

# Exploring the Influence of Slack Resources and Absorptive Capacity on Strategic Flexibility Using the Miles and Snow Taxonomy: A Review and Future Research Agenda

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*Small business strategy making and development have not been the top priority of discussion in the small business and entrepreneurial literature. Strategy making in a general sense has been axiomatically viewed from a perspective of planning, whereby an unplanned strategy is deemed to be causative enough of the successes or failures of a firm's strategy and performance outcomes. Simply, there is a lack of studies explicating the effects of slack resources and absorptive capacity (ACAP) on small business-level strategy transitions. The current research approaches small business strategy from a resource-based view of the firm (J. B. Barney, 1986; Feurer & Chaharbaghi, 1994; Robins & Wiersema, 1995) using the theoretical basis of strategic flexibility, which suggests that when business owners are flexible with internal resources (i.e., assets, human capital, information, knowledge, and technology), they are better able to create dynamic strategies that allow tactical changes in its environmental positions and adaptiveness (Matthyssens, Pauwels, & Vandenbempt, 2005; Srour, Baird, & Schoch, 2016; Zhou & Wu, 2010). This study provides three propositions for future research to confirm the impact of slack resources and ACAP on firm strategy flexibility in tumultuous business landscapes.*

## INTRODUCTION

Miles and Snow (1978) provided four generic, adaptive strategies that firms can *choose* based on external or internal constraints. However, in addition to understanding this taxonomy, proposed is the notion that to adapt a strategy, a firm's slack resources and absorptive capacity (ACAP) are guiding mechanisms; this is often missing as a proponent of strategic flexibility in the extant literature. Also neglected in the literature is the role that ACAP plays when it is internally intensified as to acquiring external knowledge, assimilating it, and transforming it internally.

Marlin and Geiger (2015) maintained, "There is scant research on slack and organizational outcomes utilizing firms outside of the manufacturing industry" (p. 2340). In many regards, there tends to be a parochial view of small business strategy making; this view does not reflect the true nature of strategy making for small businesses that operate in tumultuous environments with high uncertainty. Strategy decisions in this context should, on the other hand, be viewed as complex, erratic, and dynamic (Ensign, 2008). Based on this view, a proposition is purported: business-level strategy might be influenced to a large degree by slack resource deployment, as response to push-pull environmental dynamics, than by owners' personal philosophy or choice.

Although owners make informed strategy decisions, their decisions may not align with their internal resources and capabilities because of environmental uncertainty and resource scarcity. Owners' deployment of slack resources and intensity of ACAP can be identified as mechanisms to attain a strategy (e.g., prospector, defender, analyzer, and reactor). From this perspective and reinterpretation of the Miles and Snow's (1978) taxonomy, small business owners do not choose a strategy per se, because the firm in many cases operates at the impulse of environmental complexities. Environmental forces and internal resource deployment play major roles in strategic trajectory—neither are mutually exclusive. Optimistically, when internal slack resources are applied toward a new project (e.g., new product development or addition to a core service), and if ACBP is intensified, the business sets out on a strategic trajectory; the deployment of internal resources acts as an environmental response in either a *prospecting* or *defensive* strategy.

Most, if not all, of the strategic literature have focused on “the relations between organizational environment, strategic process, strategic content, organizational performances, and many other variables” (Alfirević, Pavičić, & Gnjidić, 2014, p. 93) and has focused less on absorbed or unabsorbed slack resources to bolster tactics during strategy transition. Therefore, the current research proposes that small businesses merely transition between the Miles and Snow generic strategies based on the deployment of organizational slack resources and intensity of ACAP.

The small business landscape is dynamic and tumultuous. Owners need to be increasingly adaptive to environment and industry changes compared to their larger counterparts. Adapting to the environment can be a slow process for a small business, or owners can remain insular from the larger network, losing out on potential external knowledge. Contrarily, if external networks are cultivated and social capital is accrued, knowledge can be dispersed among interdependencies (e.g., suppliers, customers, partners, and technology). The interdependent relationship is oriented around the absorption of knowledge. This knowledge might be related to the use of technology, innovation, or just simple network collaboration. Small business strategy must remain flexible and adaptable regarding push–pull environment demands, because of the increasingly complex business landscape (Raymond & Bergeron, 2008) and uncertainty of the future and technological capabilities in the larger network of interdependencies (Desbarbo, Benedetto, Song, & Sinha, 2005).

The current research adds to theory by developing propositions to extend small business strategy with an *inward* perspective guided by the resource-based view of the firm (J. Barney, 1991) for further research and development. The resource-based view sees resources as rare, imitable, and valuable (Nyberg, Reilly, Essman, & Rodrigues, 2017). Exploring the extant literature on this elicits a clearer understanding of the influence of ACAP and slack on small business strategic advancement (Gimenez, 2000). Guided by this perspective, it is important to note that the Miles and Snow taxonomy was originally intended for corporate organizations (Desbarbo et al., 2005) but can and ought to be applied to small businesses strategy.

