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Responding to Uncertain Conditions: New Research on Strategic Adaptation

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Foreword

The conduct of international business has been seriously affected by multiple abrupt and largely unexpected disruptive events in recent times including financial crisis, pandemic, geopolitical tensions, and major military confrontations. We see a general development toward global business contexts characterized by high uncertainty, unpredictability, and unknown future incidents that call for more effective ways to deal with the implied managerial and strategic challenges. Whereas pandemic as a possible occurrence was included in most institutional risk inventories no one was prepared for the rather chaotic, uncoordinated, and at times contradictory approaches taken around the world to deal with Covid-19 often influenced by diverging political interests. The increasing attentiveness to geopolitical interests in different parts of the world affects the ability to conduct cross-border commercial transactions and manage global enterprise. The Russian invasion of Ukraine has shown the brutality of war but also uncovered the vulnerabilities of international supplies, and the supply lines that distribute them with severe economic ramifications that had escaped the radars of most boardrooms. The belief that globalization, based on free and unrestricted trade, provides the path to future wealth creation is contested while realizing that we need more flexible and resilient supply chains.

As the international economic actors struggle to impose necessary adjustments to align the global value chains with the evolving political reality, it is clear that organizations must improve their ability to deal with uncertainty and abrupt events. Add to this the increasing demands to deal with potentially extreme weather effects from climate change influenced by ongoing degradation of the natural environment, for example, CO₂ emissions, waste, and pollution. It is becoming apparent that organizations are incapable of resolving these challenges on their own but require collaboration around viable collective solutions for the long term. This volume of chapters presents a variety of studies that provide insights to current deliberations about how to facilitate strategic flexibility, organizational adaptability, and more resilient economic systems. These contributions cut across institutional settings to consider organizational structures and processes that can drive adaptive strategy-making with sustainable outcomes. We hope the readings will provide fruitful inspiration for new ways to enhance global strategic responsiveness.

The ability to gain strategic flexibility with faster adaptation is key under rapidly changing conditions as a precondition for more durable responsive strategic actions. Flexible strategy-making processes are essential to foster adaptive

moves that retain the viability of business when the competitive reality changes. We study the concept of strategic flexibility drawing on the management, strategy, entrepreneurship, and marketing fields engaging upper-echelons theory, the resource-based view, and dynamic capabilities rationales.

Adaptive strategy-making by firms with heterogeneous response capabilities leads to left-skewed financial returns and inverse risk–return relationships where effective firms can reach higher performance at lower risk. Computational simulations of these responsiveness models reproduce the outcome effects found in extensive analyses of a large cross-sectional corporate dataset. That is, effective adaptive strategy-making processes can lead to superior risk–return outcomes reflective of the empirically observed performance characteristics.

Adaptive strategy-making relies on middle-management engagement in contrast to common depictions of transformative actions as deployment of carefully elaborated strategic plans shaped by diligent executives. Adopting a strategy-as-practice view underscores how the capabilities of middle managers weigh in as demonstrated in a study of a major aeronautics company where the digital transformation is driven by middle managers in charge of projects absent from an overarching strategic plan. In short, many important adaptive and transforming strategic initiatives may derive from efforts instigated by middle managers.

Dynamic adaptive processes in complex environments should arguably balance search for opportunities with pursuit of long-term goals. Interactive strategic controls that update central planning deliberations with experiential middle-manager insights can form an adaptive system and drive upside performance outcomes. These relationships are studied based on survey data from a large corporate sample, which finds a direct relationship between interactive controls, strategic planning, and participative leadership on upside performance.

The engagement of employees is a function of their wellbeing and thereby affects an organization's ability to navigate uncertain conditions through timely and productive responses to ongoing changes in the local task environments. This is analyzed in a large empirical study of employees, which demonstrates that the design and application of management control systems affect health and wellbeing. Hence, the way control systems are set up and used affect employee wellbeing and their ability to foster adaptive business practices.

Human rationality implies that organizational actions take form from socio-cultural conditions whereas a relational practice perspective sees a nexus of practices that enable and constrain intentional strategies. This pinpoints the importance of human agency in the generation of strategic actions where practice-based strategizing derives from human agents that make choices and act. A case study shows how intentional strategy is constrained by current practices where the strategic direction evolves from responses to uncertain conditions.

