Influence of Context on Strategic Flexibility – A Critical Review

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Abstract: This paper critically reviews the strategic flexibility literature, with laying emphasis on its dimensions and role of context. Because of strategic flexibility being identified as a black box with its various definitions and dimensions, and pervasiveness of contextual variables contributing to strategic flexibility featured within the literature, it is necessary to conduct a comprehensive review to organize the literature to prepare insight for future research. The purpose of this literature review is: first, to critically review the strategic flexibility literature to highlight the underlying dimensions and; secondly to identify the conditions or context for its performance, which can be used for future theory development. Strategic action flexibility and resource reconfiguring flexibility are found as the main dimensions of strategic flexibility. The Context found to influence on strategic flexibility is divided to two types including external context of environmental dynamism, and internal context of modular reconfigurable structure design.

Keywords: Strategic Flexibility, action flexibility, resource reconfiguring flexibility, modular structure design, environmental dynamism

Paper type: Conceptual paper

1. Introduction

Strategic flexibility is reported to make significant contributions to firms by implementing changes enabling the firm to adjust it to changes. Thus, it is stated to function in making the company more proactive leading to gaining competitive advantage and being beneficial to firm performance (Teece, 2007). However, it is found that although flexibility is considered as an important dynamic capability (Zhou and Wu, 2010) which is driver of firm competitive advantage in turbulent environments, existing studies show controversial results regarding the relationship between Strategic flexibility and firm performance (Hai, 2014) On one side, some practical studies support the idea that strategic flexibility improves firm performance (Nadkarni and Herrmann, 2010). On the other hand, a group of studies, however, suggest that strategic flexibility also is related with some shortcomings (Hai, 2014). For example, it is argued that applying strategic flexibility may result in high costs and preventing the firm from emphasizing on strategic goals. Besides, empirical studies such as Kapasuwan *et al.* (2007) have not been able to establish a high connection between strategic flexibility and higher performance in firm (Hai, 2014). As can be seen, there is not mutual agreement on relation between strategic flexibility and firm performance.

The Issue of facing Controversial results in relationship between strategic flexibility and firm performance can be related to two reasons. The first reason is that despite the attention paid to strategic flexibility in the literature, previous studies have mostly taken into consideration flexibility with different dimension variable in investigating its effect on performance. In fact, there is not common understanding on identity of Strategic Flexibility. Different researchers have adopted single dimension flexibility as a one dimensional indicator of Strategic flexibility, while every type has its own applications. In fact, some studies undermine the importance of some dimensions of strategic flexibility (Van *et al*., 2012); Sopelana *et al.*, 2014). Some researchers such as Hai (2014) incorporate the Resource Flexibility as the only indicator, while some other studies (Cingoz, 2013) have taken the Diversity of strategic actions and the Speed of Responsiveness as the indicator of strategic flexibility. Some other studies (Nadkarni and Narayanan, 2007) consider strategic flexibility as a combination of Resource Deployment and Competitive Strategic Actions flexibility as the proactive and reactive actions taken by management. Thus, there should be empirical studies examining the effect of different dimensions of strategic flexibility on firm performance, with which the risk of making partial conclusion can be minimized **(**Van *et al*., 2012).

The second reason is related to the fact that having the dynamic capability of strategic flexibility is not sufficient for gaining sustainable completive advantage and the impact of strategic flexibility on firm performance is context-dependent. In fact, another existing gap in literature regarding role of flexibility is related to the fact that strategic flexibility alone cannot be the source of competitive advantage. According to Wang *et al.* (2015), there should be studies investigating the conditions under which Dynamic Capabilities can perform better. This is supported by the point that although many companies have dynamic capabilities such as strategic flexibility, they are not benefiting from that (Neil and John, 2014). However, in spite of importance of context, it is found that the conditions or the context under which strategic flexibility should work is not fully studied. Most existing studies have adopted an incremental approach to theory development, and focused only on a limited number of contextual variables (Neil and John, 2014). In fact, most studies have considered the external context, while few studies have taken the internal condition or context into consideration (Hai, 2014).

