

ENVIRONMENTAL TURBULENCE AND THE IMPERATIVES OF STRATEGIC FLEXIBILITY IN THE POST COVID-19 ERA

Adim, Chidiebere Victor

Department of Management, Faculty of Management Sciences, Rivers State University, Nkpolu-Oroworukwo, Port Harcourt, Nigeria.

adimcvictor@gmail.com

&

Unaam, Akaninyene Okon PhD.

Federal University, Otuoke, Bayelsa State, Nigeria

akanunaam@yahoo.com

Abstract

Firms need to cope with dynamically evolving environments. Global crises, competitive pressure, changing customer demands, or new technological developments frequently shake established markets. Ambiguity, dynamism, complexity, and uncertainty are characteristic features in such situations. The COVID-19 outbreak has disrupted the functioning and even survival of businesses around the world. This outbreak and spread of covid-19 disease led to rapid shutdowns in cities and states across the country, which greatly affect the most industry. Nevertheless, firms strive to survive and over time they gain experience in coping with environmental change, either to enhance efficiency or to increase profitability. The firm's ability to sense opportunities and threats, to make decisions on appropriate responses, and to reconfigure the firm's resource and capability is critical to its survival. Therefore, organizations need to be flexible and act more intelligently with their environment. Strategic flexibility is a very important capability that provides organizations with the ability to change their levels of production promptly, to develop new products and to respond speedily to competitive threats. This paper examined environmental turbulence and the imperatives of strategic flexibility in the COVID-19 era. The paper is conceptual adopts a desk research methodology in reviewing extant literature. The study concludes that in the unpredictable and competitive world of organizations must have dynamic capabilities one of which is strategic

flexibility to compete otherwise, they will move towards annihilation.

Keywords: Strategic Flexibility, Environmental Turbulence, COVID-19

Introduction

Threats and opportunities arising from environmental turbulence have been established to impact on business performance (Kim, 2018; Kwon, Ryu, & Park, 2018). In mitigating environmental turbulence risks, companies across the globe have focused on strategic workforce agility in achieving targeted performance. Volatility risks triggered by environmental turbulence serve as a threat in achieving targeted performance. Considering the challenges created by business environmental turbulence in relation to firm performance, scholars around the globe have acknowledged the importance of strategic agility initiatives as a proactive business process in curtailing environmental turbulence so as to enhance firm performance (Arokodare & Asikhia, 2020a). In the words of Peter Drucker "the greatest danger in times of turbulence is not the turbulence- it is to act with yesterday's logic." Also, Paul Lutus said "the most successful people are those who accept, and adapt to, constant change. This adaptability requires a degree of flexibility and humility most people can't manage.

Covid-19 pandemic has put tremendous pressure on the national economy in most countries, including Indonesia. It cannot be denied that Covid-19 had dramatically changed the political and economic environment (Kuckertz et al., 2020). This caused change and uncertainty in every aspect of life. In terms of business, the patterns of consumers' needs and desires have changed a lot - and conditions for market competition have become difficult to predict as well. Moreover, the use of technology had undergone many changes; which mainly adjusting the market needs in each industry. These impacts indicate environmental turbulence, which affects the dynamics of the business environment.

The COVID 19 pandemic, has not only revealed the unpredictable nature of the business environment, but has also demonstrated that change is indeed inevitable. This noted inevitability of change, particularly that which impacts on the economic activities of societies; is such that places a premium on strategic flexibility. The COVID-19 pandemic has created a new set of challenges to which strategic managers must respond. As demand for virtualization has surged, organizations have had to adapt their operations in order to survive the turbulent business landscape (Akintokunbo & Adim, 2020). To survive and remain competitive, organizations are expected to be able to cope during turbulent times and to be consistent in their service offerings (Dartey-Baah, 2015; Linnenluecke, 2015). This requires the structuring of organizational features that effectively support innovation, development and adaptability; all of which are hinged on the organization's capacity for strategic flexibility during change events (Asikhia, 2020). Studies suggest that the key to sustained operations and business continuity during periods of turmoil lies in the development of options advanced prior to such periods; as well as the organizations ability to identify and latch on to existing as well as emerging opportunities during such periods of turmoil (Shokouhi & Ghafari, 2015; Asikhia, 2020). This observed imperative of strategic flexibility is more so important for businesses, given its implications for the resilience and continuity of their ventures in a period of turbulence.

