1. Introduction

In the old days in science, the universe was fairly simple. Nearly every science museum has a huge, old model of the solar system in which all the movements of the planets are represented with clockwork gears. Then we realized that reality was much more complex. All motion was relative. The universe is a system in dynamic motion and flux with all motion being determined by the forces of inertia, complex gravitational interactions of heavenly bodies and even unseen gaseous clouds, random collisions, millions of asteroids, and the overall movement of galaxies toward the outer boundaries of the universe. (D’Aveni, 1994: xiii)

D’Aveni goes on to draw an analogy between our increasing perception of the complexity of the universe and the complexity of the business world. Business has entered a new reality, one that is more complex and dynamic, in which timely adaptation is critical for a firm’s survival. Since the 1990s the new business context has been characterized by macro-environmental changes, changes in the way firms are organized, and changes in management style.

The macro-environmental changes affecting businesses have been shaped by an acceleration of change in the economic, social, technological and political worlds. March (1995) underlines four factors that have brought volatility and uncertainty into the environment in which firms operate: global linkages (that is, the business networks that cause global interdependencies to multiply and national boundaries to fade); information technology (which affects the possibilities for coordinating and controlling organizations); knowledge-based competition (that is, the use of knowledge as a primary source of competitive advantage); and political uncertainty (that is, the loss of autonomy of the national state through a general loss of control over boundaries).

All these factors have caused competition to intensify, product life cycles to shorten and technological innovation to increase. Hypercompetition, D’Aveni (1994) states, best describes the process by which the business environment accelerates. He indicates that the choice is clear for managers: either to stand still and allow constant change to wash over them, trying to resist the environmental changes, or actively to adapt to the environment and take advantage of its opportunities. In a dynamic world, D’Aveni (1994: 356) points out, only dynamic firms and those that can adapt rapidly to hypercompetitive environments, will survive.
Over the last decade, management literature has heralded the importance of new forms of organizing to confront uncertain and hypercompetitive environments. Theories regarding ideal types of organization have proliferated in an attempt to find ways that firms can adapt rapidly under high levels of competition. Goranson (1999: 65) suggests the concept of agile and virtual enterprise, understanding by virtual organization ‘aggregations of smaller units that come together and act as though they were a larger, long-lived enterprise’. Such an organization has the advantage of being highly responsive.

Hedlund (1994) introduced the N-form in which different elements of an ideal organization are highlighted, namely lateral rather than vertical communication, temporary constellations of people and units rather than permanent structures, and heterarchy instead of hierarchy, among others. Heldlund’s N-form is less futuristic but still more an ideal than a realization.

The latest empirical attempt to understand the ways firms organize themselves to adapt to competitive contexts comes from Pettigrew and Fenton (2000) and Pettigrew et al. (2003). Instead of focusing on ideal ways of organizing, Pettigrew and Fenton (2000) have stressed how firms organize themselves and what the indicators are. The conclusion of their European survey is that the most adaptable and innovative firms have combined changes in structure (that is, more decentralization, delayering and project forms of organization), changes in processes (that is, horizontal communication, investments in information technology and new human resource practices), and, changes in their boundaries (that is, downscoping, outsourcing and more strategic alliances).

Finally, the changing environment of the 1990s has also brought challenges in terms of the way firms are managed if they want to adapt successfully. These challenges have been signalled in management literature as a need for environmental sensing and sense-making (Pettigrew and Whipp, 1991), a managerial culture favouring change (Newman and Nollen, 1998), a broad knowledge base and variety of managerial expertise (Grant, 1996), and the development of high-order learning (Teece et al., 1997).

Behind such claims of environmental, organizational and managerial changes lies a new interest in the dynamics of adaptation and in particular in a firm’s flexibility as a way of adjusting under conditions of uncertainty (Volberda, 1999; Child, 2005). Amongst those who champion the new dynamic view of the firm, there is a belief that managers are unable to influence their rapidly changing environment (Astley and Van de Ven, 1983). Hence, they urge the adoption of flexible structures and systems which react to change automatically. This is a highly deterministic view – the actions of the manager being limited merely to making adjustments to the structure and systems. Others (Child, 1972, 1997; D’Aveni, 1994) suggest a
more proactive role for the manager in which he/she does have the ability to influence the environment in which the firm operates.