Lack of a systematic treatment of dimensions and contextual variables related to strategic flexibility has resulted in ‘an incomplete, and perhaps inaccurate picture of Strategic flexibility. This has resulted in a fragmented understanding, and left scholars unable to identify the key contextual influences. Inconsistencies among existing studies highlight the need for future research to pay closer attention to dimensions and context related to strategic flexibility (Neil and John, 2014). This research aims to firstly determine the dimensions of strategic flexibility from a dynamic oriented view, and secondly find both the external and internal contextual factors contributing to enhancing the effect of strategic flexibility. thus, strategic flexibility research on dimensions and context is of great importance because it reveals insights that can help to reconcile such contradictory results in the relationship between strategic flexibility and performance. besides, the insights that it provides can improve the effectiveness of strategic flexibility to be used by executives, which ultimately contribute to the success of organizations.

2. Theoretical Model

A. Contingency theory; external and internal alignment

The importance of considering the internal context can be explained by referring to the concept of fit. The concept of fit has been seen differently stated. Two levels of strategic alignment (fit) have been found to be considered: the fit or alignment of the organization's strategy to the external environment (external alignment) and the alignment or fit between the strategy and the organization itself as the Internal Alignment. External alignment supposes that during the strategy development, organizations take into consideration external variables that can positively or negatively affect them. Such variables are, for example, market opportunities, product life cycle, market growth rate, and the relative competitive position of the organization. On the other hand, internal alignment supposes that internal variables such as organizational structure and management system should match and back up the organization's strategy. Thus, based on the concept of alignment, context can refer to the top management team, the external environment and firm characteristics such as its structure (Neil and John, 2014).

B. Capability and structural design view

It is found that strategic flexibility should be considered as a combination of managerial tasks and structural design (Van *et al*., 2012). In fact it deals with the question whether executives are able to take proper actions at the right time and if the organization design is capable of taking such managerial actions. Studies on organizational design attribute flexibility to structures that facilitate managerial focus and control, where flexibility comes from minimizing coordination costs of adaptation. In fact, strategic flexibility is seen as the firm's ability to rapidly reconfigure its structure (Bock, *et al*., 2012). On the other hand, studies considering strategic flexibility from an action oriented view consider it as the ability of the firm to take proactive strategic actions at a high speed. In fact, in the capabilities-based view, responsiveness arises from the flexibility of underlying resources and managerial practices (Zhou and Wu, 2010). Both organizational structure changes and managerial activities are theorized as influencing strategic flexibility, but these theoretical streams have evolved as independent literatures. Thus, in order to have a comprehensive examination of the conditions under which flexibility can contribute to firm performance, it is essential to take in to consideration the simultaneous effect of dynamic capability orientation and organization design view (Sopelana *et al*., 2014).

C. Dimensions of strategic flexibility

Strategic flexibility is considered as the ability of the firm to analyze the external environment and internal environment leading to appearance of different strategic actions with which the firm can be more proactive against a changing business environment (Nadkarni and Narayanan, 2007). Besides, flexible firms should be able to rapidly change from one action to another course of action (Li *et al.*, 2010). In fact strategic flexibility is considered as the diversity of the strategic actions or options and the speed at which the firm can adopt these strategic options (Sushil, 2013; Nadkarni and Narayanan, 2007). For firms to be able to quickly shift between options, they also need the capability to combine different resources and deploy suitable amount of resources for specific strategic actions, which is called resource flexibility. Thus, it is believed that strategic flexibility depends jointly on Action flexibility and the company's organizational flexibilities in applying resources to alternative courses of action which is referred as resource flexibility Sushil (2013).

Strategic action flexibility

Strategic flexibility is implied as the ability of a firm to modify its strategy when it encounters opportunities, threats, and driving forces of change in business environment (Zahra *et al.*, 2008). In fact, in dynamic environments, a company should be capable of recalibrating its strategies in order to achieve sustainable competitive advantage. Considering the capability of firms in showing various strategic actions is considered as the indicator of strategic flexibility in this study, which is aligned with the previous studies (Sopelana *et al.*, 2014, Sushil, 2013; Nadkarni and Narayanan, 2007). However, there are a number of studies (Rudd *et al.*, 2008, Neil and John, 2014) which have considered resource flexibility and coordination flexibility as indicator of strategic flexibility. It is believed that although classification in terms of resources flexibility and coordination flexibility does help in narrowing down the broad scope of the strategic flexibility concept, it does not emphasize the strategic nature of flexibility. The problem with this approach is that it makes sense for different functions of an organization to be less rigid and more prepared for a change in the organization. However, such a classification into resource and coordination flexibility does not provide any insights into how an organization might be able to initiate changes in their competitive environment and shape their environment (Sushil, 2013).

