DYNAMIC CAPABILITES FOR STRATEGIC FLEXIBILITY IN RETAIL FIRMS

Mindaugas DEKSNYS
Mykolas Romeris University
Institute of Economics and Business
E-mail: deksnysm@mruni.eu

Rima ŽITKIENĖ
Mykolas Romeris University
Faculty of Economics and Finance Management
E-mail: rizit3@mruni.eu

Abstract. The purpose of this conceptual paper is to explore the dynamic capabilities that are required to achieve or improve strategic flexibility in retail industry companies. Building on research on strategic flexibility and dynamic capabilities in general, author identifies five main dynamic capabilities, needed for strategic flexibility specifically in retail sector: marketing flexibility, brand building, distribution flexibility, store location and design, and customer relationship management. This paper contributes to the scientific literature by narrowing the focus and adding to retail industry specific research on strategic flexibility and dynamic capabilities.

Keywords: Strategic flexibility; dynamic capabilities; retail industry

JEL classification:

M1- Business Administration

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Introduction

Purpose: based in literature analysis, identify main dynamic capabilities needed for strategic flexibility development and improvement in retail firms

Scientific problem: strategic flexibility and dynamic capabilities are often confused and used interchangeably in scientific literature. There is a lack of research for industry specific dynamic capabilities, relating to strategic flexibility.

In stable environment, traditional managerial approaches are sufficient to be successful, however they do not prepare companies for uncertainties. Constant change in environment demands companies to keep up with the changes or loose to the competition. In recent decades retail and services businesses all over the world underwent major transformations. With rapid expansion of electronic business these industries found the new ways to reach their customers and different methods of innovation. Globalization and internationalization of retail industry further complicated business environment.

Not all companies were able to adapt to those changes and to use them in their advantage. Structural shift in the way retail and service companies do business was a major challenge for less flexible or innovative companies. As an alternative to traditional managerial approaches, to help foresee and adapt to environmental changes, new management theory and practice started to focus on developing organization's strategic flexibility (Cingöz & Akdoğan, 2013).

Strategic flexibility, as an ability to accept the rapidly changing environment, adapt and gain competitive advantage in the process, is becoming prerequisite for success in retail industry. Flexible firms are able to shift from one strategy to another in response to environmental changes and are less dependent on current assets or resources.

In this research paper, using theoretical base we look into one of the most dynamic and competitive sectors – retail. Attempt is made to identify main dynamic capabilities needed to achieve efficient strategic flexibility for retail companies.

Strategic flexibility

External or internal changes open up organization for vulnerabilities or opportunities, depending how prepared organization is for a change. If organization is not able to adapt to the changes, has rigid structures and processes, not sufficiently trained employees, or lack change capability all together, it is exposed to the competitive forces and often loose in transitional periods to the companies that are more agile and adaptable. However, if organization is ready for change, has flexible structure and processes, highly trained employees and right culture, the market changes become opportunities to strengthen its competitive position and gain market share.

Flexibility term is often used interchangeably with other words such as adaptability, elasticity, fluidity, agility, versatility, resilience etc. Flexibility shows organization's ability to deal with turbulent environment and often viewed as a core principle of business strategy (Widati, 2012).

According to Singh et al, (2013) flexibility in general has numerous meanings and definitions. Flexibility is a firm's ability to respond quickly to market opportunities and changing technologies. It allows organization to be less vulnerable and better respond to unexpected changes in the environment.

Strategic flexibility as an organization's capability to identify major changes in the external environment (e.g. new technologies, new competitors), to quickly commit resources to new courses of action in response to change, and to recognize and act promptly when it is time (Shimizu & Hitt, 2004). To develop strategic flexibility organizations should exercise strategic leadership, build dynamic core competence, focus and develop human capital, effectively use new manufacturing and information technologies, implement new organization structure and, have innovative culture (Cingöz & Akdoğan, 2013).

This ability to anticipate changes in the business environment allows companies to become more innovative. Strategic flexibility proactivity opens possibilities for new product or services development. Proactively scanning environment for threats and opportunities flexible organizations find better ways to satisfy customer needs, improve quality of existing products and reduce the costs. Companies that want to become more innovative and gain competitive advantage, have to be strategically flexible (Cingöz & Akdoğan, 2013).

Environmental changes are uncertain and occur rapidly, which requires flexible resources to be able to take advantage of these opportunities, control them and gain competitive advantage in the process (Asikhia, 2010).

