

A KEY TO PROSPERITY IN HYPERCOMPETITIVE MARKETS: ORGANIZATIONAL “HYPERFLEXIBILITY”

KLJUČ NAPRETKA NA HIPERKONKURENTNIM TRŽIŠTIMA: ORGANIZACIJSKA “HIPERFLEKSIBILNOST”

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Review

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SAŽETAK

Današnji globalni način promišljanja zahtijeva fleksibilnost i sposobnost brzoga uvođenja organizacijskih promjena na svim razinama. Organizacijska se fleksibilnost postiže kada se, u slučaju potrebe, bilo koja komponenta organizacije i bilo koji pojedinac unutar nje mogu prilago-

ABSTRACT

Today's global business mindset requires flexibility and the ability to make changes to our organization, at all levels, quickly. Organizational flexibility is achieved when any component of an organization, and any individual within an organization, can be flexible if and when needed.

diti. Do sada smo se ograničavali izjednačujući organizacijsku fleksibilnost sa specifičnim, uže postavljenim vrstama fleksibilnosti kao što su strateška i operativna fleksibilnost te fleksibilnost radne snage. U radu primjenjujemo klasični Katz i Kahnov otvoreni sustav poimanja organizacije i njezinih podsustava radi postavljanja širega pojma organizacijske fleksibilnosti. Potom prikazujemo na koji se način pojedine vrste fleksibilnosti, proučene kroz literaturu do danas, uklapaju u navedene podsustave te upućujemo na to kako primjena okvira otvorenog sustava ne samo da pojam organizacijske fleksibilnosti zasniva na teoriji otvorenih sustava, nego i pojašnjava načine fleksibilizacije organizacija i pojedinaca radi postizanja uspjeha na današnjim hiperkonkurentnim tržištima.

We have been limiting ourselves by equating organizational flexibility with specific, narrowly conceived types of flexibility, such as strategic, operational or labor flexibility. In this paper, we apply the classic Katz and Kahn¹ open systems conceptualization of an organization and its subsystems in order to more broadly conceive the concept of organizational flexibility. We then illustrate how the types of flexibility that have been discussed in the literature to date fit into these subsystems, and that the application of the open systems framework both grounds the concept of organizational flexibility in open systems theory and illuminates the ways in which organizations and individuals need to be flexible in order to prosper in today's hypercompetitive markets.

INTRODUCTION

The globalization of business necessitates the recognition of the strategic value of time as a key means to differentiate one organization from another. The driving force behind globalization revolves around the increased flow of technology among countries. Inevitably, these technology transfers allow less evolved companies to "leap-frog" onto the leading edge, bypassing the costly and timely development of globally competitive technologies themselves. In addition, trade regulations among many countries have been shrinking due to multinational market groups (e.g. European Union, NAFTA) and have encouraged trade among member countries. The cost and quality of computational, communications and transportation costs have also been steadily declining. Declining costs further increase the feasibility of trade and technology transfer among countries that are participating in the global economy.

The demand for information has created a need for companies to develop information systems that play a key role in the strategic orientation of the company. The availability of information through the use of the world-wide-web has heightened the competitiveness of a wide range of organizations. Many of these new competitors are domiciled in emerging and transition economies.² This heightened competition has led some experts to project that these emerging and transition economies are the key countries to drive the global marketplace in the future.³ Such a shift in competition as well as in the markets of the future has been dubbed the "hypercompetitive global marketplace".⁴

Hypercompetition is characterized by: 1) a "quickening" in the competitive arena where speed becomes as important as any of the other key competitive means to differentiate a company;⁵ 2) a requirement, due to the continuously changing marketplace, for ongoing modification and updating of companies' products, prices and consumer attention (e.g. service);⁶ 3) competitive

behavior that is not dictated by industry structure, historic competitors, customers or channels of distribution, but rather to staying-up with the marketplaces and the continuous level of change taking place;⁷ 4) a competitive environment, in which relative competitive advantage erodes quickly, requiring organizations to rejuvenate their competitive strategies almost continuously⁸ and 5) the organizations for whom global strategy becomes concerned with disrupting the *status quo* to gain a momentary advantage in the short-run because long-term goals are dependent on the short-run success of differentiating the corporate strategy.⁹ In many ways, therefore, hypercompetition necessitates reorienting competitive market strategies to become hyperflexible in nature.