A study of formal sustainable certificates uncovers the motives to improve the environmental standing of firms including effects of slack resources and institutional pressures. It uncovers significant differences between antecedent formal requirements and resulting outcomes that extend beyond mere compliance behavior. Demands for environmental consciousness has made adoption of

sustainability certifies a common response to create legitimacy that disguises the pursuit of more progressive environmental stewardship efforts.

As organizations face frequent crisis events, bricolage, where responsive actions derive from available resources and practices, becomes a viable approach to deal with extreme situations of resource constraints. So, we need to know more about collective multi-level bricolage processes and their conditions of success. To this effect, a study explores the bricolage concept in view of related notions like innovation, creativity, and improvisation. The study identifies conditions for effective individual, collective, and networked bricolage dynamics.

The relationships to organizational stakeholders are crucial to develop sustainable collective solutions as a central focus in strategic management. Demands for societal accountability in competitive business environments require practices that are ethical, fair, and viable for all. Stakeholder theory points to fair treatment of involved counterparts together with organizational justice as a basis for synergistic value creation from reciprocal behaviors.

The many disruptive events have fueled a cross-disciplinary literature on resilience thinking. A systematic literature review with a qualitative content analysis notes the foundations and trajectories of resilience research. It identifies three analytical levels around teams, organizations, and supply chains calling for multi-level inter-disciplinary studies as avenues for future resilience research.

These chapters, we believe, provide relevant perspectives that can inspire ongoing thinking about how to form flexible structures, processes, and practices for organizational adaptation and strategic responsiveness and thereby foster sustainable and resilient outcomes for posterity. We hope you agree.

Torben Juul Andersen
Frederiksberg, August 15, 2022

Chapter 1

Strategic Flexibility

Jitrinee Chanphati and Nongnat Thosuwanchot

Abstract

Under currently uncertain and fast-changing environments, it is important for firms to supplement their main strategy with alternative ones so that they can quickly change courses of actions. Strategic flexibility is thus an important factor for the viability and success of firms. Although previous research has emphasized the need for strategic flexibility, some firms are reluctant to do so since it requires high investments. Existing studies on strategic flexibility have emerged from various disciplines and drawn on diverse theoretical perspectives. Due to the increasing importance of strategic flexibility, this chapter reviews and summarizes existing studies on strategic flexibility based on the applications of strategic flexibility in various business disciplines, including management and strategy, business entrepreneurship, and marketing. The authors also summarize different theoretical perspectives, including upper echelons theory, resource-based view theory, and dynamic capabilities theory, as well as their limitations.

Keywords: Dynamic capabilities; maneuverability; resource-based view; strategic flexibility; upper echelons theory; uncertainty

Introduction

Running a business in today's environment is highly challenging. In addition to various changes in market requirements and intensive competition, organizations must also keep themselves updated with the latest technology in order to outperform competitors and survive (Santos-Vijande, López-Sánchez, & Trespalacios, 2012). Being flexible is one practical solution for organizations to address these challenges. Particularly, strategic flexibility has increasingly become vital to organizational goal achievement under uncertain circumstances (Mullins & Komisar, 2010). This is because when organizations are able to instantly revise

their plan and strategy, they are more likely to be successful in terms of performance, competitiveness, and survivability (Nandakumar, Jharkharia, & Nair, 2014; Worren, Moore, & Cardona, 2002).

Scholars have specified various components when considering strategic flexibility, such as resource flexibility and coordination flexibility (Grewal & Tansuhaj, 2001; Sanchez, 1997). From time to time, they might refer to strategic flexibility as strategic maneuverability, organizational flexibility, and dynamic capabilities; however, each of them has its own distinction (Brozovic, 2018). This study focuses on strategic flexibility in order to avoid contradiction in the uses of organizational flexibility construct (Aaker & Mascarenhas, 1984; Wang, Libaers, & Jiao, 2015), an inconclusive definition of strategic maneuverability (Klingen, 1975), and the conflict in nature of dynamic capabilities construct with that of fast-changing environment (Mhaibes, 2018).