Raynor (2007) argues that flexibility is not the same as adaptability, because it occurs within existing constraints. While adaptability only helps an organization to face uncertainty and un-predictive future, flexibility allows to change organization as a response to those uncertainties. Raynor (2007) mentions that strategic flexibility consists of two fundamental constructs: scenario based planning and real option. Scenario based planning allows organization to prepare and anticipate changes in the environment, while real option is a reactionary response to already occurred change (Widati, 2012).

Other authors (Pauwels & Matthyssens, 2004) see strategic flexibility as resource flexibility and company's ability to apply those resources to different courses of action that changing environment dictates. Strategic flexibility, therefore depends on resource flexibility, while ability to apply those resources depends on managerial capability and its flexibility. As there are differences in resource flexibility and coordination flexibility, they function differently and influence product innovation and organizational performance differently (Singh et al., 2013). Mullins and Walker (2012), on the other hand, argues that strategic flexibility is gained by reducing firm's dependence on resources already in place. It implies that organizations should not be dependent on the assets they already have and be flexible to change them as environment changes. By outsourcing some of the resource dependent parts of the business, company will be less dependent and easier adaptable.

Fellenz (2008) emphasizes managerial ability to identify changes in the environment and take advantage of them by gaining competitive advantage. These capabilities are intangible resources, such as skill, learning and knowledge, and utilized by deploying other tangible or intangible resources of the firm for capturing market opportunities. Therefore, strategic flexibility can be applied at two levels – firm and decision maker level. At the organizational level strategic flexibility applies to firm's abilities to respond and adapt to environmental changes. While at the level of decision maker – manager, strategic flexibility is applied to the abilities for flexible decision making and ability to face changes (Combe & Greenley, 2004; Widati, 2012). If abilities at both levels do not match or at a different pace, it would be hard for the company to achieve effective strategic flexibility. Decision maker can be restricted by organizational abilities or resources, and vice versa – organization's strategic flexibility can be limited by the managerial abilities to be flexible and adapt.

Strategic flexibility in retail firms

According to Cingoz & Akdogan (2013), strategic flexibility provides many advantages for the businesses. They can shift their strategies form one to another and adapt to the fast changing environment. This is especially important in the fast paced retail and service businesses. These industries are highly influenced by changing consumer preferences and tastes, fashion, technology, innovations and globalization. Strategic flexibility allows these companies to be more proactive and anticipate market changes before they happen. Proactive firms can analyze scan their environments and anticipate forthcoming changes better than other firms. This ability provides them with an advantage over other competitors and allows to protect themselves from environmental threats. In retail and service businesses ability to anticipate changes and be proactive is very important, as it allows innovative companies to shape latest trends in products and services and dictate fashion.

Fast, uncertain and substantial changes in competitive environment is constant in retail environment. Ever changing customer habits, preferences and tastes of how they buy, when and what keeps successful retail companies on the edge of change. In extremely competitive retail market one of the possibilities to gain competitive advantage is to increase company's strategic flexibility, by strengthening and developing organization abilities that allow to anticipate these changes proactively, capture them and control, and in some cases lead the change in trends. To compete effectively in fast changing environment, retailers have to create innovative solutions to cater changing needs of the customers. Retail companies, as other organizations need to have certain organizational abilities to be strategically flexible

Strategic flexibility not only facilitates gaining and sustaining competitive advantage, helps effectively and successfully manage economic and political risks (Ussahawanitchakit & Sriboonlue, 2011), enables innovation (Cingöz & Akdoğan, 2013), but also helps to improve performance in dynamic and fast changing environments (Zhang, 2007). Retailers usually work in such fast changing environments.

Theoretical and empirical research supports the statement that strategic flexibility enhances firm performance, especially in volatile and changing environments with high degree of competition (Oyedijo, 2012; Grewal & Tansuhaj,2001; Nadkarni & Herrmann, 2010; Worren et al., 2002; Guo & Cao, 2014). Guo & Cao (2014) in their empirical study of SMEs found out that strategic flexibility impact on firm's performance depend on three factors: external environments, internal capabilities and social networks. Strategic flexibility is more effective in highly competitive environments. Resource combination activities strengthen the impact of strategic flexibility on firm performance. Competitive industry positively moderate the impact of strategic flexibility on firm performance.