Environmental turbulence describes the rate of changes, unpredictability, volatility and instability in the external environment. Dynamism leads to a great uncertainty which causes deficit of the information needed to identify and understand the cause and effect relationship. When the environment is highly dynamic, uncertainty may suppress the organization's ability to respond to the need for change, predicting customer requirements, questioning the existing strategic direction, and searching for new alternatives. However, an insecure environment in which external changes are nonlinear and inconsistent can also be a great source of opportunities for enterprises to strengthen existing capabilities and/or develop new ones that enable companies to overcome their organizational inertia and shortsightedness of knowledge (Petrus, 2019).

According to Zhou & Wu (2010) strategic flexibility is the ability of a firm to reallocate and reconfigure its organizational resources, processes, and strategies to deal with environmental changes. Strategic flexibility is firm's ability to adapt to environmental changes through continuous changes. Feifei (2011) Strategic flexibility is firm's ability to adapt to environmental changes through continuous changes. Singh, Oberoi & Ahuja (2013) Strategic flexibility as the ability of a firm to react, proact, reposition or adapt to turbulent market conditions, supported by its resources and capabilities, to maintain its competitive advantage. Shah (2013) Strategic flexibility is the ability of a firm to identify major shifts in its external environments and change courses by reallocating resources to meet the challenges of these changes – even halt or reverse course if need be. Srour, Baird & Schoch (2016) Strategic flexibility is a deliberately and strategically crafted organizational capability providing for timely response and adaptation to environmental changes that are so substantial as to meaningfully impact organizational performance.

In highly dynamic competitive environment, a firm can achieve competitive advantage with quick response to the environment and renewed strategic orientation. Strategic flexibility is said

to be closely linked to environmental uncertainty which focuses on the capability of altering and adapting organizational realities (Abbott & Banerji, 2003). Strategic flexibility started as a new management approach for organizations as a counterfactual to the traditional strategic management objective of choosing a single 'best' plan of action. The realization that selecting a single best plan of action is likely to be an unrealistic objective in an uncertain environment, established strategic flexibility as a core management concept. Several studies have emphasized the effectiveness of strategic flexibility in the context of environmental dynamism and uncertainties like we are currently facing with the COVID-19 pandemic (Brozovic 2018; Nadkarni and Herrmann 2010; Sanchez 1995; Stieglitz, Knudsen, and Becker 2016). Sanchez (1995) argues that firms can enhance their competitiveness in dynamic environments by applying strategic flexibility to form alternative courses of action or strategic options.

The Covid-19 outbreak has resulted in changes and uncertainties in a dynamic business environment, which is indicated as Environmental turbulence. Indirectly, environmental turbulence had force companies to see new opportunities, especially in developing new products and services which enable them to explore (as well as expand) their consumer networks (Farid & Widjaja, 2020), mainly in the use of technology in business entrepreneurial context (Chan et al., 2018). It is in the light of the foregoing that this paper seeks to examine the imperatives for strategic flexibility in the face of environmental turbulence.

Theoretical Framework

Theoretically, the dynamic capability theory (DCT) was employed as the underpinning theory for this study. Dynamic capabilities theory (DCT) was developed by Teece, Pisano, and Shuen (1997) and was defined as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" and it examines how firms address or bring about changes in their turbulent business environment through reconfiguration of their firm-specific

competencies into new competencies (Teece, 2007). In organisational theory, dynamic capability (DC) is the capability of an organisation to purposefully adapt an organisation's resource base. Eisenhardt and Martin (2000:1107) defined dynamic capability as "the firm's processes that use resources—specifically the processes to integrate, reconfigure, gain and release resources—to match and even create market change" and "the organisational and strategic routines by which firms achieve new resources and configurations as markets emerge, collide, split, evolve, and die".