Despite the increasing importance of strategic flexibility, especially under current uncertain and changing environments, there are still limited studies that well delineate how and under which settings strategic flexibility construct has been investigated. Our review chapter investigates the literature on strategic flexibility based on the applications of strategic flexibility in various business disciplines, including management and strategy, business entrepreneurship, and marketing. Moreover, current literature on strategic flexibility has investigated through the lens of each theoretical perspective individually, such as upper echelons theory by focusing on characteristics and values of firms' executives, as well as resource-based view theory and dynamic capabilities theory by focusing on strategic resources. Therefore, we also summarize these different theoretical perspectives and their limitations. Based on our review, future studies can further examine strategic flexibility construct to advance the literature.

Definition of Strategic Flexibility

One conventional strategy for a business to outperform its competitors and gain competitive advantage is to make a distinct choice from its competitors. Making an outstanding decision implies that business strategy involves tradeoffs, which are critical to superior performance of business (Karnani, 2008). It is then essential for business to spot its environmental opportunities and threats, analyze and predict possible future consequences, and decide its actions and responses. This strategic concept has been developed under the assumptions that future and consequences are predictable. However, current environment has become so fast changing and uncertain with lots of unpredictable opportunities and threats that some businesses may find it more challenging and difficult to react upon than others. Only developing a distinct one-size-fit-all strategy can no longer guarantee the attainment of competitive advantage.

Managers should supplement their actions with sets of options that enable them to instantly change courses if necessary to deal with environmental uncertainties (Courtney, Kirkland, & Viguerie, 1997). Such practice refers to the term *strategic flexibility*, defined as “the ability of the organization to adapt to substantial, uncertain, and fast-occurring (relative to required reaction time) environmental

changes that have a meaningful impact on the organization's performance" (Aaker & Mascarenhas, 1984, p. 74). Literature indicates various criteria, based on which strategic flexibility construct has been classified (Sanchez, 1995; Volberda, 1999). To illustrate, Sanchez (1995) decomposes strategic flexibility into resource flexibility and coordination flexibility. The first component, resource flexibility, stresses that strategic flexibility of the firms may be hindered by their least flexible resources (Sanchez, 1997). In other words, firms face resource bottleneck problem, which then degrades their overall effectiveness. The second component, coordination flexibility, emphasizes the needs of firms to generate continuous and effective flows across business units and functions for them to ultimately utilize available resources (Grewal & Tansuhaj, 2001; Sanchez, 1997). Later, these two compositions have been used interchangeably with technological and organizational flexibility, respectively (Wang et al., 2015).

Alternative Concepts

Strategic flexibility is perceived as conceptually similar to terms such as strategic maneuverability, organizational flexibility, and dynamic capabilities, and is related to both internal and external environment of firms. However, differences between strategic flexibility and these alternative terms exist. Despite the similarity in content, their underlying theoretical perspectives and literatures are different and independent from one another (Brozovic, 2018). The first alternative term, organizational flexibility, has emerged in the literature in two aspects. Scholars sometimes apply organizational flexibility in place of strategic flexibility as an approach for exercising strategic options in organizations (Aaker & Mascarenhas, 1984) while other times they refer to organizational flexibility as an element of strategic flexibility (Wang et al., 2015). This contradiction may easily distort the context of study.

The second alternative term, strategic maneuverability, is defined as "the extent to which strategic behavior [of an organization] may be realized" (Klingen, 1975, p. 11), and influenced by its freedom of movement, environment, and strategic control quality (Roberts & Stockport, 2009). However, to the best of our knowledge, strategic maneuverability has been defined by no scholars but Klingen (1975), making the applicability and reliability of its definition one of our concerns.

For the third alternative term, although dynamic capabilities and strategic flexibility focus on one similar aspect, that is, firms' responses to uncertainty and rapid-changing environments (Bleady, Ali, & Ibrahim, 2018), they are of different but not mutually exclusive functions. That is, dynamic capabilities are of routine nature (Mhaibes, 2018) that mainly impacts operating routine of firms (Zollo & Winter, 2002) while strategic flexibility is of non-routine nature (Volberda, 1997) that helps rectify the problem of firms' vulnerability and strengthen the effectiveness of firms' reaction (Mhaibes, 2018). Literature deems dynamic capabilities as one of the crucial triggers for firms to be strategically flexible (Combe & Greenley, 2004; Teece, Pisano, & Shuen, 1997).