THE NEED FOR SPEED: HYPERCOMPETITION AND HYPERFLEXIBILITY

Flexibility is important to all organizations operating within dynamic environments. Flexibility gives an organization the ability to respond quickly to short-term changes in its industry and in the marketplace (e.g. customer requirements, employee and social expectations, government regulations). Flexibility also gives an organization the ability to evolve, to grow and to adapt to longer-term changes in technology, organization and product/service demands. Together, these two competencies are known to lead to sustainable short- and long-term successful organizational performance.¹⁰ It is obvious that organizational flexibility is critical for success in today's globally hypercompetitive markets.

A great deal has already been written regarding organizational flexibility. Most of this work leads to the conclusion that flexibility is, of course, desirable and that organizational flexibility is equated with several specific concepts, such as operational flexibility, structural flexibility and strategic

flexibility.¹¹ The notion of numeric flexibility and other types of labor and career flexibility have also been discussed.¹²

More recently, concepts such as workplace flexibility and its impacts on employees¹³ and knowledge creation and its role in organizational flexibility¹⁴ have also started to be addressed. However, operational flexibility, structural flexibility, strategic flexibility and labor flexibility are specific ways in which parts of organizations can become more flexible. Component flexibility, to coin a phrase, does not necessarily equate with overall organizational flexibility. That would be like saying that a person who has a flexible wrist or leg has a flexible body. It is not necessarily true.

Organizational hyperflexibility, on the other hand, is achieved when an organization can do any and all of the things necessary for it to quickly respond to short-term changes in its environment, as well as to evolve, learn and adapt to longer-term changes in technology, organization, consumer, community/social and product/service demands. In order to begin to achieve this meta-organizational flexibility, however, we must be able to more broadly and fully conceptualize organizational flexibility so that we can identify the myriad components that may need to have the capacity to be flexible. We can then look at ways to increase the capacity for flexibility within, across and between each component and/or subsystem in order to achieve high levels of overall, meta-organizational flexibility. In the remainder of this paper, therefore, we apply the classic Katz and Kahn¹⁵ open systems conceptualization of an organization and its subsystems in order to more broadly conceive and define organizational flexibility. We then illustrate how the types of flexibility that have been discussed in the literature to date fit into these subsystems, and that the application of the open systems framework highlights other ways in which organizations and individuals need to be flexible to prosper in today's competitive markets.

EXISTING CONCEPTUALIZATIONS OF ORGANIZATIONAL FLEXIBILITY

Current research and theory regarding organizational flexibility can be classified into several areas. A main distinction in the literature is between component flexibility and overall or meta-organizational flexibility. Several specific components of organizational flexibility have been identified, defined and researched.

Some typical components of organizational flexibility that are routinely discussed are: 1) strategic flexibility, 2) structural flexibility and 3) operational flexibility (e.g. product manufacturing or service delivery, structural). Strategic flexibility broadly encompasses research and theory looking at macro issues concerning the need to change organizational strategy and adapt to environmental changes.¹⁶ Strategic flexibility has been defined as the ability of an organization to generate a level of variety in the organization's operations so that, when faced with uncertainty or the unanticipated consequences of events, it has the option of either doing something differently or doing something new.¹⁷

The categories of structural and operational flexibility are more micro-focused and are, of course, interrelated. Structural flexibility often refers to the ability of various internal organizational systems and processes and their ability to be adjusted as needed. For example, the concepts of job enlargement and enrichment, adjustments to financial and managerial control systems, the creation and disbanding of multifunctional teams, as well as human resource flexibility (i.e. also referred to as labor flexibility) which has to do with such issues as the number and deployment of employees, work arrangements and work organization, remuneration and career development issues have all received attention.¹⁸ Finally, operational flexibility focuses on such issues as

product/services and process flexibility (e.g. mix, volume, routing, scheduling, modification, new product development, design, disassembly) and the ability to adapt various elements of an organization's structure and processes (e.g. decision-making and communication systems) when needed.¹⁹

Writing concerned with overall or generic organizational flexibility (sometimes referred to as meta-flexibility) typically argues that organizational flexibility is an attribute or competency that organizations will need to have in order to survive into the future²⁰ but typically fail to either define or operationalize the concept. One exception worthy of notice is the work by Verdú-Jover, Lloréns-Montes and García-Morales,²¹ who specifically define meta-flexibility in terms of an organization's learning and absorptive capacity.

AN EXPANDED FRAMEWORK OF ORGANIZATIONAL FLEXIBILITY

Although much of what has been written concerning organizational flexibility has been useful, it is often conceptually incomplete and "a theoretical". What is needed is a more comprehensive conceptualization of organizational flexibility that can advance our thinking in the area and highlight new opportunities for hyperflexibility in the future. The application of an open systems conceptualization of an organization and its functional subsystems allows us to identify all of the systems within an organization that can and may need to be flexible in response to highly competitive and dynamic environments. This gives us a more robust and comprehensive conceptualization of organizational flexibility grounded in open-systems theory.

