



A reexamination of the organizational slack and innovation relationship



Dan Marlin ^{*}, Scott W. Geiger ¹

Kate Tiedemann College of Business, University of South Florida St. Petersburg, 140 7th Avenue South, St. Petersburg, FL 33701, United States

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ABSTRACT

In this study a configurational approach was used to examine the organizational slack and innovation relationship. Utilizing a sample of 437 manufacturing firms and multiple measures of firm innovation we identified distinct configurations of slack and found significant innovation differences between them. The results from our analyses demonstrate that configurations with moderately high combined levels of internal slack (available and recoverable slack) and moderately high levels of potential slack produced higher levels of innovation. Conversely, configurations with low to moderately low levels of each type of slack produced the lowest levels of innovation. Our findings also indicate that alternative configurations of slack can result in similar levels of innovation suggesting the existence of equifinality in this relationship. Overall, our findings suggest that the slack and innovation relationship is more complex than has been accounted for in previous research. The implications of these findings are discussed.

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1. Introduction

Organizational slack and its impact on firm innovation is an important area of research within the strategic management literature. Organizational slack has been studied because the accumulation and expenditure of resources impacts competitive ability and firm outcomes (Chen, Yang, & Lin, 2013; Cheng & Kesner, 1997; Daniel, Lohrke, Fornaciari, & Turner, 2004). Innovation has been studied because it plays a large role in a firm's ability to create competitive advantages via adaptation and new product development (Alessandri & Pattit, 2014; Herold, Jayaraman, & Narayanaswamy, 2006). Overall, the research findings on the relationship between organizational slack and innovation remain largely equivocal.

Like many other areas of research, most studies examining the slack and innovation relationship have tested for linear relationships. For example, slack is argued to be a benefit for firms because it serves as a buffer from shortages of funds and can increase the potential for firm innovation (Bourgeois, 1981; Cyert & March, 1963). However, it is also argued that organizational slack is inefficient and accrues because of self-serving managers (Jensen & Meckling, 1976; Nohria & Gulati, 1996; Simon, 1957). Other researchers have argued for contingency (Geiger & Makri, 2006) or nonlinear (Herold et al., 2006; Nohria & Gulati, 1996) relationships and thus expand beyond the good or bad arguments for slack. Most prior research has also examined slack uniformly from a theoretical perspective even though slack is recognized

as being a multidimensional concept (e.g., Bromiley, 1991; Singh, 1986; Voss, Sirdeshmukh, & Voss, 2008) and the relationship between slack and innovation can vary depending on these different dimensions (Geiger & Cashen, 2002).

The above highlights two important factors: (1) there is inconsistency in prior findings and (2) there is still much to be learned regarding the relationship between organizational slack and innovation. Given this, we believe the literature can be advanced in two ways. First, while prior research has examined the relationship between individual components of slack and innovation, no known studies have examined the joint impact of multiple types of slack on firm innovation. As such, we extend prior research by building on the theoretical arguments of both behavioral theorists (Cyert & March, 1963) and agency theorists (Jensen & Meckling, 1976) and then examining how firms bundle slack resources and how these bundles impact firm innovation. This is accomplished through the use of a configurational approach (Gruber, Heinemann, Brettel, & Hungeling, 2010; Short, Payne, & Ketchen, 2008) which to date has not been used when examining this relationship even though slack has been recognized as a multidimensional concept. Using such an approach provides insights that are either out of the scope of or unattainable by research focusing on the impacts of individual organizational elements (Miller, 1981).

Second, no known studies have considered the combined effect of the different types of slack or whether the different types of slack resources, when uniquely bundled together, result in differing or similar firm level outcomes. Because slack is multidimensional, different unique combinations or configurations of slack resources may result in equifinality in the slack and innovation relationship. As described by Gresov and Drazin (1997) and Katz and Kahn (1978) equifinality exists when a system can reach the same final state from different initial

^{*} Corresponding author. Tel.: +1 727 873 4946.

E-mail addresses: marlind@usfsp.edu (D. Marlin), geiger@usfsp.edu (S.W. Geiger).

¹ Tel.: +1 727 873 4732.

conditions and by a variety of different paths. Since no prior studies have examined this relationship using a configurational approach, it is not known if there are multiple ways to bundle slack resources that result in similar levels of firm innovation. Thus, this study provides a first step in determining if certain slack bundles result in higher levels of innovation and if there are multiple ways of bundling slack resources that result in similar innovation outcomes.

In the following section we provide a review of the slack and innovation literature and develop testable hypotheses. Following this, we describe the data, research methodology and the results of our empirical analyses. Finally, we provide a discussion of the results that includes both managerial and theoretical implications as well as future research directions.

2. Theory and hypotheses

2.1. Types of slack and slack configurations

Based on prior definitions, slack can be thought of as a bundle of resources within or available to an organization above the minimum needed to create a given level of output (Geiger & Cashen, 2002). Previous research has identified multiple components of slack (Bourgeois, 1981; Bourgeois & Singh, 1983; Geiger & Cashen, 2002; Singh, 1986). These components have been most commonly categorized as available, recoverable, and potential slack (Bourgeois, 1981; Bourgeois & Singh, 1983) absorbed and unabsorbed slack (Singh, 1986), or internal and external slack (Geiger & Cashen, 2002). These categories are similar in that internal slack is within the firm and either readily available and unabsorbed, or already absorbed and considered recoverable while external slack is not within the firm and is considered potential or unabsorbed. Since these frameworks are consistent we use available, recoverable, and potential slack as it is the most fine-grained approach in the literature.

