. Consequently, it is suggested that this paper adds to our general understanding of strategic flexibility.

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