The classic open systems conceptualization of organizations, based on the work of Katz and Kahn,²² suggested there are five major organi-

zational subsystems: 1) production or technical, 2) boundary spanning, 3) maintenance, 4) adaptive and 5) managerial. Production or technical subsystems are concerned with organizational throughput, the transformative and value-added activities that are the major functions of the organizational system as a whole. Boundary spanning subsystems, originally referred to as supportive subsystems, "carry on the environmental transactions of procuring the input or disposing of the output or aiding in these processes".²³ The activities of maintenance subsystems "are not directed at the material being worked on but at the equipment for getting the work done. In most organizations, much of the work consists of patterned human behavior and the 'equipment' consists of human beings".²⁴ Adaptive subsystems are focused outward, beyond the boundaries of the organization. They are concerned with ensuring organizational survival in a changing environment. Finally, the managerial subsystems are "the organized activities for controlling, coordinating and directing the many subsystems of the structure".²⁵

The Katz and Kahn framework applied to organizational flexibility allows managers to distinguish which parts of their organization need to be flexible. By analyzing which subsystems in their organization are most critical, managers can then identify which subsystems must be flexible and in which order to tackle the task of making those subsystems flexible. This may allow us to introduce a contingency model of flexibility. It will also save unnecessary cost and effort that will arise when high levels of flexibility are developed where little is required.

The application of the Katz and Kahn framework to our consideration of organizational flexibility will highlight several areas in which flexibility has already been extensively considered and, most importantly, it will highlight several areas to which the concept of flexibility has not previously been applied. It will suggest that the need for flexibility in some subsystems has been overlooked, that not all subsystems need to be flexible or equally flexible and that, ultimately, the

whole organizational system may need to be flexible in terms of its structure and its ability to rearrange the structure and to change internal information pathways and linkages, for example. In this way it will enable us to advance our thinking regarding organizational flexibility and ground the concept of organizational flexibility in open systems theory. Therefore, in the following sections of this paper, we discuss the five subsystems conceptualized by Katz and Kahn, how flexibility has been applied to them or how it can be, if it has not yet been applied to them.

SUBSYSTEM 1: TECHNICAL SUBSYSTEM FLEXIBILITY

Technical organizational subsystems are operational systems responsible for the production of goods and services. There are many types of operational flexibility that have been identified, documented and discussed.

Product/Service Flexibility – The ability to introduce new or modify existing products and services. We may consider at least two types of production system flexibility: 1) design change flexibility, in which we can change the design or content of our products and/or services and 2) new product/service flexibility, enabling us to introduce new products and/or services into our production repertory.

Mix Flexibility – The ability to change the range, volume and mix of the products and/or services we can provide.

Volume Flexibility – The ability to vary the output levels and change the speed at which we can produce and deliver our products and/or services.

Delivery Flexibility – The ability to change the lead times necessary to make changes to our exist-

ing ranges of products and/or services, and the ability to change the planned/assumed delivery dates.

Routing Flexibility – The ability to change the production and delivery paths or systems of our goods and/or services.

Technology Flexibility – The ability of our hardware and software to be (re)programmed, (re)configured, expanded, or to run under varying conditions (e.g. operational conditions, such as differing speeds, or environmental conditions, such as varying temperatures).

This area seems to have been well-covered and the application of the Katz and Kahn²⁶ framework simply reminds us that technical subsystem flexibility is critical to organizational success.

SUBSYSTEM 2: BOUNDARY SPANNING SUBSYSTEM FLEXIBILITY

These organizational subsystems are responsible for transactional exchanges with the environment. They fulfill such functions as marketing, advertising, sales, procurement and disposal. Much of this subsystem may be considered as the infrastructure directed at providing support functions for the technical subsystem. While a few specific areas within boundary spanning subsystems, such as financial flexibility, have been mentioned in the literature, the potential for boundary spanning subsystem flexibility has been somewhat overlooked. A preliminary consideration illuminates several boundary spanning subsystems and functions that could potentially need to be flexible in order to help an organization adapt to its environment:

Procurement/Disposal Infrastructure Flexibility – Examples of infrastructure flexibility are the ability to change suppliers or the ability of suppliers to change order and delivery schedules, and/or to

provide "just-in-time" inventory or the ability of the personnel department to change selection, placement and training procedures and methods or to change selection pools.

