Foreword

This is a pioneering study of organizational flexibility in the emerging economy of Argentina. It seems odd to characterize an economy which in the early part of the twentieth century was the sixth wealthiest in the world as emergent. But successively throughout the twentieth century Argentina has politically and economically lost its way and its wealth. In the period 1975–1990, just before the events detailed in this book, the Argentinian economy contracted by 17 per cent, and inflation peaked in 1989 at nearly 5000 per cent. Furthermore, exports had fallen from 3 per cent of the world total earlier in the twentieth century to 0.3 per cent in 1990 (Gerchunoff and Llach, 1998).

Political turmoil also affected the country over the period 1975–1990. A coup d'état in 1976 ended the troubled democratic government of Isabel Perón. A military junta governed the country until 1983. Democracy was restored, but in 1989 the government of Dr Alfonsín resigned, unable to tackle the financial crisis.

In 1989, the new government, led by Dr Menem, started a process of far-reaching changes in the economy. In the course of five years (1989–1994), the country went from being a tightly regulated and protected economy to an open one allowing free competition. The economic plan, which affected virtually every aspect of the economy, was based on three pillars of reform: monetary, fiscal and trade, and regulatory reforms.

The effects of these reforms were as dramatic at the level of the economy as they were at the level of firm competitiveness. Inflation was slashed from its peak of 5000 per cent in 1989 to 0.7 per cent in 1997. Wholesale privatizations dramatically increased government revenues and reduced government expenditures. De-regulation quickly exposed protected Argentinian firms to previously unknown competitiveness pressures and a process of concentration was accelerated by a wave of acquisitions of indigenous Argentinian firms by foreign-owned multinationals. It was in this punishing and liberating context that Andrés Hatum's study of organizational flexibility was born.

But what are the central questions of this book and in what sense is Andrés Hatum's study a pioneering piece of management research, the impact of which extends way beyond the troubled shores of Argentina at the end of the twentieth century?

Andrés Hatum's book is founded on the central assumption that the competitive performance of firms is an innovation contest where the bureaucratic and inflexible cannot survive or flourish. He sees the routes of enhanced performance resting on the development of sets of organizational and managerial capabilities which will deliver higher levels of organizational flexibility. His research was guided by three broad questions.

1. Do some firms display more flexibility than others in similar competitive circumstances?
2. Why are some firms able to create and exploit more flexibility?
3. How over time do such firms build and utilize the set of organizational and managerial capabilities, which allow them to be more agile and responsive?

He offers an analysis based on four case studies from a population of large Argentinian family-owned businesses in two industries: pharmaceuticals and edible oil. The case studies – two in each section – are polar types: one highly flexible firm and another less flexible firm. Both industries experienced unprecedented levels of competitive pressures in the 1990s and some of these firms adapted to that pressure much more quickly and adroitly than others. But what were the determinants of such organizational flexibility?

Andrés offers a theoretically rich and diverse analysis of the determinants of organizational flexibility. He draws upon the contextual and longitudinal work on change developed at Warwick Business School by Pettigrew (1985); Pettigrew and Whipp (1991); Pettigrew *et al.* (1992) and Pettigrew *et al.* (2003); the literature on organizational innovativeness of Damanpour (1991); Van de Ven *et al.* (1999) and others; the neo-institutional research of Greenwood and Hinings (1996) and Ang and Cummings (1997); and the novel work on organizational flexibility of Volberda (1999). He combines deductive theoretical development from the above literatures plus astute inductive analysis from his empirical findings to develop a five factor inter-dependent model of the determinants of organizational flexibility. Drawing upon a compendium of quantitative and qualitative time series data, he is able to convincingly demonstrate that a combination of heterogeneity of the firm dominant coalition, and apposite balance of centralization and formalization decision making, low macro-culture embeddedness, developed mechanisms of environmental scanning and a strong organizational identity all contributed to firm responsiveness.

His first determinant was the extent of heterogeneity of the top management coalition. His data show that the more highly flexible firms in his sample had a much more heterogeneous top management coalition than

their less flexible comparatives and that this heterogeneity provided the kind of diversity of experience, views and mindsets which delivered greater cognitive width and capacity for action. The more flexible firms also managed more effectively to combine strategic centralization with operational autonomy and decentralization. Furthermore, the more flexible firms instituted more explicit formalization of decision making so that they could best monitor the greater autonomy of operational decision making they allowed.

More flexible firms also made themselves less institutionally embedded in their sectors than their less flexible comparators. This greater detachment from the established policies and practices, indeed conventional wisdom, of their sector peers gave the more flexible firms greater capacity for independent thought and action. This 'disembeddedness' of the flexible firms was also aided by and through greater capabilities to obtain superior information about their environments. Andrés refers here to capabilities of environmental scanning and demonstrates that his more flexible firms created and used greater variety of formal and informal structures for environmental scanning and combined these mechanisms with greater external openness and cognitive diversity than was evident in the less flexible firms.

Andrés's fifth determinant of organizational flexibility connects organizational identity with an understanding of how flexible firms adapt. He is able to show how and why the possession of a strong sense of identity, rooted in a sustainable set of values which favour change, innovation and risk taking, contributed to organizational adaptation. Paradoxically, a strong sense of identity thereby gave the more flexible companies the organizational anchor they needed to be able to move forwards and change (Hatum and Pettigrew, 2006).

The empirical findings of this study are a valuable addition to existing work on the adaptation of firms to competitive pressure. Crucially, however, Andrés Hatum's findings are a corrective to existing work on firm responsiveness which has been largely carried out in large non-family owned businesses in developed economies. He is able to show that research on the link between centralization and formalization and firm responsiveness in developed economies is not transferable to the rather different context of the emergent economy of Argentina. He is also able to demonstrate that the national business environment of Argentina, as represented in and through the influences of the State, financial and other institutions and managerial culture, all contributed to shape the particular response patterns of his set of Argentinian firms.

Finally and crucially, Andrés's book is a rare study of the adaptation and the flexibility of family firms. Existing literature on the behaviour and performance of family firms has thus far developed somewhat in isolation from the main currents of management research. Drawing as he does on

core elements of the literature from organization theory and strategic management, Andrés Hatum brings the behaviour of family firms centre stage in the theory and practice of organizational flexibility and change.

Andrés Hatum's book on organizational flexibility is indeed a pioneering contribution to knowledge of the adaptation of family firms in emergent economies. In combining cross-levels of analysis of firm, sector and national business environment he gives a unique picture of the contextual forces driving change. Through his detailed time series analysis of managerial action, he is able to expose and explain the mixture of context and action which accounts for variation in organizational flexibility over time. This is a notable contribution which others can build on for years to come.

Andrew M. Pettigrew
School of Management
University of Bath

July 2006
Brilley, Hertfordshire