Small business engagement in industry adds to the competitiveness of the economy, as they are forerunners of innovation. Based on that assumption, “there is limited evidence regarding the role of organizational slack on SME [small-to-medium enterprise] innovation adoption” (Franquesa & Brandyberry, 2010, p. 26). Franquesa and Brandyberry (2010) confirmed, “The role of organizational slack in the context of small firms represents an important gap in our understanding of slack-innovation relationships” (p. 26). The antecedents of small business strategy, based on the taxonomy developed by Miles and Snow, is nonexistent in the extant literature. Therefore, the current research explores and uncovers theoretical gaps between small business strategic adaptiveness influenced by ACAP and deployment of slack resources.

Small business owners intuitively deploy strategies to fit their landscape—to compete with other firms in their industry—and conduct extensive environmental scanning of related and, at times, unrelated businesses strategies to acquire new knowledge that has not previously existed inside the firm. However, there is a chasm between a firm's internal slack resource usage and ACAP influence on small business strategy.

According to Miles and Snow's (1978) taxonomy, there are four strategy types: *prospectors*, *analyzers*, *reactors*, and *defenders*. These strategies are adaptive in nature (Miles, Snow, Meyer, & Coleman, 1978); yet, theory does not acknowledge the influence of environment changes, as in the value chain, regulations, scarcity, and the probability of adapting and readapting to their environments with critical allocation to new or existing projects that requires the deployment of slack resources. Owners' view of slack can be either constraining or unconstraining. For example, an owner might be encouraged with slack resources and use them to spur innovation; management might increase ACAP, using new knowledge as a mechanism to connect capabilities with realized potential and assimilate and commercialize resources toward environment opportunities (Gross, 2016).

Investigating these multidimensional constructs facilitates not only a theoretical understanding of the influence on small business strategy, but it is needed to fill the gap (Ensign, 2008; Pettigrew, 1992) among scholars' varying views of small business strategy and the utility of slack resources and intensity of ACAP to adapt a strategy to internal and environment activity. Small business owners pursue strategies based on inter- and intra-industry competitive forces coupled with their personal views and philosophies, past experiences, and a keen sense of the competition (Kotey & Meredith, 1997). Competition in a complex and unstable environment is a constant variable; small business owners ought to analyze competitors' methods and adapt them to their own strategic transition process. For small businesses, the question is not, will we be first movers (i.e., by introducing new products; Kerin, Varadarajan, & Peterson, 1992)? Rather, *how* (Porter, 1980) will internal resources be used to follow a generic strategy transition from reactor to analyzer?

At the small business level, strategy is dynamic (Ensign, 2008) and decision making has unintended consequences (Mintzberg, 1994), which is why strategy can be emergent. But this emergent outlook calls for owners to be adaptable to environmental needs and internal problems (i.e., administrative, entrepreneurial, or engineering). The emergent nature of strategy does not operate in isolation of a main strategy (i.e., owners have preexisting tactics that are linked to various other decisions made at other points in time related to other areas of the business).

At times, emergent strategies are more successful than strategies intended or planned without realized potential negative consequences (Mintzberg & McHugh, 1985). Ensign (2008) placed small business strategies into three categories: *vertical dominance*, *dynamic dominance*, or *horizontal dominance*. Vertical dominance describes the extent to which a manager's strategic decision cuts across other decisions set forth by firm members. Vertical dominance decisions are purposes ideas related to which industry to enter or if reengineering the existing structure could have greater influence on strategic choice (Burgelman, 2005; Ensign, 2008). Dynamic dominance realizes changes to the environment and combines strategy with previously made choices. Dynamic dominance decisions induce major ripple effects across and within all levels of the firm, and strategic decisions made by owners begin to converge on a leading strategic decision. Finally, strategic choices should include horizontal dominance, which has a profit-seeking motive and is combined with value goals. Each of the dominance factors must be embedded in strategy decisions and formulations, if the strategy is to be viable and adaptive.

Chandler (1962) and Raymond and Bergeron (2008) expressed that scholars have disagreed as to the malleability of a set plan comprising numerous tactics within a strategy while simultaneously pursuing multiple strategies from other areas of the business. The inability of small business owners to blend, morph, or diversify strategic tactics intended to create new or unforeseen strategic combinations that have potential to adapt to environment demands but go unrealized is a constrained view of strategy. On the other end of the spectrum, scholars have purported that strategy should be fluid, changing, and malleable, where strategic thinking is the rule and not the exception—an unconstrained view of strategy (Gross, 2016). This assertion is apparent in other cases, where owners accumulate, allocate, and maintain levels of slack resources to be used later as a safety net to meet unforeseen or future business objectives (Wefald, Katz, Downey, & Rust, 2010).

Miles and Snow's (1978) taxonomy consists of four generic strategies dichotomized by a firm's ability, trajectory, and adaptability to environment pressures. The three conditions—or problems, as Miles and Snow identified them—of businesses are either *entrepreneurial*, *engineering*, or *administrative*.

These conditions impose business constraints and are transitional and shifting, depending on the internal tactics and human capital aimed toward and applied to projects either to enhance entrepreneurial constraints or detract from administrative problems to assist in reengineering the business structure. Contrarily, constraints if unaddressed hinders a firm's ability to move toward a prospectors' frontier, therefore, unaddressed constraints decrease the entrepreneurial spirit and instead there is focus on administrative problems which requires a defensive strategy. By focusing on an administrative solution, the firm will continue its existence at the least. Relatedly, an entrepreneurial solution is the commitment of resources to modify and change procedures and processes as a guide to proceed into a frontier. An engineering solution is answered when coordination and controls are implemented to help with unforeseen internal constraints. To find solutions to these problems, owners need to apply slack resources to flex tactics that could swing the transition from one generic strategy to another and to find those solutions with resources and knowledge to address problems that inhibit competitiveness and profitability.