Necesity of diversity of stratagic actions and Shifting between them inorder to deal with the dynamic envirnment is highlighted by Thomson *et al.* (2010). There are three stratagic postures. The company can react to change, anticipate change or lead the change. Reaction as one of the stratagic options is considered as a defensive stratagy and may include actions such as redesigning its product to response to the rivals with better new product. The second option which is called Anticipation entails analysis of the the likely coming events and preparing for them. For example it can be done through investigating the buyers needs and expectation and eqiuiping the firm for the ecpected productions and distribusions. Anticipating stratagies are also considered as defensive stratagies. The third type of strtagic actions considered as Leading change requires being first to market by coming up with a new product and being the market or technological leader.Thus, in such fast changing envirnment, the capability of the firm to shift between these stratagisc options is vital for its sustainable competitive advantage.

The firm’s analytical capability in matching the internal capabilities with the driving forces of change and competitors’ situation providing the firms with diversity of strategic actions is necessary to gain competitive advantage. In fact, strategic flexibility results from processes that intend to evaluate the company’s external environment in order to provide the firm with appropriate information for decision making. There are several concepts considered as the strategically relevant components of a company’s external environment including the company’s industry and competitive environment. In order to come up with diversity of strategic options, certain questions are to be answered.

The first question seeks information on the industries dominant economic features Such as the market size and growth rate, degree of product differentiation, demand supply condition and economy of scale. Regarding the market size and growth rate, a flexible firm will be able to find out about the industries position in the product life cycle which can give insight on the volume of production which can help to develop flexibility (Thomson *et al.*, 2010). Through analyzing the demand supply condition, a firm can find out whether there is surplus of capacity diminishing the price and profit margin so that it can adjust the offering of the product to market, which is regarded as an enabler of flexibility. The second question which is answered deals with identifying driving forces of change and their impact on industry. In fact only considering the product life cycle is considered to be insufficient in monitoring the causes of change in industry. There are strong forces in any industry making the participants to change their actions. So, understanding these forces would help the firm to be more flexible in facing the customers. During Driving Force analysis, there are 3 steps. In first step, the forces are identified, then they are examined if are likely to make the industry more or less attractive, and finally any likely future strategy changes are anticipated which can prepare the firm for facing the impact of change.

Some of the most common driving forces of change include product innovation, change in who buys the product and how they use it, in fact shift in the way products are used needs for new orientation in competition as it influences on the way customer make purchasing decision. Anticipating all these questions are likely to help the firm in coming up with a new product development that is regarded as an indicator of strategic flexibility (Thomson *et al.*, 2010). The third question which can be answered is related to the market position of the rivals. In order to find out about it, one of the most commonly techniques used in the process of scanning is the strategic group map. Strategic group map gives insight on the positions which are more attractive to the competitors who are located in the same strategic group regarding several areas including the offering of same product to appeal the customer. Strategic group map gives insight on the positions which are more attractive. Thus, for the firm to approach to attractive position; he will know how to satisfy the customer.

Internal analysis and value chain analysis as a main component of strategic planning can prepare the ground for emergence of strategic flexibility. The analysis starts with identifying the distinctive capabilities of firm. This is done by evaluating the value adding activities including the primary and supportive activities. The aim is to evaluate whether these activities are done cost competitively compared to rivals. The industries' value chain and rivals' value adding activities are also assessed to see if the company does these activities better or not. Having done this analysis, the firm can come up with the idea whether the firm is suffering cost disadvantage or not. By then, the firm can have strategic options to remedy the cost disadvantage which derives from four main areas.