Financial/Economic Flexibility – Examples of financial/economic subsystem flexibility are such concepts as the organization's ability to access funds for investment, cash and/or credit when needed, the ability to refinance and/or change banks and loans, repayment amounts and schedules, the ability to change accounts payable and/or receivable terms and conditions as necessary, to name but a few.

Information Flexibility – A critical boundary-spanning function is related to an organization's ability to acquire, capture and use information related to customers, purchasing patterns, competitors and the like. Organizations need these types of information flexibility in order to better adapt to changing markets as well as to create and enter new and emerging markets, for example.

Sales and Distribution Flexibility – As customer requirements and preferences change, organizations may need to be flexible to change sales and distribution channels. For example, it may be necessary to move from using brokers to direct sales, and/or from wholesale to retail customers.

Marketing/Advertising Flexibility – As social norms, values and communications media continue to evolve, organizations need to be able to adapt and change, for example, from direct mailing marketing to e-mail, to various forms of social media.

This area seems to have been overlooked in the literature on organizational flexibility. The application of the Katz and Kahn²⁷ framework highlights that boundary-spanning subsystem flexibility is critical to organizational success as these supportive subsystems are in direct contact with an organization's external environment and, therefore, need to be flexible to help the organization adapt to environmental turbulence.

SUBSYSTEM 3: MAINTENANCE SUBSYSTEM FLEXIBILITY

Maintenance subsystems are concerned with the provision of routine, stability and predictability in organizations. They provide such functions as the selection, placement and socialization of personnel. They deal with rewards, rules, regulations, policies and procedures. They are the systems facing inward on the organization and even on themselves. Three broad types of maintenance subsystem flexibility have been identified in the literature.

Resource Flexibility – The ability to change the distribution and allocation of resources (e.g. people, money, equipment, space) among projects and departments as needed. The ability to change reward systems and structures (e.g. have employees' pay reflect their performance up or down) as employee needs, values and expectations change.

Structural Flexibility – The ability to alter existing organizational structures (e.g. change reporting relationships, departmental configurations, numbers of hierarchical levels, spans of control) as necessary. The ability to move skilled people within and between departments and jobs (e.g. few or adaptable work rules and functional lines of demarcation) as various projects are started and completed.

Labor Flexibility – There are two main types of labor flexibility to be found in the literature: 1) functional flexibility, such as multi-skilling, and 2) numerical flexibility, such as the ability to change the number of full-time and/or part-time employees as needed. Personal Flexibility (i.e. the ability of individuals to change or the predisposition of individuals toward change) has been largely overlooked in the literature on organizational flexibility.

These organizational subsystems are concerned with maintaining stability and predictability in

the organization. Herein lies a dilemma, which was recognized by Katz and Kahn.²⁸ If the maintenance system's job is to provide stability and predictability, it is only natural that, when we try to make these subsystems more flexible, it may be difficult. It is predictable, therefore, that many have reported difficulties when trying to make changes to these subsystems as it is difficult to balance the imposition of flexibility with the systems' natural function of stability.²⁹

SUBSYSTEM 4: ADAPTIVE SUBSYSTEM FLEXIBILITY

Adaptive subsystems are concerned with the problems of organizational adjustment. They fulfill such functions as planning, research and development. They are facing outward, constantly scanning the environment. It is unexpected, therefore, that we could find no specific types of flexibility in the organizational flexibility literature that have been identified unique to these subsystems, as it is "by definition" their job to be innovative, flexible and to learn and to adapt to the constantly changing environments within which many of our organizations are now operating. There are several functions within an organization's adaptive subsystem that obviously need to be flexible in order to ensure success in turbulent environments, such as:

Planning Flexibility – By definition, a planning system that will enable an organization to adapt to short-term and longer-term changes in its external environment must itself be flexible. Planning systems needs to be flexible and we must remember not to get locked into doing exactly what our plans say.³⁰ Paradoxically, we must plan for the fact that, once we begin making changes, the organization for which the original plans were made no longer exists. The changes that have been introduced will have changed the systems into which they were introduced.

Research Flexibility – As markets, consumers, values, expectations and competitors all constantly

adapt and change, our research methods and systems also need to be flexible. Traditional methods of questionnaire-based and focus-group-oriented research may need to be supplemented with mixed and alternative methods of research, such as un-focus groups and participant observation.³¹

Development Flexibility – Again, changes in an organization's external environment (e.g. markets, consumers, values, expectations and competitors) necessitate flexibility in systems focused on developing new strategies, business models, products and services. Strategy innovation, product innovation and process innovation are critical for success in turbulent environments.³²

Because the core purpose of adaptive subsystems is to help an organization to adapt to its external environment, it is critical that functions such as planning, research, development and other systems and functions that are facing outward, constantly scanning the environment, must themselves be innovative, flexible and able to learn and to adapt to the constantly changing environments within which many of our organizations are now operating.