This study focuses on reviewing the literature on strategic flexibility construct, rather than its alternatives, due to the availability of definition that helps strengthen the scope and review quality. In addition, the non-routine nature of

strategic flexibility construct aligns with current business settings and environments. Therefore, we deem this construct highly crucial not only to future academic-oriented research but also to future practitioner-oriented research as well as its applications in the real business world.

Benefits

Literature has revealed numerous benefits derived from being strategically flexible. First, strategic flexibility helps enhance firms' financial performance (Abbott & Banerji, 2003; Lin, Zhao, & Li, 2014; Nadkarni & Herrmann, 2010; Worren et al., 2002). Moreover, it promotes innovation performance of firms through the provisions of flexible use of resources, processes, and structure (Cingöz & Akdoğan, 2013; Kamasak, Yavuz, Karagulle, & Agca, 2016). Other benefits include the development of competitive advantage from their ability to be the first mover in the markets (Hitt, Keats, & DeMarie, 1998; Nandakumar et al., 2014), as well as the enhancement of firms' vitality and sustainability from their ability to respond to economic, environmental, and social requirements of all stakeholders (Sushil, 2015). Furthermore, Aaker and Mascarenhas (1984) suggest that being able to conduct a flexibility audit, or a general assessment of their flexibility against their rivals' flexibility, is one of the most convincing ones because further analysis can be made, and if required, any remedial action can be taken in time.

Drawbacks

Despite the above-mentioned benefits of strategic flexibility, some firms might have little interest in pursuing or increasing their strategic flexibility level. One explanation is that in order to maintain or obtain strategic flexibility, firms must be willing to incur high costs for unknown benefits. Thus, firms that have financial constraints should not and might not be willing to make such investment unless it is the most cost-efficient method for handling environmental changes and uncertainties (Aaker & Mascarenhas, 1984). Whether small firms should be strategically flexible is even problematic and disputable. On the one hand, scholars argued that small firms benefit from maintaining their strategic flexibility so long as they are equipped with knowledge-based resources (Chaudhary, 2019). In addition, smaller firms are more capable of responding to uncertainties than larger firms due to their decentralized structure which enhances rapid and agile decision making processes (Ebben & Johnson, 2005). On the other hand, other groups of scholars contended that larger firms have higher resources flexibility and therefore are better at benefiting from strategic flexibility than smaller ones, who possess a limited pool of resources (Verdú-Jover, Lloréns-Montes, & García-Morales, 2006).

Applications of Strategic Flexibility in Various Business Disciplines

Overtime, strategic flexibility construct has been recognized as the “conceptual schizophrenia” due to the lack of cumulative theoretical development (Bahrami &

Evans, 2011, p. 35). One reason for such deficiency is that previous investigation of strategic flexibility has been developed through a variety of business disciplines, such as management and strategy, business entrepreneurship, and marketing. Too diversified interest of researchers may gradually distort and impair theoretical strength and completeness of empirical evidences (Combe, Combe, Rudd, Leeflang, & Greenley, 2012; Herhausen, Morgan, Brozović, & Volberda, 2020). After reviewing the literature, Roberts and Stockport (2009) classified three ability dimensions of strategic flexibility: the ability to manage strategic risk, the ability to respond to environmental changes in terms of both opportunities and threats, and the ability to use available resources both proactively and reactively. Applications of these ability dimensions and their consequences may vary to a certain extent depending on business contexts being applied to.

Management and Strategy

For the application of strategic flexibility in management and strategy context that we have reviewed in this chapter, scholars emphasized the crucial role of strategy and appropriate management approach in driving managerial actions and decisions toward flexibility, better performance, and success (Aaker & Mascarenhas, 1984; Karnani, 2008). After the interviews with executives of firms from various industries with substantial international investment projects, Aaker and Mascarenhas (1984) emphasized the needs of strategic flexibility for firms as it might be risky for them to rely on the conventional management strategies especially under the circumstances of highly unpredictable and fast-changing environment. Scholars suggested three efficient methods for firms to increase their strategic flexibility level, which are unrestricted to any of the functional areas. First, firms might obtain external flexibility by involving in diversification, which can be either defensive or aggressive. Defensive diversification, such as participating in multiple product markets and technologies, refrains firms from high vulnerability in case that one market or technology fails. Aggressive diversification, on the other hand, such as participating in distinct technologies and advanced R&D development, enables firms to be the first movers and pioneers in their specialized field. Second, they can be internally flexible by obtaining liquidity through the investment in underused assets. The higher the internal flexibility firms have, the more ready they are to handle unforeseen events and to absorb unfavorable consequences. Such underused assets include, but not limited to, excess capacity, general-purpose factories and equipment, and extremely high customer loyalty, all of which can be tools to capture surprising opportunities and be essential buffer against competitive actions of rivals and other environmental threats. Third, even though higher investment in specialized assets relates to greater potential returns, firms shall reduce their specialized commitment for increasing their strategic flexibility because commitment to specialized assets creates exit barrier and switching costs to them.