In some cases, the cost disadvantage is due to internal cost disadvantage or doing the internal value adding activities at a higher cost, in which case, the company can start implementing the best practices or can start to remove some cost producing activities by revamping the value chain (Thomson *et al.*, 2010). As can be seen these strategic options considered as strategic flexibility refer to the ability of firm in changing its strategy in response to opportunities, threats, and changes in the external environment, in fact strategic flexibility conjures up as the ability of the firm to come up with diversity of strategic options (Sopelana *et al.*, 2014; Zahra *et al.*, 2008). It refers to capabilities related to the changes in the nature of organizational activities. Empirical evidences have suggested that having a variety of strategic actions and shifting between actions affects business performance positively (Sopelana *et al.*, 2014; Nadkarni and Narayanan, 2007). Considering the variety of strategic actions and shifting among them gives a more dynamic and active definition of Strategic flexibility. It is believed that an active and dynamic view of flexibility is a characteristic of an organization that makes it able to respond successfully to unforeseen environmental Change by variety of strategic options and speed of shifting between them (Nadkarni and Narayanan, 2007)

The importance of diversity of strategic action is highlighted in the studies done by Nadkarni and Narayanan (2007), Nadkarni and Herrmann (2010), Mom *et al.*, (2009) and Cingoz (2013). Strategic flexibility is considered as the capability of the firm to be responsive to environment by showing different strategic actions at a high speed. It is argued that Firms with strategic flexibility tend to effectively and successfully manage economic risks by responding in a proactive manner to market threats and opportunities. In fact strategic flexibility is stated to be a critical organizational competency that makes the firms more proactive since it gives firms the ability to control outside environment effectively. The assumption is that the more control firms have over their competitive landscape, the better their competitive position.

Resource reconfiguring flexibility

In dynamic Environment, building sustainable competitive advantage is difficult because firms cannot long protect existing products and processes. Firms cannot sustain above-average profits based on a single established innovation or advantage in these environments. To survive in such business environment, firms must carry out frequent strategic and organizational change. In order to show quick response, the company should own the capability of making shift in its resource allocation (Nadkarni and Narayanan, 2007). This is related to the fact that different strategies require different type and amount of resources.The Company needs to marshal the resources behind the strategy critical activities which are required to follow the new strategic initiatives, and establish the appropriate level to the right place in the organization, which is likely to contribute in implementation of the strategy [24]. Thus, flexibility of resource deployment is likely to contribute in enabling the firms to gain higher profit (Nadkarni and Narayanan, 2007)

It is believed that modifying the resource allocation can lead to higher performance of strategic flexibility since it is capable of eliminating the high cost which is one of the reported disadvantages of strategic flexibility (Nadkarni and Narayanan, 2007; Teece, 2007). The stable and persistent pattern of resource deployment may not work in fast Changing Environment, where products, processes and competitive actions are changing rapidly and competitive advantage is short lived. Stability in resource deployment may lock company resources into products and processes that may become outdated, adversely affecting performance [20](Thomson *et al.*, 2010). The need for having a dynamic view toward resource flexibility and introducing resource deployment modification comes from the idea that adopting new strategic action requires the firm to modify its budgeting as new strategy critical activities should be addressed more seriously, and the activities or units that are not any more the main block of the new strategy should not receive resources as before (Thomson *et al.*, 2010). The studies done by Nadkarni and Narayanan (2007) and Cingoz (2013) have provided evidence to support necessity of modifying the resource deployment as an essential condition for strategic flexibility. The study referred to dynamism of the business and industry environment and addressed the attention for new strategic directions for strategic flexibility. In this study, strategic flexibility is considered as the ability to adapt to environmental changes through continuous changes in current strategic actions, resource deployment, and investment strategies. Such conceptualization is supported by Sushil (2013). Resource flexibility and competitive strategic action flexibility are viewed from a new point of view, in which in addition to diversity of actions and resources, the need for shifting in actions and resource use is addressed. In fact, strategic flexibility is referred as a dynamic capability of having various strategic actions and making shifts in strategic actions, which requires to be complemented by managerial activity of making shifts in resource allocation to work properly. Considering such relation is supported by Thomson *et al.* (2010). The study done by Nadkarni and Narayanan (2007) has a shortcoming. It is concerned with not considering the capability of the firm to have organizational structural changes for strategic flexibility. It is argued that strategic flexibility is also implied as the ability of the firm to restructure itself quickly. According to Thomson *et al.* (2010) specific type of structure is needed for carrying out a certain type of strategy in a firm. In fact the companies which are planning to carry out new strategic options and strategy driven activities have found that improving the operation is prohibited by some organization arrangements. In fact such arrangements have prevented firm from fulfilling the execution of new strategic directions. It is believed that attempting to try new strategy with the old structure would lead to problems for performance. So, it is believed that every new strategy needs its own structure to be fitted with that (Thomson *et al.*, 2010). For example, for firms active in one business, a traditional functional structure is suggested, while for pursuing the strategy of Vertical Integration, there is need for Divisional Units which perform one or more major processing steps along the value chain. Thus, the firm which has the capability of structural flexibility in addition to Strategic Action flexibility can be more successful in execution of the newly designed strategic option (Cingoz, 2013). The moderating effect of resource flexibility as an internal contextual factor enhancing the relation between strategic flexibility and performance is emphasized by Hai (2014). Considering the contingency view, he argues that the impact of strategic flexibility on firm performance should not be only contingent on the industrial environment. In fact the researcher believes that taking into consideration the external condition is not sufficient in investigating the effect of flexibility. In fact, if the organization is taken granted as an open system, the effectiveness of an organization is related to both external and internal condition. The study has viewed strategic flexibility from a dynamic oriented point of view. It is stated that Dynamic capability is implied as the capability of the firm to bundle and remodel the internal and external competences in order to face the changes in environments. The study has criticized the previous studies as they had taken in to account the interaction of dynamic capability of flexibility with external conditions. Therefore, it demonstrated that the exploiting the dynamic capabilities should also be based on the internal activities in a firm. The researcher investigated the effect of interaction of resource combination activities and developing managerial ties as the managerial activities.