The current research does not attempt to delineate generic strategies based on the intended consequential results from strategic constraints. This study does not provide comparisons between one small business choice versus another, although strategy choice and implementation have been shown to be vital to small business performance (Alfirević et al., 2014; Desarbo et al., 2005). However, what is proposed and presented is that, when owners adopt strategy to eliminate or circumvent problem constraints, it poses challenges and requires internal change orientation and the use of slack. It would also present paradigm shifts—owners must view slack resources not just as project-based work for management and employees but as mechanisms that steer a strategic position. In a tumultuous business landscape, as many small businesses operate in, change is inevitable. Owners face challenges, not only from external environmental factors but also from internal allocation of slack resources and the use thereof.

Owners' decisions regarding a strategic transition reflect a view of the firm (e.g., resource-based view) and the vitality and value they hold for strategic thinking. In many cases, the problem facing owners (i.e., entrepreneurial, engineering, or administrative) in terms of strategic constraints is the effect of consequential knowledge on their strategic transition as new developments in the environment take shape. It has been documented that owners employ many strategies with different objectives simultaneously, even as the dominant strategy matures over time (Hart, 1992; Mintzberg & Westley, 1992; Verreynne & Meyer, 2010). Therefore, strategy is not a predetermined path; perhaps it is dictated by environmental demands. Owners can deploy slack resources to meet the demands of environment and intensify the use of knowledge to adopt a strategy—as either a prospector, defender, analyzer, or reactor.

The daily operations of small business owners are fraught with environmental constraints that larger organizations do not so much encounter, some of which relates to the use of and fit of human capital, supply chain, resources for continuous innovation, and acquisition of knowledge (Verreynne & Meyer, 2010). Small business owners employ unique approaches to find solutions to strategy—the same as larger businesses; but small businesses have smaller margins of error when pursuing strategy based on resources (i.e., human and financial) and their inability to take on high-risk activities (Ahluwalia, Mahto, & Walsh, 2017), which gives rise to the application of the strategic taxonomy outlined by Miles and Snow. Because of the taxonomy's adaptive nature, it is better suited to analyze small business adaptiveness and environment activity (Gimenez, 2000; Olson & Currie, 1992). The model provides an integrated view of the changing and tumultuous nature of the small business environment with an emphasis on addressing external and internal complexities.

Most research on strategy has tended to focus on the end product of strategy—performance and owners' capabilities, skills, and characteristics (Ingram, Kraśnicka, Wronka-Pośpiech, Głód, & Głód, 2016)—with minute focus on the determinates or antecedents resulting from internally derived resources aligned to emerging tactics within a flexible strategic framework. The current examination goes a bit deeper. It provides strong antecedents of small business strategy adaptiveness and transitional movements along a strategic continuum with a notion that, when slack resources are deployed and new knowledge is acquired, it contributes to owners' tactical movements toward either a defending or a prospecting

strategy—strategic flexibility. In the current purview, strategy is a method used to maneuver and mobilize resources and people around constraints to capture opportunities during times of certainty and uncertainty.

Desarbo et al. (2005) and Hambick (1983) suggested that the Miles and Snow model provides an incomplete view of strategy making and positioning, because it ignores contextual factors connected with the mobilization of internal resources. If it is to be used as a viable model, a deeper analysis is needed. In this regard, Ingram et al. (2016) provided a dispassionate analysis consisting of two contextual factors (i.e., size of firm and age of the firm) and purported robust findings from the small business literature. Ingram et al.'s results align with the conceptualization of the Miles and Snow model, whereby it was deemed applicable for future studies related to small business strategy making, developing, and executing process.

The current research makes several attempts to add new interpretations to Miles and Snow's (1978) existing taxonomy and small business theory with the central notion that, not only do environment forces drive generic strategy transition, but strategy is a result of the use of or lack of organizational slack resources and the intensity or inactivity of the acquisition and transformation of new knowledge. Also provided are theoretical models depicting organizational slack resources and ACAP interacting with strategic transition. This contribution is unique because there has been a conflict of contexts in the literature as to the vitality and contribution that new knowledge has on the effective use of slack on small businesses adaptive tactics and strategies to meet environment demands and internal constraints. These tasks are fulfilled by providing a review of the literature, followed by conceptual framework and models, and a conclusion and future research section.

## REVIEW OF THE LITERATURE

Miles and Snow's (1978) landmark study is tremendously influential in the strategy literature (O'Regan & Ghobadian, 2005; Raymond & Bergeron, 2008; Fiss, 2011; Tang & Zang, 2012); their model consists of four generic strategies formed into a taxonomy. The taxonomy can be and is most often viewed as process and adaptiveness of businesses to the pressures of constraints (Parnell, 2002), environment changes, and competition, which provide owners with three levels of problems—administrative, entrepreneurial, and engineering. The Miles and Snow model places heavy emphasis on the adaptive behavior of firms within an industry and environment, as it is a business-level strategy.

