



Organizational slack and firm's internationalization: A longitudinal study of high-technology firms

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ABSTRACT

We employ both organization theory and economic theory for exploring how the effects of high-discretion organizational slack and low-discretion organizational slack impact the degree of firm's internationalization. We tested hypotheses using longitudinal data (2000–2005) from 179 high-technology publicly listed companies in Taiwan. The results indicate a U-shaped relationship exists between high-discretion organizational slack and the internationalization of firms. In contrast, low-discretion organizational slack presents a positive linear relationship with the internationalization of firms.

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1. Introduction

A primary task for corporate decision-makers is to increase the growth of their businesses. In addition to penetrating the existing market, growth can be pursued through product diversification (Rumelt, 1974) or an international expansion strategy (Kim, Hwang, & Burger, 1989). The strategy of international expansion has emerged as one of the most important growth vehicles among both management practitioners and researchers due to the rise of intense global competition pressure (Pla-Barber & Alegre, 2007; Sapienza, Autio, George, & Zahra, 2006).

There are a variety of antecedent factors that may affect a firm's internationalization (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Hitt, Tihanyi, Miller, & Connelly, 2006),

including financial resources brought by institutional ownership (Tihanyi, Johnson, Hoskisson, & Hitt, 2003), external information brought by relational networks (Araujo & Rezende, 2003), human resources gained by top management team (TMT) heterogeneity (Herrmann & Datta, 2005; Tihanyi, Ellstrand, Daily, & Dalton, 2000) and human capital holding (Hitt, Bierman, et al., 2006; Hitt, Tihanyi, et al., 2006). In addition to these factors, a resource-based view of the firm sees organizational resources, both tangible and intangible, to hold the potential for influencing the direction of a firm's global expansion and helping the firm achieve a sustainable competitive advantage (Wernerfelt, 1984). For example, Calof and Beamish (1995) highlight that a change in a firm's resources may alter its internationalization patterns. They found that when firms owned sufficient slack resources to engage in a higher form of foreign direct investment, these firms proceeded more rapidly and would not follow a sequential process of international development. George (2005) also notes that slack is a potentially utilizable resources that can be diverted or redeployed for the achievement of organizational goals. Organizational slack critically affects a firm's ability to grow both in foreign market exploitation and in domestic

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market expansion. Interestingly, few studies consider the direct effect of organizational slack upon a firm's internationalization (Tseng, Tansuhaj, Hallagan, & McCullough, 2007). There exists a major gap in our understanding of how organizational slack is related to a firm's internationalization strategy. Two such gaps relate to (a) whether organizational slack influences the internationalization of firms and (b) the extent to which a firm's ability to internationalize is related to different organizational slack forms.

Organizational theorists have already conducted a substantial amount of research focusing on the effects of organizational slack on organizations, including behavior theory of the firms (Cyert & March, 1963: 30), resource-based theory (Barney, 1991), resource constraint literature (Baker & Nelson, 2005; George, 2005), and agency theory (Jensen & Meckling, 1976). Nonetheless, researchers have only recently paid attention to organizational slack in different forms as a predictor of organizational performance (George, 2005; Tan & Peng, 2003), organizational innovation (Nohria & Gulati, 1996), and risk-taking (Wiseman & Bromiley, 1996). Studies have thus far have ignored firm's internationalization, leaving a gap in understanding the ways in which organizational slack may influence the internationalization of firms. Our study seeks to bridge the gap through an examination of the relationship between organizational slack and firm's internationalization. We hope to contribute to both organizational theory and the international business by providing a better understanding of whether or not distinct forms of organizational slack reflect firm's internationalization strategy.

2. Theory and hypotheses

2.1. Organizational slack

Cyert and March (1963) defined slack as "the difference between total resources and total necessary payments" (p. 36). This definition was followed by Bourgeois (1981) who added that "organizational slack is that cushion of actual or potential resources which allows an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment" (p. 30). Based on Bourgeois' definition, Sharfman, Wolf, Chase, and Tansik (1988) emphasized two characteristics of slack. One is that slack must be visible to the manager and employable in the future; the other characteristic is that different types of slack give managers dissimilar degrees of discretion in attempting to protect their firms from internal and external pressures. In addition, Nohria and Gulati (1996) defined slack as "the pool of resources in an organization that is in excess of the minimum necessary to produce a given level of organizational output" (p. 1246). Moreover, they noted that these resources vary in type, including excess inputs (e.g., surplus employees, idle capacity, and capital expenditures) and overlooked or unexploited opportunities to increase outputs (e.g., margins and revenues to be gained from customer). Most recently, George (2005) defined slack as "potentially utilizable resources that can be diverted or

redeployed for the achievement of organizational goals" (p. 661).

In summary, the literature has defined three facets of slack. First, slack is conceptually defined as resources not being used to the fullest extent possible. Second, slack resource characteristics include location (e.g., absorbed versus unabsorbed; Singh, 1986) and accessibility (e.g., immediately versus deferred; Daniel, Lohrke, Fornaciari, and Turner, 2004). Third, the two central purposes of slack resources are to act as a buffering mechanism to counter threats and also as a facilitator to exploit opportunities. Organizational slack differs from other buffering mechanisms, such as preventive maintenance and project scheduling, because slack is tangible, while other buffering mechanisms are intangible. Moreover, not only can slack guard firms against external variations, slack can also guard against internal variations. Finally, while slack is one kind of buffering mechanism, this is not its only function (Sharfman et al., 1988). We adopt the definition by George (2005) in this paper for four reasons. First, it addresses the fact that slack can act as a cushion, protecting firms from external pressures. Thus, we may expect that this type of cushion can affect a firm's internationalization. Second, George's definition emphasizes that slack allows firms to initiate change, so that slack may foster a firm's internationalization. Third, slack may have an effect on a manager's decision-making only when the manager is conscious of it. The last reason stresses that different forms of slack give managers different degrees of flexibility to reduce pressures; consequently, we may expect higher- and lower-discretion slack to have different effects on a firm's internationalization.

Bourgeois and Singh (1983) first introduced three components for the classification of slack, ranking them in order of decreasing accessibility: (1) available slack, referring to resources not yet committed to a specific expenditure, (2) recoverable slack, referring to resources already absorbed as organization excess costs, and (3) potential slack, referring to future resources generated through debt borrowing. Singh (1986) made a distinction between absorbed slack, referring to excess overheads, and unabsorbed slack, referring to excess, uncommitted liquid resources. Sharfman et al. (1988) suggested that organizational slack could be anchored along a managerial discretion continuum distinguishing between high and low-discretion. While more discretionary slack resources can be used in a wide variety of situations, less discretionary slack resources can be used in only a few specific situations. George (2005) classified organizational slack as low-discretion slack, high-discretion slack, resource availability, and resource demand. He noted that different types of organizational slack not only provide a greater or lesser degree of discretion and flexibility to managers in order to reduce internal or external pressures, but also that the different types of slack provide managers with the ability to enforce tight or lax discipline in order to increase self-interest behavior.

2.2. Organizational slack and firm's internationalization

Different theories have been applied to understand organizational slack, for example, resource-based theory,

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