3. Internal Contexts (Modular Reconfigurable Structural Design)

Strategic flexibility is affected by the ability of the firm to restructure itself quickly. However, there is a distinction between flexible structure and structural flexibility. Flexible structure is considered as the potentiality of the firm in having organic Decision making Process. However, this is different from structural flexibility as the capability of having different structures which can be used and based on the need of new strategy. It is believed that firms possessing structural changes in a well-organized form are likely to face less organization problems compared to the firms that have no ordered changes (Rudd et al., 2008). The important role of structural flexibility derives from the fact that specific type of structure is needed for carrying out a certain type of strategy in a firm. In fact the companies which are planning to carry out new strategic options and strategy driven activities have found that improving the operation is prohibited by some organization arrangements (Thomson *et al.*, 2010). Such arrangements have prevented firms from fulfilling the execution of new strategic directions. It is believed that attempting to try new strategy with the old structure would lead to problems for performance. So, it is believed that every new strategy needs its own structure to be fitted with that. For example, for firms active in one business, a traditional functional structure is suggested, while for pursuing the strategy of Vertical Integration, there is need for Divisional Units which perform one or more major processing steps along the value chain. Thus, the firm which has the capability of structural flexibility in addition to strategic flexibility can be more successful in execution of the newly designed strategic option (Thomson *et al.*, 2010). Structural flexibility cannot be effective and facilitative unless it increases the level of communication, control and coordination inside and outside of the firm (Van *et al*., 2012). This is related to the fact that sometimes pieces of activities are done separately in different functional departments and the organization is so complex that strategic flexibility cannot work. So for the flexibility to work out, it is important to reduce the complexity of the organization and decrease the cost related to coordination (Bock *et al.* (2012). That’s why there should be a more dynamic orientation toward this concept. In order to remove such issue in implementation of strategy, many firms have tried to use structural changes that reduce coordination costs and enhance cooperation among organizational units (Mom *et al*., 2009). Structure change reconfiguration can be regarded as activities contributing to enhance the effect of flexibility. In a broad sense, structure reconfiguring includes the addition of units to the firm, deletion of units from the firm, and Recombination of units within the firm (Karim, 2006). However, in the study done by Bock *et al.* (2012), structure change or reconfiguration is referred to as delegation, consolidation and recombination of units within the firm such that resources and activities are still retained by the organization.

In fact reconfiguring the structure is taken as a process of simplifying the structure complexity. This phenomenon is important to study because reconfiguring structures and their resources makes it possible for firms to use resources in new combinations, improving the effectiveness of resources and improving performance. Structure reconfiguring toward simplification can focus managerial attention on solving problems and identifying opportunities arising from changing environments (Campagnolo and Camuffo, 2010). It is believed that reducing design complexity enhances attention to strategy critical activities and leads to more flexibility: In fact, this reconfiguring activity expands the strategic fit between strategy and structure (Thomson *et al.*, 2010). Thus, structure change reconfiguration is regarded as activities contributing in the effect of strategic flexibility. Thus, structural reconfiguring can be regarded as a factor enhancing the flexibility and approaching the company to operational excellence. Thus in this study, having such capability gives the chance to firm to be able to shift quickly between various types of structure, so it is likely to increase the adaptability of organization through increasing the coordination leading to strategic flexibility.