By and large, Miles and Snow's (1978) taxonomy has provided theorists with a strong basis on which to examine adaptive strategies. However, the exploration has been sparse (Fiss, 2011). Fiss (2011) agreed with Zahra and Pearce (1990) who maintained, "There has been essentially no research on how firms of different strategic types utilize different organizational structures and coordination mechanisms" (p. 400). However, this falls in line with the attempts of the current study—develop strategy for small business as an emerging process and the use of internal resources employed to transition between strategies based on environment push-pull demands.

### Miles and Snow Taxonomy

Miles and Snow's (1978) taxonomy has four strategy types: *defenders*, *prospectors*, *analyzers* and *reactors*. According to Miles and Snow (1978), the *defender* focuses on control and finding solutions to existing procedures, products, and problems. The focus is on niche offerings without considering outside domains for new environment opportunities (Gimenez, 2000; McDaniel & Kolari, 1987; Miles et al., 1978; Parnell, 2002; Shortell & Zajac, 1990). The defender maintains a position within a safe and secure product/service offering with greater emphasis on efficiency. This focus tends to remain narrow, despite the advances of the competition, which in most cases would signal future maneuvering is needed. Rather, in this strategy type, owners gridlock the business in a retreat position with little regard for learning from competitors and seeking new information beyond their boundaries. The view of the defender type is constrained—the management of these firms tends to control frontier activities and new knowledge flow from a centralized and historically based perspective (Ingram et al., 2015) with little regard for future opportunities and outlook.

The *prospector* is at the front of the strategy choice spectrum because of its association with innovation and innovative processes that are combined to create new and novel products and service offerings (Ingram et al., 2016; Miles & Snow, 1978; Miles & Snow, 1986; Parnell, 2002). Prospectors are pioneers who prefer being the leader of environment changes. This strategy type embodies the spirit of emergence. In a constant state of external environmental scanning, prospectors maintain a healthy entrepreneurial spirit where change is not only welcomed but sought and reinforces management devotion to higher levels of strategic thinking (Gross, 2016). An owner's view under this type is unconstrained—the use of human potential and the general philosophy is oriented around growth, expansion, flexibility, and risk taking.

Miles and Snow (1978) explained that the *analyzer* type attempts to straddle both analyzer and defender types by taking the best of each and combining them into tactical plans. Pursuing an analyzer strategy requires a *blending* of the attributes of both prospector and defender. Between these two strategies, stability and innovation meet in equilibrium, mostly determined by environment changes and conditions; thus, analyzers capitalize where they can (Gimenez, 2000; Ingram et al., 2016; Miles et al., 1978; Parnell, 2002). The most unique aspect of this strategy type is that it allows owners to “watch their competitors closely for new ideas, and then they rapidly adopt those that appear to be most promising” (Gimenez, 2000, p. 238). Consequently, adaptation and flexibility come with risks. Miles et al. (1978) noted that the risks are a result of keeping a balance between inefficiency and ineffectiveness among the dual purposes of pursuing environment opportunities and creating a stable structure that can withstand the gust of environment and technological demands.

At the far end of the strategic spectrum is the *reactor* strategy, which is not a strategy per se (Miles & Snow, 1978). This strategy type is perceived as a nonstrategy due to management inconsistency, incoherent direction, sluggish environment reactions, and less time and less effort spent on profitable pursuits. Unlike the other strategies, reactors focus more on short-term gains that only serve to play catch-up with competitors; otherwise, this type is apprehensive about changing directions in the face of environmental shifts (Ingram et al., 2016; Pleshko & Nickerson, 2008). Inertia is pervasive in this strategy type, especially as it relates to capturing environment signals for necessary changes that can bolster product/service. Increasing efficiencies is the only objective for this type, because there are no internal mechanisms to receive, interpret, and evaluate environment signals that gauge when to adjust or diversify product/service offerings. The pursuit of a nonstrategy occurs when other strategies have failed (Miles et al., 1978) and/or performed poorly when executed (Parnell, 2002).

To extend the subtle nature of the premise of the proposition in applying the Miles and Snow (1978) taxonomy, Matsuno and Mentzer (2000) suggested three relevant points of interest: (a) a firm's strategy decisions ought to be guided by market and environment signals, (b) a firm's strategy will ultimately drive a firm's performance indicators, and (c) a firm will be persistent in driving a performance indicator insofar as the strategy types are monotonic.

- P<sub>1</sub>: The Miles and Snow taxonomy is suitable for measuring firm-level strategy transitions. Based on the applicability of this taxonomy, it shows the interactions of environmental variables reflecting small firm's decision to increase or decrease ACAP and whether to employ slack resources as the catalyst to transition from one strategy type to the next as a response to the business environment.

### **Strategic Flexibility**

Strategy for small firms, when compared with large firms, tends to be emergent, sporadic, and malleable due to the unstable nature of its business environment. Strategic flexibility is when firms reallocate resources to meet environmental demands or internal constraints based on consequential knowledge leading to an increase in performance with intent to adopt an unintended strategy. This theory underpins the main notion in the current study: the movement firms make along the Miles and Snow (1978) taxonomy, employing slack and ACAP, so that when owners' adaptive strategies are in accordance with the nature of their intent, resources, actions, and investment strategies (Fernández-Pérez, del Mar Fuentes-Fuentes, & Bojica, 2012), they transition with flexibility.