In spite of the recognition of the importance of a firm’s adaptation and flexibility, much of the writing on adaptation concentrates on short-term strategic and organizational adaptations (Lewin et al., 1999). Moreover, research into adaptation still involves using cross-sectional research designs combined with the static metaphors of contingency thinking to analyse the fit between firm and environment. The inadequacies of this tradition are now well recognized by an emergent approach in the field of adaptation that seeks more dynamic explanations (Lewin and Volberda, 1999). This emergent approach has encouraged researchers to identify the best ways for firms to adapt rapidly to ever changing realities (Dreyer and Grønhaug, 2004; Volberda, 1999). Lewin et al. (1999) applaud research which utilizes historical and longitudinal data to reveal the chains of causality that help to make up a more dynamic theory of adaptation and discover the essence of the adaptation process. Our research into determinants of organizational flexibility comes at a time when a more dynamic approach to the study of organizational adaptation under conditions of environmental uncertainty is badly needed.

This book takes up the challenge of exploring the dynamics of organizational adaptation under the conditions of environmental volatility that prevailed in Argentina over the period 1989–1999. In particular, we focus our attention on the determinants of organizational flexibility that made it possible for some firms to adapt rapidly in uncertain contexts. The empirical focus of the research is the study of the transformation process in four family-owned firms – two of which are considered flexible and two less flexible in two different industries: pharmaceuticals (an industry in the process of deregulation) and edible oils (a deregulated industry).

Family firms are the majority of businesses in several countries. In Latin and Central America, 65 per cent of companies are family-owned on average (IFERA, 2003). Poza (1995) indicates that in Latin America, the percentage of family businesses among the privately-owned companies varies between 80 per cent and 98 per cent. Although these are only estimates, they clearly indicate that family businesses constitute an overall majority of Latin American economies.

The existing family business literature has not directly tackled the issue of adaptation or flexibility. Even the most often acknowledged studies in the field of family businesses and change have been more preoccupied with the family side than the context surrounding the firm (Aronoff and Ward, 1997; Gersick et al., 1997; Ward, 1987). The existent studies have been acontextual and ahistorical, always focusing on the firm’s lifecycle and the transitional stages of the family firm but forgetting about the context in
which the firm is embedded. Neither explorative nor longitudinal studies of the context have been produced in order to understand how firms adapt under rapidly changing environments and what capabilities are needed to do so (what we term ‘determinants of organizational flexibility’).

Our analysis draws upon longitudinal data collected from the firms by means of interviews, archive material and statistical data. Using an innovative analysis, we combine coding analysis from interview transcripts, statistical analysis and the use of original display charts, to show the determinants of organizational flexibility as a set of organizational capabilities that enabled some firms to adapt rapidly in the changing and highly competitive business environment that prevailed in Argentina in the 1990s.

OUTLINE OF THIS BOOK

Chapter 2 has a double focus. First, it presents views on a firm’s adaptation. Second, it introduces views on inertia in organizations as a force that prevents them from adapting. The approaches analysed are: contingency theory and strategic choice theory (to explain a firm’s adaptation) and population ecology and elements of strategic management theory (to explain the causes of inertia in organizations). While these theories allow us to understand why and how firms adapt, they do not analyse those factors that allow a firm to adapt quickly under conditions of environmental turmoil. We describe how three alternative literatures – flexibility (Volberda, 1999), innovation, and institutional embeddedness (Greenwood and Hinings, 1996) – can be used to build a more precise approach towards adaptation under conditions of environmental turmoil. We then use the concept of organizational flexibility to refer to the organizational and managerial capabilities that firms need to enable them to adapt quickly following environmental shifts. This literature review also raised several issues about what determines whether an organization is flexible, and from this exploration of the determinants of flexibility we state the three main questions of this book:

- Do some firms display more flexibility than others in competitive circumstances?
- Why are some firms able to display more flexibility?
- How do they do it?

In Chapter 3 we begin our multilevel analysis by examining the national business environment (NBE) in which firms were embedded over the period of analysis. Three main elements of the NBE were examined in order to understand how the NBE has affected the competitiveness of the industries
and companies over time. The three elements considered in our analysis were the role of the state; the financial institutions; and the role of the national culture.

The results of our four comparative case studies are described in Chapters 4 to 8. Chapters 4 to 7 outline significant strategic and organizational transformation within the four case studies. Chapter 8 compares the four family-owned firms and describes factors our analysis identified as determining organizational flexibility – namely the heterogeneity of the dominant coalition, the levels of centralization and formalization of the decision-making process; the low level of macroculture embeddedness; environmental scanning and the strong organizational identity found in the flexible firms. Each determinant was operationalized and analysed according to a series of methods identified in the empirical literature relating to the different fields.

Chapter 9 concludes this book. Having summarized our findings we discuss the contributions made by this research in the field of family businesses and in particular organizational adaptation and flexibility. We also comment on the limitations of our investigation and suggest areas for future research to address these limitations and to utilize further the methodology we have developed in this research.

An Appendix is also included in which the methodology adopted for our empirical research is described. While our focus is the firm level of analysis, a dual phase research strategy was used: the sectoral level and firm level of analysis.