Strategic flexibility should be used to manage internal resources to anticipate and adapt to changing environment in order to seize the business opportunities. Resource combination activities strengthens the impact of strategic flexibility on performance. Organization of firm resources to introduce new products and enter new markets positively moderate strategic flexibility impact on firm performance. In order to improve firm's performance, strategic flexibility should be matched with external environments as well as with internal capabilities (Guo & Cao, 2014).

Dynamic capabilities for strategic flexibility in a retail firm

Strategic flexibility capabilities refer to whether organization is able to do what is necessary in order to be more flexible. Flexibility capabilities allow organizations to respond efficiently to change and reach competitive advantage. Various authors use different terms to name those capabilities: responsiveness, quickness, innovation, knowledge management, learning (Charbonnier-Voirin, 2011; Sharifi & Zhang, 2001). Charbonnier-Voirin, (2011) groups different aptitudes into three key organizational capabilities. First one - ability to mobilize a rapid response to change – is based on reactive flexibility and refers to an ability to organize existing resources. In order to benefit from this capability, organization has to have flexible resources that are open for reconfiguration. Second capability – aptitude to read the market - refers to the organizational ability to see the changes in the market and identify the opportunities. This capability is related to the sensing ability, in the sense-response framework. It highly depends on individual abilities of decision makers, their skill and experience to identify the changes and opportunities. The third capability in Charbonnier-Voirin (2011) framework – aptitude to integrate organizational learning, refers to the organizational capacity to align employee skills and experience with those of organization. It also involves storing and sharing of information and experience, communication and cooperation that allows organization to improve its strategic flexibility capabilities.

To survive in turbulent environments, such as retail industry, where competitive advantages can be eliminated quickly, firms need to develop and use various kinds of dynamic capabilities. Especially capabilities that help to reorganize resources, change nature of activities, introduce fast new products, replacing current strategies (Singh et al., 2013).

There several theories explaining capabilities: resource-based-view and dynamic capabilities theory. Resource based view explains firm capabilities as intangible resources or assets, made up of skills and knowledge in deploying tangible or intangible firm resources. Those resources can be physical capital (tangible assets); human capital (skills, know-how, networks); organizational capital (formal and informal structures that delegate authority and responsibility) (Barney, 2001; Singh et al., 2013).

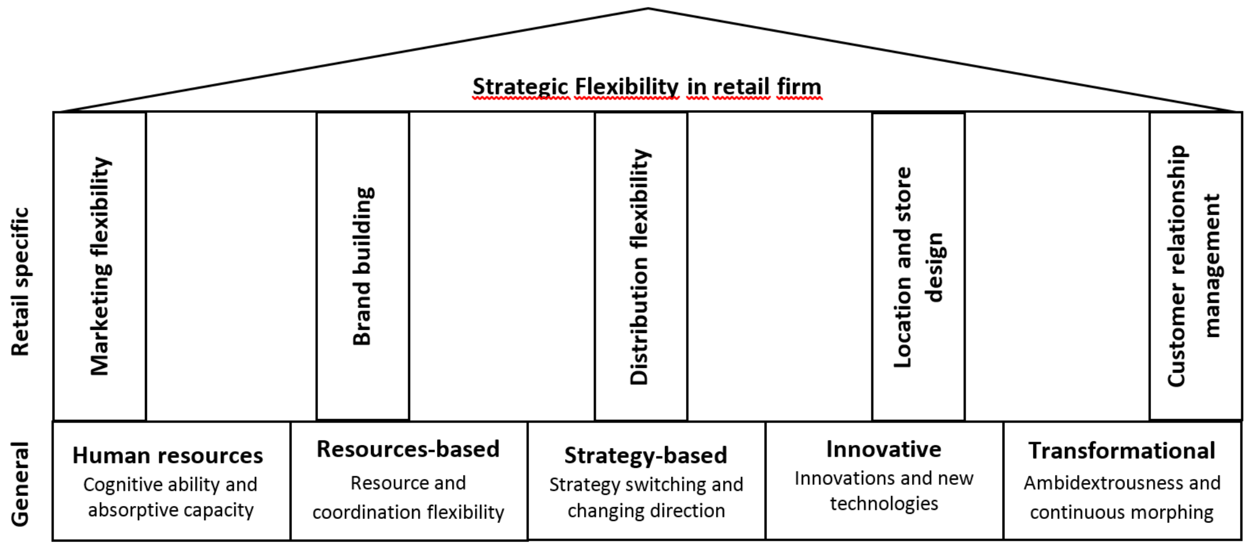
Dynamic capabilities are abilities related to cost reduction, outsourcing, knowledge networking and management, product development, strategic planning, financial management etc. Resource management and market dynamism being essential to dynamic capabilities (Singh et al., 2013).