The current research captures two unique aspects of strategic flexibility that are imperative to justify its use in the Miles and Snow taxonomy when (a) deploying resources toward competitiveness and (b) increasing the number of various patterns of resource deployment enabling flexibility. Three approaches are highlighted to justify and to support the claims made within this research: (a) flexible maneuvering of resources, (b) flexible process within a firm's operations, and (c) flexible cognitive approach of owners, specifically the ability of owners of small businesses to maneuver strategies using internal resources as they see fit based on internal environment changes.

This theory is multifaceted in that it can be applied at the firm level and individual level of analysis, which means resources are allocated or reallocated based on environment changes; at the decision-making level, the owner needs to have the strategic thinking skills to generate unorthodox tactics to maintain flexibility in strategic transition (Gross, 2016). Because strategic flexibility is a dynamic capability (Grewal & Tansuhaj, 2001; Roberts & Stockport, 2009), it requires internal resources and conditions conducive to strategic transition.

Organizational slack resources and ACAP are two mechanisms by which owners can engage in a generic strategy under the Miles and Snow (1978) taxonomy. Matthyssens et al. (2005) identified three methods to increase strategic flexibility, which justify slack and ACAP as two internally driven resources as decision makers on a strategic position: (a) increase a firm's diversification strength, (b) invest in the firm's underutilized resources, and (c) reduce the commitment of resources that have been allocated.

### **Organizational Slack**

Resources ought to be used in alignment with core capabilities, environment adaptations, or new product/service offerings. There is no question that shifts in environment call for strategic thinking and actions by ownership to use excess resources to realize emerging strategic opportunities instead of as a tool for retaliation; consequently, this notion gives rise to the connection between slack resources and small business strategy. Defalco and Renzi (2015) defined slack as "the amount of exceeding resources, eventually available for managerial discretionary use" (p. 168). Nohria and Gulati (1996) defined slack as "a pool of resource in an organization that is more than the minimum necessary to produce a given level of organizational output" (p. 1246). Herold, Jayaraman, and Narayanaswamy (2006) agreed, contending that slack is above and beyond standard requirements needed to meet firm-level objectives. Franquesa and Brandyberry (2010) acknowledged that no study in the small business literatures has addressed the multidimensional use of slack resources, and that there is a scarcity of evidence to support the effects of slack innovation in small business.

Nohria and Gulati (1996) referred to slack as a cushion that can serve to increase market share and carve out a new environment position. It can also be viewed as enabling wasteful habits or, more optimistically, a way to engage in innovative behavior (Herold et al., 2006). Bourgeois and Singh (1983) parceled slack into two main categories—absorbed and unabsorbed—and later added another category—potential slack. Many theorists have maintained there is a positive relationship between organizational slack resources and firm-level innovation (Chen & Huang, 2010; Cyert & March 1963; Defalco & Renzi, 2015; Herold et al., 2006; Nohria & Gulati, 1996).

Supporters of the benefits of slack resources have listed the conditions for employing the effective use of slack in the functions of small firms (Franquesa & Brandyberry, 2010; Herold et al., 2006; Nohria & Gulati, 1996; Wefald et al., 2010). Examples of slack resources are redundant employees, unused capacity, unused inventory, retained earnings, working capital, personal raising of additional capital, and any unexplored opportunities that can increase output (Cyert & March, 1963; Love & Nohria, 2005; Marlin & Geiger, 2015; Nohria & Gulati, 1996). Small business owners can gain in the areas of process, goal orientation, promoting a culture of innovative behavior, and employee development by using slack to bolster greater operational efficiencies. Experimentation with accumulated resources that would not have been used otherwise is encouraged, assuming the slack resources have not been absorbed, they are available, and they can be easily recovered (Franquesa & Brandyberry, 2009). Slack also allows for flexibility with environment adaptiveness, encouraging behaviors that engage in environmental scanning. Environmental scanning breeds new projects that owners would be more willing to consider. This

depends, of course, if the slack resource can be easily recovered versus slack that is least likely to be recovered because projects do fail.

The literature with a constrained view (narrow focus on environment penetration by staying within one environment product domain) of the influence of slack on firm-level innovation is replete with reasons and justification as to the inherent nature of management decision making when there is an access of resources. Nohria and Gulati (1996) shared an unconstrained view of slack resources and the use of slack for innovative purposes; “If slack is a form of inefficiency but also essential for innovation, organization runs the risk of eliminating slack to a point that undermines their capacity to innovate” (p. 1245). Slack resources encourage small business innovation: (a) slack produces a culture of experimentation in the form of team, work group, and division comrade; (b) slack is a safe method of testing new product environments and a justifiable means of tinkering with high-potential innovation by innovative champions; (c) with access to slack resources, owners can psychologically take on more risk-inherent actions and exploration; (d) slack helps absorb technology; (e) slack brings fresh approaches or ideas that can be stored for a later date; and (f) slack can be a cushion in case a project fails.