SUBSYSTEM 5: MANAGERIAL SUBSYSTEM FLEXIBILITY

These organizational subsystems cut across all other subsystems. They fulfill such functions as controlling, decision-making, coordinating, internal administration, resource allocation and delegation of power and authority. Numerous types of managerial subsystem flexibility have been identified, documented and discussed.

It does not seem helpful or practical at this point to list all of the activities, roles and responsibilities of managers and to discuss the need for flexibility within each. Within the Katz and Kahn framework, it is possible to see that the managerial

subsystem needs to be flexible across a broad array of tasks and functions. Suffice it to say that it is well-documented that managers need to be able to deal with inherently ambiguous objectives, moving targets and to be able to adapt, change and bring together various resources from disparate areas to achieve these shifting objectives.³³ This highlights the need to have a significant proportion of the managerial subsystem's activity dedicated to the management of change and/or to have people and departments of change management or functions designed to promote flexibility and change, or people and systems dedicated to looking at trends and changes that will impact the organization and the need for it to stay flexible.

Contingent Flexibility – An important aspect of our conversation regarding organizational flexibility within the management subsystem worthy of discussion at this point has to do with the fact that the more turbulent your external environment is, the more organic your organizational structure needs to be and, therefore, the more your organizational subsystems need to be flexible in response.³⁴ These notions of "fit" and "contingency" are the corner stones of organizational theory.³⁵

Not all systems in all organizations need to be equally flexible (e.g. Katz and Kahn's idea of leading systems). If one system predominates in importance, it is crucial that this system (at least) is flexible. Managers must recognize the contingent nature of flexibility and learn to recognize which subsystems need to be flexible because it is not necessary for every system in every organization to be flexible. This means that we may need to have subsystems or processes that allow us to decide which of our subsystems need to be flexible. None of the already identified classic Katz and Kahn subsystems helps us do this.

If everything is a candidate for change in order to successfully respond in a hypercompetitive market, then every subsystem and individual needs to be capable of being flexible if necessary. We have known for years that organizations operat-

ing in turbulent environments, with emerging technologies and shifting consumer expectations, for example, need to be flexible in all areas.³⁶ To achieve and maintain success in these environments, managers need to look at the linkage mechanisms between various subsystems. These linkages may take the form of information, key people, processes and/or procedures. It may be more beneficial to concentrate on improving the flexibility of the linkages between subsystems (e.g. the ability to move information, key people and new procedures/processes throughout the subsystems) than just focus on trying to increase flexibility in isolated components.

CONCLUSION: HYPERFLEXIBILITY AND WHOLE SYSTEM FLEXIBILITY

All of the marketplace changes we have seen have had an impact on the nature of global competition and this has led some to speculate that the "World is Flat". Thomas Friedman, the Pulitzer Prize-winning columnist for the *New York Times*, hypothesized that global business will continue to grow and expand due to the PC-based computer platform, open sourcing, knowledge-based economy and the increased availability of digital, mobile and virtual to competitors throughout the world. Hypercompetition will increasingly impact global business and this will continue to drive the need for flexibility and speed required to remain competitive.

To compete effectively on a global scale, organizations must create flexible means of generating competitive advantage given the hypercompetitive nature of the global marketplace (that is, events, competitors, environments and industries change constantly and unpredictably, creating a higher level of uncertainty and yielding new global rivals, rapid technological change and seemingly continuous restructuring).³⁷ This has led some to question the sustainability of

competitive advantage based on a single form of firm-level heterogeneity in today's highly de-regulated, knowledge-rich, global business landscape.³⁸

Organizational flexibility may be the key in achieving competitiveness in the world and it is achieved when any systemic component of a firm, and any individual within a firm, can be flexible when needed.³⁹ We have been limiting ourselves by equating organizational flexibility with specific, narrowly conceived types of flexibility,

such as strategic, production or labor flexibility. There is a growing consensus that the successful heterogeneity of global organizations is increasingly a function of the resourcefulness and creativity of their managers, as well as of the flexibility of the system for managing their worldwide human resources.⁴⁰ In particular, identifying, attracting and retaining managers who have the necessary competencies to manage both cross-national and intra-national diversity must become one of the highest strategic priorities for global organizations.⁴¹

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