The contribusion of structure as an internal context to stratagic flexibility and the necesity of the fit between structure and stratagy has been addresed in the study done by Demirbag [15]. In fact a dynamic capability oriented view toward fit is also taken by Demirbag as having considered the contingency perspective, he argues that the notion of strategic fit or alignment generally refers to the efficiency with which the organization's resources and capabilities are aligned with the key opportunities and threats the environment presents, and also the effectiveness with which the organization executes a chosen strategy in certain environments. Demirbag argues that although it is a common belief in strategic management literature that in order to compete successfully, organizations must fit or align themselves with their environment, Uncertain environments characterized by continuous and turbulent change, for example, associated with changing customer preferences and technological innovation, makes the achievement of strategic fit highly problematic. Thus, the writer adopts a dynamic view toward fit and believes that fit cannot be seen to be in a fixed state, rather, achieving fit is a continuous process. In fact the writer is emphasizing on existence of conditions and infrastructures in firms, in which existing capabilities can be meshed with new capabilities in order to realign the organization with its environment. To adapt to a changing environment, organizations must redesign themselves in order to fit that environment and in doing so create the necessary organizational capabilities.

Strategic planning and environmental turbulence and dynamic structure as the contingency factors are brought in to a DEA model to examine the intensity of these inputs enabling the researcher to test the efficiency of the practice of proposed model in SMEs. The result coming from the study shows that there is a positive relation between practicing strategic planning in firms with dynamic structure and higher performance in turbulent environment. The study is valuable since not only has shown the relation between strategic planning and performance, but also has identified the intensity of the variables and efficiency of the practice, in fact in contrary to previous studies which have considered performance; this study has done groundbreaking research on measuring the efficiency of strategic planning. However, there are some shortcomings related to this article. Although the writer emphasized on necessity of considering the internal capabilities as the indicator of implementation enabler, he confined the internal context to introducing the dynamic structure in firm. In fact, the dynamic capabilities and managerial activities recommended are not considered. The second shortcoming is related to considering a direct relation between strategic planning and performance. However Rudd *et al.*, (2008) argues that there should be indirect relation between strategic planning and performance. In fact the capabilities and contextual factors can mediate the relation between strategic planning and performance.

The necesity of considering the structural design when talking about stratagic flexibility is also emphasised in the study done by Van *et al*. (2012) and Sopelana *et al.* (2014). They criticize the previous studies as believe that many of the studies of organizational flexibility have not taken into account the distinction between managerial capabilities and design as the required infrastructure for flexibility. In fact it is stated that both managerial capabilities and organization design variables are interrelated dimensions (Sopelana *et al.*, 2014). The conceptual model of the study is oriented from systems theory of control, in which flexibility is regarded as result of an interaction between the dynamic capability of executives and responsiveness of the organization.

As an executive task, achieving flexibility includes the development or reconfiguring dynamic capabilities with which a firm’s resource can be expanded or remodeled. Such dynamic capabilities are likely to enhance management’s ability to show responsive actions (Helfat *et al.*, 2007; Sopelana *et al.*, 2014). Regarding flexibility as a managerial capability, it is important to see if executives can show reaction at the right time. For example, how managers shorten the time to bring a new product to market by which there will be operational flexibility. But in case of addressing the design, it is essential to find out if the company possesses the required infrastructure to fulfill the expected result from flexibility. for example in order to be able to introduce the product mix to market as a sign of operational flexibility, the organization should be equipped with technological designs making it able to implement necessary changes (Van *et al*., 2012). The study done by Bock *et al.* (2012) gives insight on what is exactly meant by a dynamicly reconfigurable structure. In fact reconfiguring the structure is taken as a process of simplifying the structure complexity. In this study, structure change or reconfiguration is referred to as delegation, consolidation and recombination of units within the firm such that resources and activities are still retained by the organization. These activities are intended to enable the firm to make quick changes in internal and external structure. For example, strategic alliances, use of third-party operating utility, onshore outsourcing, shared services, major project-based contracting and offshore outsourcing are considered as forms of loosely coupled external coordination which are stated to be beneficial for SMEs, compared to fixed and strict integrations such as mergers.