P<sub>2</sub>: A firm’s employment of slack resources impacts its ability to transition between strategies under the Miles and Snow taxonomy. Firms that do not employ slack resources follow a defender or reactor generic strategy; firms that employ slack resources transition toward prospector strategy.

### **Absorptive Capacity**

It is unclear how small business owners acquire knowledge, assimilate knowledge, transfer knowledge, and exploit knowledge to expand strategic choices while maintaining a sustainable competitive advantage. Muscio (2007) affirmed, “Little evidence has been provided about this important determinant of knowledge acquisition in the SMEs context” (p. 1). Grandinetti (2016) echoed this sentiment, asserting that there is a lack of “adequate theoretical and empirical research effort to analyse the role of relationships in an SME’s knowledge management process” (p. 160).

With a lack of practical understanding of ACAP at the firm level has hindered small business practitioners’ and academics’ ability to understand the merits or demerits of ACAP (Flatten, Greve, & Brettel, 2011; Lane, Koka & Pathak, 2006; Liao, Welsch & Stoica, 2003). As a multidimensional construct related to small business strategy adaptiveness, consequently ACAP literature has focused on large firms, albeit ACAP is an adequate construct to measure small business phenomena (Ahluwalia et al., 2017). The core of the ACAP construct is research and development—a minor activity in most small businesses. However, absorptive capacity has not been measured in the context of small business, resulting in major shortcomings in understanding ACAP impacts on strategy and strategic choice (Muscio, 2007). ACAP impacts strategic transition, because it creates an environment that is responsive (through knowledge inflows and outflows) to either administrative, entrepreneurial, or engineering constraints in turbulent business landscapes (Escribano, Fosfuri, & Tribo, 2009).

Comprehensively, ACAP involves acquiring, assimilating, transforming, and exploiting new knowledge that directly or indirectly advances intrafirm or interfirm strategies (Gross, 2016). Absorptive capacity is based on the seminal work of Cohen and Levin (1989) and Cohen and Levinthal (1990). Later, the ACAP dimensions were partitioned into two capabilities: potential and realized (Zahra & George, 2002). The first level of ACAP is acquisition. Acquisition identifies and accumulates relevant knowledge to inject into a firm’s operations to elicit positive consequences. Assimilation, the second level, is including and fusing a reinterpretation of knowledge that has been acquired externally. Transformation is the process of combining and refining existing knowledge to facilitate the altering of routines. Finally, the exploitation level is based on the routines and structure of the firm, whereby knowledge is applied to existing operations to commercialize new products or services.

In a breakthrough study, Cohen and Levinthal (1990) explained that firms with high levels of ACAP outperform firms with low ACAP. This relates to product development and services initiated from acquired external knowledge gained for commercial ends. Gross (2016) purported that knowledge gained externally is found in the external pockets of knowledge, which consist of suppliers, customers,



competitors, and stakeholders. Gross proposed that firms that increase in ACAP are more likely to be entrepreneurial; they have a greater propensity for taking risks, seeking innovativeness, and being proactive. The increase in entrepreneurial-orientated tactics happens over time from the accumulation of experience and resources it takes to acquire and to absorb knowledge from external sources and fuse it with existing knowledge within the firm—a lengthy process (Cohen & Levinthal, 1990; Grandinetti, 2016). These factors are vital to firms increasing ACAP. Grandinetti (2016) and Cohen and Levinthal (1990) purported that the faster ACAP and relationships are cultivated, contacts coordinated, and actions implemented, the faster ACAP is increased.

To contribute to the vast amount of research that exists in ACAP, a theoretical model is developed and a framework provided on the basis that, along with organizational slack, ACAP is an important factor associated with strategic transition. Unlike previous ACAP research, where the foci are on technical capabilities and entrepreneurial wealth (Deeds, 2001), managing knowledge for entrepreneurial growth (Gray, 2006), human capital characteristics of top echelon (Hayton & Zahra, 2005), the focus here is on the depth and intensity of ACAP on small business strategy adaptation of any type, whether prospector, analyzer, defender, or reactor. ACAP’s influence on strategic choice seems *a priori*, but further inquiry is needed in this domain.

P<sub>3</sub>: A firm’s intensity of ACAP impacts its ability to transition between strategies under the Miles and Snow taxonomy. If ACAP is inactive, firms follow a defender or reactor strategy type; if ACAP is active, firms transition toward a prospector strategy type.

## THEORETICAL FRAMEWORK AND MODELS

Figures 1 and 2 explain the interaction between ACAP and organizational slack resources as it relates to owners making major strategy decisions that are transitory and adapt to firm-level environments. Figure 1 shows the overall view of these multifaceted constructs, while highlighting the push–pull environment dynamic. These interactions influence not only internal problems to be addressed (entrepreneurial, administrative, or engineering) at any given point in time but also an adaptive strategy.