In general, strategic flexibility is firm’s ability to respond and adapt to external changes. This ability and capacity for change depends on the dynamic capabilities that firm has. According to Eisenhardt and Martin (2000) there are wide variety of dynamic capabilities that relate to strategic flexibility: creating new products, changing current strategies, deterring off competitors, ability to change fast. Shimizu & Hitt (2004) add that strategic flexibility also involves cognitive ability to recognize problem and change direction. Bitar (2003) claims that firms need three dynamic capabilities to generate different capabilities in dynamic and turbulent environment: absorptive capacity – organization’s ability to identify external information; ambidextrousness –

ability to implement both incremental and revolutionary change; and continuous morphing – comprehensive ongoing transformation (O'Reilly & Tushman, 2004; Widati, 2012). These capabilities for strategic flexibility can be considered as dynamic capabilities, because they are associated with new resource configurations that are required to lead and deal with change (Figure 1). Dynamic capabilities are foundations that support different strategic flexibility dimensions (Singh et al., 2013).

Retailers have particular set of dynamic capabilities that allow them to be strategically flexible. Along with general dynamic capabilities, there are several specific dynamic capabilities that are important in developing strategic flexibility for retail companies (Frasquet et al., 2013): brand-building, location and store design, channel management, and customer relationship management. We would like to extend this list by adding such retail company capabilities that enhance strategic flexibility: marketing flexibility, distribution flexibility, and innovations. According to Frasquet et al. (2013), brand building capability is very important, as dynamic market and globalization requires to retain essential core values while adapting to different consumer interpretations. Locations and store design are closely linked to brand image and relates to retailer ability to identify appropriate locations, continually review and revise store design to be in line with latest trends and fashions. Channel management is very particular to retailing industry as firms manage with multi-channel operations on a daily basis. As retailers grow or shift strategies from one region to another, dynamic capability to control and transform channel relationships become extremely important for strategic flexibility of the company. Customer relationship management capability is also very important for retailers. Firm capacity to identify their customer needs, understand and provide necessary feedback, thus creating additional value is cornerstone of successful retail business (Frasquet et al., 2013). Marketing flexibility is important for retailers to be able to switch marketing strategies often and stay with latest trends. As consumers switch their communications channels (e.g. from TV to social media), retail companies should be able to follow them with marketing strategies that reach target audience. Ability to innovate is also important in retail business as it allows companies to find most efficient ways to reach their customer. Retailing is driven by technology, successful companies should be able to switch and adapt to new technologies fast and with minimum costs. Such new technologies as self-checkout, mobile platforms, rating systems and websites, geo targeting and location marketing, innovative payment systems and others, are highly influential and affect how customers buy. Retail companies who fail to develop this or other dynamic capabilities can be outcompeted by more strategically flexible companies. Figure 1 summarizes the relationship between different dynamic capabilities that influence strategic flexibility and dynamic capabilities that are important for retail companies' strategic flexibility.

Figure 1: Dynamic capabilities for strategic flexibility in retail firm.



Source: adapted from Singh et al. (2013b).

Conclusions

Today retailers are operating in highly competitive environments enabled by fast technological changes, shifts in the way consumers' behavior and globalization. Strategic flexibility driven by dynamic capabilities of the retail firm is very important for surviving in such environment. Managers should strive to increase their company's strategic flexibility in these highly competitive environments to improve firm performance, manage risks, identify and capture new opportunities. Proactivity and timely response to rapidly changing competitive conditions develops and maintain competitive advantage (Ussahawanitchakit & Sriboonlue, 2011). Strategic flexibility enables firms to achieve superior performance in dynamic competitive environment and increase innovation performance (Zhang, 2007; Nadkarni & Herrmann, 2010; Cingöz & Akdoğan, 2013).

In order to improve strategic flexibility, companies should focus not only on developing general competences, but concentrate on industry specific dynamic capabilities. For retail sector, alongside general dynamic capabilities such as HR, strategy and resourced based, innovative and transformational capabilities, there are retail industry specific dynamic capabilities: brand-building, location and store design, channel management, and customer relationship management. We offer to extend this list by adding such retail company capabilities that enhance strategic flexibility: marketing flexibility, distribution flexibility, and innovations.

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