The study took a dynamic view toward structure flexibility by regarding it as modular simplification process in the organization. The concept of modularity has been found appropriate to support simplifying reconfiguring actions as indicator of structural flexibility as presented below. However the scope of modularity is scoped down to modularity in Organization Structure and the modular product is disregarded (Campagnolo and Camuffo, 2010). An organizational architecture is modular to the extent to which architecture (modules) interfaces between modules (such as the way they adjust and communicate with each other). It is generally agreed that a modular organizational structure should be composed of autonomous loosely coupled organizational units. Effects of modular organizational structure include simultaneously reconciling flexibility and cost efficiency (Helfat and Winter, 2011). The adoption of a modular organizational design is stated to ensure the opportunity to recombine autonomous organizational units and resources to meet business opportunities in dynamic markets. Studies of organizational design modularity maintain that adopting a modular organizational structure allows firms to achieve inter temporal economies of scope with a low degree of coordination between business units (Helfat *et al.*, 2007; Karim, 2006). Modularization enables organizations to manage complex systems by decomposing them into smaller pieces with limited interdependence. Hence, modular design allows for decoupling of components and systems and creates an information structure that can provide embedded coordination, thereby providing the company with increased strategic flexibility (Sanchez and Mahoney, 1996).

4. External Context Of Envirnment Dynamism

Strategy of the firm should be aligned and fitted with the type of the business envirnment and intensity of the competion the firm is facing. In fact, Stratagic flexibility is considered important as a dynamic capbility enabling the firm to confront with the dynamism of the envirnment.The business Envirnment is more turbulent compared to past. The challenges of managing a successful business today are more complex and difficult than any other time in the recent history. Manufacturing innovations and intense international competition have created threat for the management of companies. Academics agree that business environments have been dramatically complicated leading to existence of environmental turbulence. Environmental turbulence has been considered as one of the drivers of strategic directions. It is argued that turbulent and fast changing markets are chractrised by fast technological changes, short product life cycles , competitive proactive actions of the rivals and flactuations in taste of customers.

The influence of external context has been extensively studied in the litreture . Kapasuwan *et al.* (2007), Nadkarni and Narayanan (2007), Cingoz (2013) have taken into account the moderating effects of eternal environmental factors on relation between flexibility and performance. The envirenmental contextual factors considered in prvious studies showing to be critical for organizational survival include industry clockspeed, Environmental munificence, environmental dynamism, and environmental complexity.

The first external factor is environmental dynamism which refers to changes that occur in the task environment due to absence of established prior patterns. In the study on moderating effect of dynamism on relation between flexibility and performance which is done by Anand and Ward (2004), fit between external environment and elements of strategy is stressed. In fact, the strategic effectiveness of an organization is said to be dependent on fit, which is the compatibility of structures and processes both within the firm, and with the environment in which it operates. Referring to Miller and Friesen, dynamic environments are mentioned to be consisting of two distinct characteristics, 'rate of change' (velocity or volatility), and 'unpredictability of change'. The writer makes a distinction between alignment pattern of volatility and unpredictability as a volatile environment calls for centralized and mechanistic structures, while an unpredictable environment requires organic and flexible structures.

In the study done by Nadkarni and Narayanan (2007), the industry clock speed as the indicator of rate of change of the environment is the dimension that is considered. He identified three facets of industry clock speed: product, process and organization. Product clock speed indicates new product introduction and product obsolescence rates. For example, the aircraft industry shows slow clock speed, while the automobile industry shows fast clock speed. Process clock speed refers to the speed of replacing the process technologies such as the production line technologies. Finally, organizational clock speed shows the speed of change in strategic actions such as mergers and acquisitions. It is clear that all three dimensions happen at industry level. The writer has made distinction between rate of change, turbulence and magnitude of change.

In order to fill the gap, rate of change is chosen as the environmental contextual factor. It is argued that in fast clock speed industries, the potential for sustainable competitive advantage and the feasibility of feedback-based learning is low. In fact, in fast-clock speed industries, building sustainable competitive advantage is difficult because firms cannot long protect existing products and processes. Second, fast-clock speed industries severely limit the potential for feedback-based learning. Firms cannot learn from past experience because strategic actions that have proven effective in the past become outdated quickly, so similar actions no longer produce similar outcomes. The result is in agreement with previous studies as strategic flexibility is found to be positively related to firm performance in a fast clock speed industry.