**FIGURE 1**  
**THE RELATIONSHIP BETWEEN SLACK AND ACAP STRATEGIC TYPE**

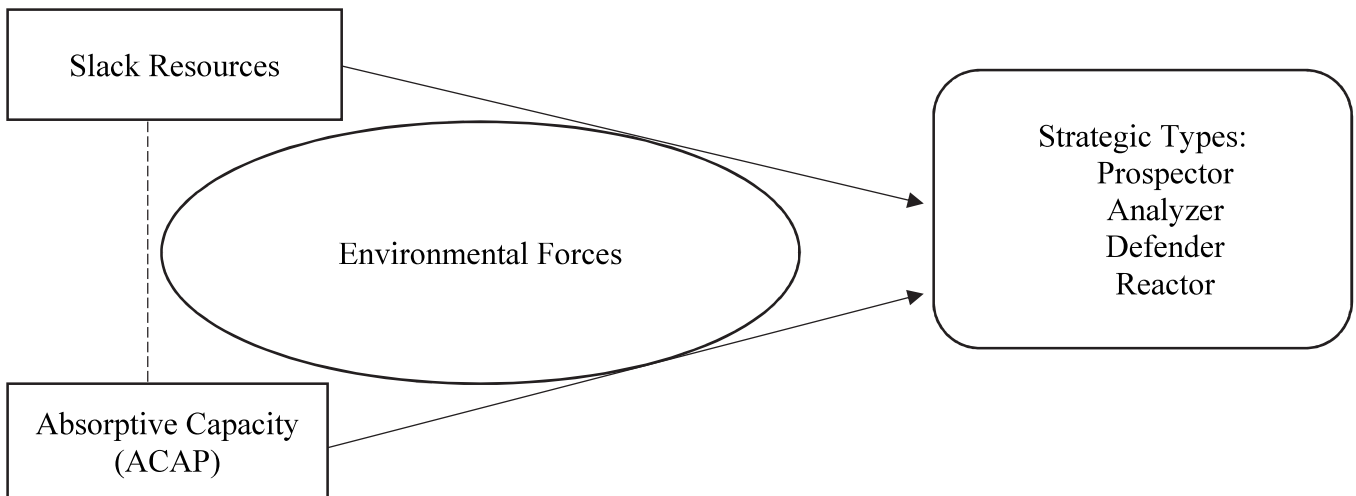
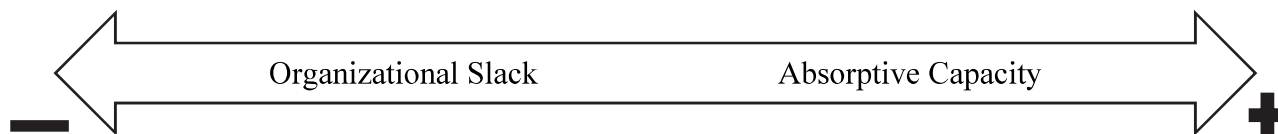


Figure 2 shows the strategic transitions as a spectrum that depends primarily on the degree of slack and ACAP applied to any given strategy decision; however, neither direction on the spectrum is more advantageous than the other.

**FIGURE 2**  
**SLACK AND ACAP SPECTRUM USAGE ON STRATEGIC FLEXIBILITY**



In many cases, using less slack resources is a matter of choice or personal philosophy. For example, maintaining a defender position requires little to no need to seek and acquire new knowledge and assimilate it into the dynamic dominance of previously operative strategies, because an owner may have a position where he or she has a sustainable competitive advantage at the industry level. Moreover, owners who engage in new knowledge as appropriate to facilitate open innovation (Huang & Rice, 2009), expand entrepreneurially (Gray, 2006), or to find ways to change in the mist of environment changes need to modify their process perspective with available slack. This enables vertical and horizontal strategic dominance.

The far extreme are reactors. This group does not have the built-in mechanisms to receive environment signals that could alert them when to employ resources and knowledge to facilitate a strategic transition. As highlighted in Figure 1, the link between slack resources and ACAP does not exist in reactors. This is reinforced in Figure 2. The spectrum of usage of slack tends to decrease toward reactors but increase toward prospectors.

#### **Slack Resources and Small Business Strategic Transition**

Herold et al. (2006) used a series of patent-related data to inquire into the relationship between slack resources and innovation. They found a curvilinear relationship. The cause of this relationship, as they stated, was due to managerial behavior, which caused diminished returns on the slack resources. Chen and Huang (2010) examined the same variables and reported an inverse u-shaped relationship. This relationship was attributed to the different types of slack with unequal effects on innovative pursuits. These data were analyzed from a population of information technology managers, measuring their creativity in the workplace when slack was available. Geiger and Cashen (2002) sampled 228 companies and analyzed the data using regression analysis. They reported a positive, significant relationship between slack and innovation, which suggests that not only was optimizing slack usage impactful, but the type of slack and its application toward strategic ends was equally impactful.

Relatedly, Marlin and Geiger (2015), with a resource-based perspective, sampled 563 firms and 161 trade firms to examine the relationship between slack and firm-level performance. Marlin and Geiger suggested that slack resources and firm performance have a significant positive relationship. They showed that the configuration of slack increased firm-level outcomes and performance.

If owners decide to employ slack resources, they move along the strategic spectrum as either a prospector or an analyzer. These two strategy types require using slack to propel a firm into the frontier of innovation and increase performance. If owners' position is to defend, less slack resources are employed. These owners view slack from a constrained perspective. Defending types' foci might assume this strategy based on internal conflicts related to absorbing environment signals, new knowledge base, or knowledge assimilation constraints.