Business Entrepreneurship

In the business entrepreneurship research, strategic flexibility represents firms' ability to identify innovation opportunities, commit available resources to new

courses of action, and/or reverse unproductive resource allocation (Bock, Opsahl, George, & Gann, 2012). Being an entrepreneur requires not only the formation of new business ventures but also the innovative activities achievable through flexibility (Bhardwaj & Momaya, 2006). Effective means for promoting flexibility include establishing both formal and flexible strategic planning process (Dibrell, Craig, & Neubaum, 2014), boosting employee involvement in the process, and utilizing managerial capabilities of the entrepreneurs, such as affective commitment and managerial experience (Brinckmann, Villanueva, Grichnik, & Singh, 2019). Being innovative and strategically flexible enhances firms' ability to respond to external changes using their available resources (Bishwas, 2015).

Marketing

Previous studies that focused on the marketing context revealed several benefits of strategic flexibility. To illustrate, having marketing cultural belief facilitates firms and their managers in developing distinct and competitive strategic options (Combe et al., 2012). Marketing orientation plays a complementary role with strategic flexibility in helping firms survive amidst various environmental conditions, especially after a crisis (Grewal & Tansuhaj, 2001). Supplier–buyer relationship quality also relies on this flexibility such that it promotes satisfaction, trust and commitment (Han, Sung, & Shim, 2014). The extent to which marketing orientation is beneficial to the firms also depends on strategic flexibility as Yang, Wei, Shi, and Zhao (2020) report the positive impacts of both responsive and proactive market orientation on business model innovation through the mediation of strategic flexibility. Nevertheless, not all marketing techniques are deemed advantageous. Techniques, such as image and brand loyalty, may hinder firms' intention to be flexible as little changes in their strategy may cause customer confusion and negatively affect their performance (Bierly & Chakrabarti, 1996). These reflect firms' ability to use available resources and manage strategic risks.

Main Theoretical Perspectives in Strategic Flexibility Research

Research on strategic flexibility has emerged from various disciplines, such as management, marketing, innovation, and entrepreneurship (Bhardwaj & Momaya, 2006; Bishwas, 2015; Combe, 2012; Herhausen et al., 2020). Strategic flexibility is a multidimensional construct (Herhausen et al., 2020) as it can be discussed as being reactive versus proactive (Golden & Powell, 2000; Grewal & Tansuhaj, 2001); in terms of variety of outcomes versus speed of actions (Cox-Fuenzalida, Angie, Holloway, & Sohl, 2006; Volberda, 1999); and from internal versus external perspectives (Aaker & Mascarenhas, 1984; Bourgeois 1981). Prior research on strategic flexibility has drawn on various theoretical approaches, generated diverse theoretical contributions, and employed numerous empirical methodologies (Herhausen et al., 2020), making it one of the difficult and complex issues to study (Brozovic, 2018). As such, the basis of study may have no common ground and tensions of strategic flexibility remain unresolved unless its theoretical and

empirical evidences are well integrated. In the below sections, we review three theoretical perspectives, which include upper echelons theory, resource-based view theory, and dynamic capabilities theory. These theories have been employed by many previous studies since their underlying arguments are considered vital to management-level and strategic decisions, thus directly influencing strategic flexibility of the firms.