The second dimension of environment named munificence is referred as the feature of the environment showing the ability of environment to support sustained growth by providing the firms with more resources and opportunities. It is believed to increases strategic degrees of freedom" through the accumulation of slack within the organization (Li *et al.,* 2010). Among the studies focusing on how environmental munificence interacts with strategic flexibility, there is not clear consensus. While Goll and Rasheed (2005) show that strategic flexibility coming from rational strategic planning leads to high levels of organizational performance in munificent environments, Hai (2014) reports that strategic flexibility is most likely to result in higher performance in environments with low levels of munificence, because in munificent environments, firms do not have to frequently change strategies since resources and opportunities supporting existing strategies can be easily identified, acquired, and exploited. In other words, the effect of strategic flexibility on firm performance is not quite evident in highly munificent environments.

Environmental complexity defines the extent to which a firm's environment is competitive and heterogeneous (Li *et al.,* 2010). Dynamic capability perspective suggests that strategic flexibility is more efficient in improving firm performance in competitive environments (Zhou and Wu, 2010). Strategic flexibility enables firms to respond to competitors' actions through deploying new strategies agilely and launching technological or business model innovations more quickly and efficiently (Li *et al.,* 2010; Zhou and Wu, 2010). In contrast, when competitive actions are fewer and more predictable, firms can make a better living with existing strategies than with changing strategies because the potential of strategic flexibility may not be fully exerted and the benefits of strategic flexibility may not offset its costs.

It is believed that when there are fewer competitors, rules are relatively well established and there is not much need for strategic alternatives, while in highly complex environment, the top management team will be able to explore a more extensive range of activities and also require greater information processing and cognitive abilities to understand how various environmental sectors interact. The moderating effect of intensity of competition on strategic flexibility performance relation has been tested by Hai (2014). The result is consistent with the general believe showing that in the more complex and intense environments, there is a higher need for strategic flexibility and shifting among strategic alternatives.

Based on the work of Kroll and Wright (2010), three factors contribute to creating high levels of environmental complexity. One, technical complexity is the degree to which technical requirements characterize an industry. This generates environmental complexity because a firm must have a greater range of knowledge to participate successfully in the industry. Two, product diversity suggests that industries that have several product categories creates complex environments because of the increased range of critical success factors that must be understood and mastered, and the potential for interdependence across product infrastructures and input requirements. Three, geographic dispersion of operations contributes to environmental complexity because a wider scope of operations requires organizations to adjust their mental maps to take into account an increasing number of suppliers, customers, and competitors.

5. Conclusions

The contingency theory and concept of fit is used in this study as a basis to propose the model. This review has highlighted the underlying, issues, Dimensions and conditions in the strategic flexibility literature regarding the moderating influences of context. This review recommends expanding the scope of strategic flexibility by doing future empirical research on the active dynamic oriented dimensions of strategic flexibility. The two dimensions of strategic flexibility proposed in this study include strategic action flexibility and resource reconfiguring flexibility. In fact, it is necessary to expand the scope of dimension of resource flexibility by classifying it into resource deployment or resource reallocation capabilities and resource combination activities. In case of finding the internal context which is potential to enhance the influence of strategic flexibility, this study recommends to examine the effect of a modular reconfigurable structural design. In fact this review recommends combining the dynamic capability view and organizational design view regarding the strategic flexibility to come up with answers for vague points regarding the effectiveness of strategic flexibility as a strategic direction to face dynamism of environment. The modular reconfigurable Structure design can be referred to as a structure with delegation, consolidation and recombination of units within the firm such that resources and activities are still retained by the organization. For example, strategic alliances, use of third-party operating utility, onshore outsourcing, Shared services, Major project-based contracting and offshore outsourcing are considered as form of loosely coupled external coordination which is stated to be beneficial for SMEs compared to fixed and strict integrations such as mergers. In case of the external context, the strategic effectiveness of an organization flexibility is found to be dependent on the dynamism of environment consisting of two distinct characteristics of ‘rate of change’ (velocity or volatility), and ‘unpredictability of change’.

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