The use of slack resources has been a contentious discourse among academics and practitioners. Small business application of slack to pursue a prospecting or analyzer strategy means that slack must be increasingly used. A firm's ability to effectively use slack resources has been linked to innovation, which ties in with the prospector and analyzer (contingency) types. Bourgeois (1981) and Cyert and March (1963) concluded that slack resources help explain organizational behavior, particularly in gaining insight

to reduce interfirm goal conflict, promote political behavior, and drive strategic phenomena. Slack is a facilitator of strategic behavior and strategic thinking.

### **Absorptive Capacity and Small Business Strategic Transition**

Flatten et al. (2011) reported a positive relationship between firm-level ACAP and performance, which influence firm-level competitive advantage to a large degree. Lichtenthaler and Lichtenthaler (2009) maintained that a strong link between ACAP and open innovation was causative and associative with firm-level growth strategies. Escribano et al. (2006) sampled 2,265 firms using survey instrumentation measuring the effects of ACAP as a moderating variable on competitive advantage in tumultuous business landscapes. They suggested that firms with higher ACAP are not only better at identifying external knowledge inflows but were able to maintain a competitive position in competitive business environments. Some business owners do not intend to defend an environment position; rather, they prefer to seek out knowledge and create inflow possibilities (Escribano et al., 2006).

Kostopoulos, Papalexandris, Papachroni, and Ioannou (2011) agreed with previous research findings in that ACAP is an antecedent to innovation and positively impacts financial performance when mediated by external knowledge inflows. Matusik and Heeley (2005) sampled 112 firms using survey instrumentation and found a positive relationship between ACAP dimensions (acquisition, assimilation, transformation, and exploitation) and knowledge creation of employees within the firm. They added that newcomers' tacit knowledge plays a vital role in intensifying ACAP, and that moderate turnover promotes the internal exploration of existing routines and structures that might have gone unnoticed due to inertia.

In a somewhat related study, Matsuno and Mentzer (2002) sampled 1,000 marketing executives out of a total of 3,300 manufacturing firms based on a list culled by the researchers. They reported that strategy type, as a moderating variable, was related to market orientation and economic performance. Firms with a market-oriented approach tend to use information and knowledge that is relevant to the pursuit of advantageous market activities. This finding, among others they purported, is encouraging because no such study has shown the link between strategy types and market activities.

These findings indicate that ACAP dimensions are related to business owners' strategic flexibility and transition abilities under the Miles and Snow taxonomy. However, if ACAP is intensified, firms reap the benefits of a prospecting position in the environment. The analyzer type, unlike the other three strategic types, could intensify ACAP if the decision is to transition to either a defensive or prospecting position; however, the prospecting type maintains a constant inward flow of knowledge and sustains structures that can engross assimilating transmutable knowledge and thus transforms it to meet the needs of strategy transition. To that end, strategy adaptiveness and transition is positively associated with ACAP. Relatedly, a defender type of firm might acquire consequential knowledge from external sources and transform that knowledge with the intention of making an upward transition toward an analyzer type. Firms with massive inflows of knowledge can make strategic transitions easily and rapidly when compared to small businesses that cannot absorb inflows. Businesses that reap the benefits of high-intensity ACAP can experiment with assimilation and transformation to ensure a direction of sustainable competitive advantage and generic strategic transition.

### **CONCLUSION AND FUTURE RESEARCH**

The current research attempted to reinterpret the Miles and Snow (1978) taxonomy for several reasons. This research adds theory development and points of interest for future endeavors based on the following: (a) a new view of the Miles and Snow taxonomy as a transitory process requiring strategic flexibility and strategy types based on business environment; (b) the taxonomy has not been examined in the domain of SME strategy-making literature; and (c) in terms of strategy, two internal factors have been unreported in the extant literature—the impact of slack resources and ACAP and their relation to small business strategy type.

While many studies have suggested that resources are important to strategy, none of them have explicitly reported the types of resource or amount of resources needed to transition small business strategy under the Miles and Snow (1978) taxonomy. In many ways, ACAP is a factor to increase performance and cultivate innovative behaviors that direct a course of strategy. Few studies have measured this phenomenon or linked it to a positive or negative association to strategic adaptation at the firm level of analysis. This is especially the case related to knowledge inflows, outflows, assimilation of knowledge, transformation for internal fit, and possible exploration as a transitional mechanism to move along the Miles and Snow taxonomy.

Three propositions were provided for the continuation of future research endeavors to measure these variables, where the results can be added to the mosaic of literature on small business. This research was conducted for the purpose of linking two internal resource-based resources as drivers of strategy adaptation based on the Miles and Snow (1978) taxonomy. Therefore, it is recommended that future studies employ quantitative methods to measure both slack and ACAP in a small business setting. It would be advantageous if context could be diversified, whereby researchers incorporate medium-sized firms and perhaps a particular cultural segment to be comparatively examined. Future research might parcel out each of the strategy types to see if their make-up is contingent on external or internal factors. For example, the defender type is one in which internal efficiency is traded up for a narrow market product or offering; the defender's efficiency should be tested to measure if, in fact, this strategy type is in harmony with its description.

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