The DCT addresses the highlighted shortcomings of the resource-based view (RBV) and resource dependence theory (RDT) and supersedes both theories in explaining how organizations operate their resources with environmental uncertainty. Dynamic capabilities can be regarded as the ultimate organisational capabilities that are conducive to long term performance (Wang & Ahmed, 2007). The dynamic capabilities and, therewith, the competitiveness of a company are determined by three factors: firstly, strategic paths, which refer to the availability of a spectrum of strategic options for a company and the path dependency of strategic options (Pisano, 2015); secondly, the resource position of a company, which refers to tangible but especially intangible assets; and finally, organisational processes in terms of management skills, patterns of behaviour, thinking and learning (Teece *et al.*, 1997). In general, dynamic capabilities enable sustainable competitive advantage by focusing on strategy-relevant processes in companies and trying to improve responsiveness in a fast-changing environment. These dynamic capabilities reflect a company's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions (Teece *et al.*, 1997).

According to Teece (2007), this is achieved through sensing (identification and assessment of threats, opportunities, and customer needs), seizing (mobilization of resources to address fresh opportunities while capturing value from doing so) and transforming (ongoing

organizational renewal). Strong dynamic capabilities do facilitate superior organizational performance arising from proper and useful analysis of business environment and technological opportunities, strong but change-oriented organizational culture, new product development and new process introduction (Teece, 2019). In this respect, the company's competitive advantage lies mainly in its dynamic capabilities, which refer to the capacity to build up strategic agility dimensions, possess strategic and forward-looking leadership, renew and reconfigure entrepreneurial capabilities and competences so as to achieve congruence with the changing business environment and ensure superior performance (Kyläheiko, Sandström, & Virkkunen, 2002).

Environmental Turbulence

Oginni and Adesanya (2013) averred that organisations face an increasingly dynamic, complex, and unpredictable environment, where technology, globalisation, resource shortages, wide swings in the business cycle, changing social values, competitors, customers, suppliers, and a multitude of other dynamic forces impact on overall performance of these organisations. Environmental turbulence, according to Anggraini and Sudhartio (2019), is defined as environmental conditions with high level of uncertainty and risk. Environmental turbulence is an important construct that captures volatility in the corporate environment. It is made up of a competitive business environment and risks that come up from the company, and the complexity and heterogeneity of the supply chain within and outside the domain of the industry (Rimita, 2019).

Nnamani and Ajagu (2014) referred to environmental turbulence as the major factors and forces outside the organisation that have the potential to significantly affect the performance of the organisation. These factors that happen outside the business are known as external factors or influences which determine the direction of an organisation towards its goals and objectives. These external factors affect the main internal functions of the business and possibly the objectives of the business and its strategies (Gathenya, 2012). Boyne and Meier

(2009) and Ibidunni and Ogundele (2013) conceptually stated that environmental turbulence is one element of general models of the task environment that constrains organizational behavior and performance; it is the unpredictable change in munificence and complexity of an organization's environment. Pavlou and Sawy (2011) stated that environmental turbulence is also characterized by uncertainties arising from unexpected changes in market demand, consumer preferences, new technological developments, and technological breakthroughs. They found that in a turbulent environment, there are three types of capabilities that will produce strategic advantage such as: operational (the ability to carry out processes); dynamic (planned capabilities to reconfigure operational capabilities); and improvisational (the learned ability to spontaneously reconfigure operational capabilities). The last two abilities can be seen as dynamic capabilities in general. Therefore, there is a relationship between dynamic capability and competitive advantage in a turbulent environment (Banerjee, Farooq, & Upadhyaya, 2018).

