

UNIT 180 – UPSC - Strategic Flexibility

Strategic flexibility is explained by management scholars as the capability of firms to respond and successively adjust to environmental change (Evans, 1991). The phase has also been applied to strategic decision making, as it is the extent to which new and alternative options in strategic decision making are generated and considered (Greenley and Oktemgil, 1998). Strategic flexibility enable a firm to gain unique competitive advantage, because the capabilities to generate decision making options, and different forms of strategic flexibility to deal with dynamic and changing environments, is perhaps difficult for competitors to reproduce (Sanchez, 1995). Successful adaptation through strategic flexibility is likely generate superior performance, exacerbating the imitation problem for rivals. Subsequently, it is important for decision makers to possess the capabilities for strategic flexibility in its various forms. Nevertheless, currently, there is no passable theoretical framework to study the capabilities for strategic flexibility.



The notion of strategic flexibility can be used at two levels. First, at the level of the firm, where it is used to denote the ability of firms to respond and successively adapt to environmental change (Evans, 1991). Second, at the level of decision makers, where it is the extent to which new and alternative options in strategic decision making are created and deliberated (Aaker and Mascarenhas, 1984). These two applications are not conjointly exclusive, because the creation of different options by decision makers is a requirement for firms adjusting to environment change (Sharfman and Dean, 1997). It can be assumed that for strategic flexibility to exist at the level of the firm, decision makers themselves must possess capabilities for strategic flexibility.

In theoretical literature, it has been demonstrated that Strategic flexibility is a possessions that allows contemporary organizations to prepare for changes in their environment. Raynor stated that the concept involves an interaction of many elements which includes actions taken in relation to analytical studies, aimed at anticipating multiple scenarios, formulation of strategies for each scenario, acquisition of resources and skills required to execute those strategies, implementation of the most likely strategy and preparing for the task of rapidly accepting substitute strategy if needed. According to Aaker and Mascarenhas, flexibility signifies the "ability of the organization to adapt to substantial, uncertain and fast occurring (relative to the required reaction time)

environmental changes that have a meaningful impact on the organization's performance" (1984). Many scholars affirmed that the ability to manage with unpredictable environment and strategic flexibility requires ambiguity management skills, understanding of inconsistencies, broadening the viewpoints of current analyses and focus on activities that enable fast reaction to changes (Gray, 2011).

Strategic flexibility is composed of three elements (Kessler, 2013):

1. Attention
2. Assessment
3. Action

It is well established in studies that strategic flexibility is the ability to recognize external changes, to quickly commit resources and identify when strategic decisions are not working (James, 2010).

Suggestions for developing strategic flexibility (Source: James, 2010):

- Know what's happening with strategies currently being used by monitoring and measuring results.
- Encourage employees to be open about disclosing and sharing negative information
- Get new ideas and perspectives from outside the organisation.
- Have multiple alternatives when making strategic decisions.
- Learn from mistakes.

Strategic flexibility is indubitably associated with planning, formulation and implementation. It is found in empirical research that dynamic and prosperous companies consider the effects of external factors, even if they espouse routine planning processes. In such cases, planning strategies typically include the so-called flex points, i.e. elements that change depending on external circumstances. These companies symbolise a cohesive approach to strategy formulation and selection, while their concept of development is focused on risks and hazards, which are interpreted as potential sources of competitive advantage. Experiential researches revealed that strategic flexibility is interrelated with the company's results, particularly in times of turbulent changes brought about by the present economic crunch. This correlation is especially important for companies operating on highly competitive markets, as opposed to markets characterized by high ambiguity of demand or technological growth, where strong market orientation at the cost of flexibility is the favoured approach (Grewal, 2001). The inconsistency of strategic flexibility lies in the fact that strategy formulation needs careful analyses, and these are not possible, since forecasts of market development and environmental changes are burdened with high-level ambiguity (Harrison, 2013).

Role of strategic flexibility: To overcome organizational lethargy, strategic flexibility is needed for firms to break down the institutional procedures and withstand their explorative innovations. Because strategic flexibility underlines the flexible use of resources and reconfiguration of processes, it reflects one type of dynamic capability that enables firms to attain a competitive advantage in tempestuous markets (Eisenhardt and Martin, 2000). Several management professionals stresses on the fact that it is important to develop flexibility in organizational forms, resource management, and manufacturing processes. This will create an organizational culture

that supports explorative innovation (Matthyssens, Pauwels, and Vandenbempt, 2005). Since strategic flexibility serves as an organizing norm for structuring and synchronising various resources and functional units (Zander and Kogut, 1995), it may not affect a firm's improvement output by itself. Rather, it may enhance the value of existing technological capabilities in innovations. Many scholars posit that strategic flexibility augments the positive effect of technological competence on exploration. That is, when strategic flexibility is high, strong technological capability leads to more explorative activities.

To sum up, Strategic flexibility is a set of capabilities used to respond to various demands and opportunities existing in dynamic and uncertain competitive environment. Therefore it involves coping with uncertainty and associated with risks (Hitt, 2014). Companies develop strategic flexibilities in all areas of operations.