Concerning slack's relationship with firm outcomes, varying arguments have been presented on its benefits (Bourgeois, 1981; Love & Nohria, 2005). Moreover, prior research suggests that the relationship between slack and firm outcomes can vary depending on the component or type of slack being examined (Geiger & Cashen, 2002; Singh, 1986). Overall, the literature has conceptualized slack as a multidimensional concept (i.e., Bourgeois, 1981; Bourgeois & Singh, 1983; Bromiley, 1991; Singh, 1986; Voss et al., 2008). However, individual studies have typically failed to make varying theoretical arguments regarding the relationship between slack and firm outcomes based on the different slack dimensions. Also, prior research has yet to examine the combined or simultaneous effects of the different slack dimensions on firm outcomes such as innovation. As such, the use of a multidimensional approach such as a configurational approach should improve our understanding of this relationship.

Within the overall body of management research configurational relationships are often examined. Configurational approaches are used because they allow researchers to examine sets of firms that share common profiles across a variety of key variables (Gruber et al., 2010; Short et al., 2008), and they demonstrate differences in outcomes among the groups of firms studied (Ketchen, Thomas, & Snow, 1993; Ketchen et al., 1997). Thus, when studying slack and innovation, a configurational approach allows for the testing of how multiple components of slack are bundled and how these bundles, or configurations, are associated with different levels of firm innovation. Surprisingly, despite the equivocal findings related to slack and innovation outcomes using other methods, configurational studies that specifically examine the slack and innovation relationship do not exist. This is unfortunate as prior slack research (e.g., Bourgeois, 1981; Bromiley, 1991; Singh, 1986; Voss et al., 2008) has recognized the multidimensional nature of slack and the need for additional research (Daniel et al., 2004; Geiger & Cashen, 2002).

2.2. Slack and innovation

It important to note that firm innovation involves both important inputs into the innovation process such as R&D expenditures and important outputs of a firm's innovative activities such as patents. In this study we examine both types of innovative activities and thus our theoretical arguments are based on how firm behavior will impact both innovation inputs and outputs. Within the literature slack has been argued to have positive, negative, and curvilinear influences on firm innovation (Bourgeois, 1981; Herold et al., 2006; Nohria & Gulati, 1996). The positive outcomes of slack are often tied to the arguments of behavioral theorists that slack buffers an organization from environmental uncertainty and provides extra resources that allow for scientific research and experimentation (Tan & Peng, 2003). This results in innovative cultures and experimental projects being more likely to develop (Bourgeois, 1981; Nohria & Gulati, 1996). Under this scenario managers are less likely to worry about the risk of failure because excess resources exist to buffer against any losses. In this sense slack can also serve to facilitate strategic behavior which allows firms to create new strategies and new products (Bourgeois, 1981; Thompson, 1967). Overall, slack is acknowledged to have costs, but its benefits are thought to outweigh these costs (Tan & Peng, 2003). Conversely, according to agency theorists slack has negative effects on firm outcomes because managers are self-serving and wasteful (Jensen & Meckling, 1976). Following this line of reasoning, managers may not have the incentive to act in the best interest of the firm and the firm's owners may lack the information needed to monitor managerial behavior. Thus, managers may pursue personal projects, engage in empire building, or simply inefficiently utilize resources, all of which could reduce firm outcomes such as innovation (Geiger & Cashen, 2002). However, the relationship between slack and innovation may vary based on the type of slack and thus these relationships are discussed separately below.

Available slack identifies the amount of resources that are unutilized and readily available to the firm. Typically used measures of available slack include liquidity measures such as the current ratio or quick ratio (Bromiley, 1991; Cheng & Kesner, 1997; Palmer & Wiseman, 1999). Available slack is internal, flexible, highly deployable and provides firms with a buffer to the ebb and flow in firm innovative outcomes (Bourgeois, 1981). A benefit of available slack is that firms can experiment knowing that resources will still remain even if the experimentation fails. When viewed in this way available slack within the firm allows managers the ability to take on many initiatives, including innovative efforts, knowing that a safety net exists if a given initiative is unsuccessful. Thus, the existence of available slack should positively impact firm innovative efforts (Thompson, 1967). Conversely, it can also be argued that at a certain point controls used in selecting or terminating projects may become relaxed due to excessive available slack (Jensen, 1993). In other words, because available slack is flexible and readily available to managers they may pursue or continue with projects that otherwise would be avoided or terminated if little or no available slack existed. This can result in a suboptimal level of innovation becoming acceptable to managers because of available slack in the firm and thus as available slack increases innovation may actually suffer. Therefore, on balance and consistent with the arguments of Nohria and Gulati (1996) and Tan and Peng (2003) both too much and too little available slack can be detrimental to innovation.

Recoverable slack has typically been operationalized using selling and general administrative expenses divided by sales (Bromiley, 1991; Palmer & Wiseman, 1999). This measure identifies the amount of excess costs embedded within a firm that could be reduced and thus recovered during financially difficult times (Bourgeois & Singh, 1983). While recoverable slack is different from available slack discussed above, it is also a form of internal slack and thus much of the same logic applies to its relationship with innovation. For example, some firms retain more employees than needed to endure the ebb and flow of demand and general business activity. This increases expenses but also provides

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