Strategic Flexibility

The concept of strategic flexibility builds on the features or attributes of the organization that allow for its effective adapting of resources and processes to match the imperatives of its environment so as to achieve long-term goals. In other words, while the organization's goals may be stable, its behaviour and attributes may change from time to time, basically in line with the fluctuations and dynamics of its environment (Cingoz & Akodgan, 2013; Wei, et al, 2014). Strategic Flexibility is the capability to respond to a dynamic environment through continuous changes and systemic actions (Yawson and Greiman 2016). Strategic flexibility differs from concepts such as adaptation in the sense that while adaptation reflects the capacity for aligned individual and organizational actions with the changes or development within their context, strategic flexibility captures the alternatives and availing pool of options open to the organization as a result of its relationships, competencies and technology.

Kamasaka, Yavuzb, Karaguillec and Agcad (2016) opined that strategic flexibility derives from the organization's relationship with and management of its stakeholders, its access to funds or finance when required, its level of embeddedness, its capabilities in terms of skills and knowledge and also its structural form and decision-making processes (Ibrahimpour-Azbari, Nopasand-Asil, Saravani, 2015). It is as such a pervading factor as it integrates all other functions, processes and levels of the organization in a systematic manner (Doroudi & Babaei, 2016; Supeno, Sudharma, Aisiah & Laksmiana, 2015).

Environmental Turbulence: The Imperatives of Strategic Flexibility

In a turbulent market environment, traditional strategic approaches are inadequate, and this type of behaviour causes organisations to be less effective (Teece, 2018; Autio, 2017). Therefore the strategic processes used by businesses operating in a turbulent market environment must enable firm to reallocate available resources as priorities and demands change (Barney, 2017; George, Parida, Lahti & Wincent, 2016) as well as be able to continuously adapt, innovate, and even change themselves to survive and thrive in evolving market conditions (Barney, 2017; George *et al.*, 2016).

When markets are dynamic (i.e. rapidly changing and unpredictable), companies need to develop the ability to adjust their resource base quickly to maintain a high level of performance. If a company possesses resources/competences but lacks dynamic capabilities, it has the opportunity to make a competitive return for a short period, but superior returns cannot be sustained (Ivens *et al.*, cited in Petrus, 2019).

In unpredictable environments, advantages are short-lived. Firms can survive in such turbulent environments through the ability to continuously adapt to their environments (Reeves, Haanaes & Sinha, 2015). In environments marked by a continuous and intensely competitive market and technological changes, service firms are constantly searching for new ideas. They watch the competition

ready to copy ideas and launch innovation without fully testing; optimizing and planning; recognizing that the benefit will be lower and the failure rate higher (Reeves *et al.*, 2015). Firms that possess the original idea (first mover) cannot enjoy the advantage for long. Only through continuously innovating and upgrading can they sustain their advantage (Denning, 2015). This forces a firm to consistently forego its staple service offerings and stable operational processes to adapt to the turbulent business environment.

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In today's fast changing and increasingly global business environment, hardly any company is safe from competition anymore. Nowadays, almost all companies operate in uncertain and dynamic competitive environments.

Conclusion/Implications

The review of extant literature shows that as environmental turbulence increases firms must develop dynamic capabilities in order to survive the ever-changing turbulent environment. In the current turbulent and highly competitive environment, strategic flexibility which is the ability of organizations to quickly sense and

respond to environmental changes, is an important determinant of organization success. The study concludes that in the unpredictable and competitive world of organizations must have dynamic capabilities one of which is strategic flexibility to compete otherwise, they will move towards annihilation. Strategic flexibility provides the organization with the possibility of quick response and compatibility with environment and allows the organization to improve its efficiency. Strategic flexibility is a deliberately and strategically crafted organizational capability providing for timely response and adaptation to environmental changes that are so substantial as to meaningfully impact organizational performance.

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