Upper Echelons Theory

Strategic flexibility is one of the strategic decisions made by the top management team. Upper echelons theory suggests that background characteristics of top executives partially influence and predict organizational outcomes (Hambrick & Mason, 1984). Among the studies drawing on upper echelons theory, one research issue that is still inconclusive is the issue of level. Generally, researchers have various choices of the levels of analysis, such as individual, group, and organization, which consequently impact their research methodology and analysis, as well as contributions to future research and business practices. In upper echelons literature, scholars often encounter the level issues when units of analysis are at one level and researchers are required to study them together in order to explain a phenomenon at another level (Cannella & Holcomb, 2005). For instance, researchers might explore the causal relationship between a CEO personality, as an individual-level independent variable, and strategic flexibility, as a firm-level dependent variable (Fernández-Pérez, García-Morales, & Bustinza-Sánchez, 2012; Nadkarni & Herrmann, 2010).

Identifying the main decision maker of organizations is another long discussed yet indecisive issue. For researchers who are in favor of top management team as the main decision maker and key level of analysis, top management team contributes far beyond the individual contribution of the CEOs as their synergy is fundamental to productivity of the firms (Dalton & Dalton, 2005) and is considered a contributing factor to firms' decisions and outcomes (Cannella & Holcomb, 2005). Furthermore, organizations are described to be aggregations of individuals, whose activities, preferences, and values take part in organizational decision making processes. On the contrary, researchers, who deem top management team as an inappropriate proxy and prefer considering CEOs as the main decision makers and key level of analysis, discuss flaws of top management team proxy (Cannella & Holcomb, 2005; Herrmann & Nadkarni, 2014; Malmendier & Tate, 2005). To illustrate, top executives sometimes act upon their self-interests, and may be perceived by organizations and their CEOs as less important. Positional independence is another riddle in upper echelons literature. Conceptually, board of directors and top management team should play separate and distinctive roles; however, the effect of board independence is inconclusive. Although scholars have found the positive association between board independence and firms' operating performance and investment efficiency (Liu, Miletkov, Wei, & Yang, 2015), in business practices firms may ignore this independent principal as there are the cases that firms with independent boards did not achieve higher performance outcomes even though they employed this principal as a tool for solving

low-profitability problem (Bhagat & Black, 2001). As a result, employing senior managers as board members makes the role and influence of top management team a complicated and unresolved matter (Dalton & Dalton, 2005).

Resource-based View Theory

Resource-based view theory suggests that resources are among crucial determinants of organizational strategies (Barney, 1991). Especially when the resources consist of four characteristics – valuable, rare, inimitable, and non-substitutable (VRIN), these resources enable firms to gain sustainable competitive advantage over their rivals (Barney, 1991). More importantly, if these resources are complementary, the likelihood of firms' developing strategic flexibility will be higher (Milgrom & Roberts, 1995; Stieglitz & Heine, 2007). The higher the level of resource complementarity, the lower the degree of its substitutability as firms can reap greater synergy and values from complementary resources and make their strategic flexibility sustainable and inimitable (Stieglitz & Heine, 2007). However, scholars revealed that internal incentive and collaboration issues may occur and be amplified by the magnitude of complementary resources available within firms due to the fact that the marginal values and returns from complementary resources can be obtained only if cooperation from multiple related parties takes place in a smooth and efficient manner. The higher discrepancy in the segregation of marginal returns from complementary resources leads to the lower collaboration and contribution from interrelated individuals, resulting in lower tendency of firms toward strategic flexibility and thereafter lower firms' performance (FitzRoy & Kraft, 1987).

According to resource-based view, two dimensions of strategic flexibility, namely, resource flexibility of the product and coordination flexibility of the firm, play important roles in uncertainty management (Aaker & Mascarenhas, 1984; Sanchez, 1995). Specifically, strategic managers should be able to identify and prudently apply flexible resources across courses of activities, and to ensure flexible collaboration among interrelated teams and individuals (Sanchez, 1997). Flexibility bottleneck is one problem that may arise from the least flexible resource as when comparing to other flexible resources it offers the most limited option for strategic action and flexibility to the firms. Hence, in order to overcome flexibility bottleneck and to maintain strategic flexibility, firms' managers prefer resources with higher ranges of alternative uses, lower costs of switching, and lower time for switching.

Dynamic Capabilities Theory

Literature has explored strategic flexibility construct by drawing on dynamic capabilities theory. Particularly, firms' ability to maintain or increase strategic flexibility is similar to and influenced by dynamic capabilities (Bock et al., 2012; Combe & Greenley, 2004) as both of them enhance firms' adaptability amidst fast-changing circumstances. In moderately uncertain environments, firms follow their traditional and routine practices; whereas, in highly uncertain and