How flexible is your company?

Carolina Koornhof
University of Pretoria

INTRODUCTION

The word flexibility appears increasingly in conversations on the management of companies. Terms such as flexible structure, flexible production, flexible marketing, flexible products, flexible finance, etc are used liberally in conversations by those "in the know".

In Thriving on chaos *Tom Peters suggests that the chief axiom to becoming and remaining a successful business is to attain and maintain heretofore undreamed of flexibility in your organisation. in a survey of managers in 1975[2] flexibility and adaptability were identified as the most effective means of determining organisational effectiveness, instead of more conventional models such as profitability and productivity. This indicates that flexibility is an essential characteristic of successful companies in a competitive and rapidly changing business environment.*

The purpose of this article is to consider what flexibility means and how you can measure your companyis levels of flexibility.

WHAT DOES FLEXIBILITY MEAN?

Those "in the know" may be interested to learn that the term flexibility is still poorly understood and researchers are only beginning to explore the meaning of the term.[3] The term itself is somewhat elusive and any attempt to develop a clear and universal definition immediately destroys some of the essence of the phenomenon. Furthermore, the opinion is held by several researchers that different kinds of flexibility exist and that the management of companies should consider where their companies need to be flexible.

A flexible company may typically have agility and versatility, explore novelty, yet remain robust and resilient.[4] It will remain stable in the sense of not becoming chaotic, yet will constantly change and evolve over time to retain competitive advantage and develop core competencies. Some researchers call this organic flexibility, implying that a flexible company is constantly in a process of evolution and change.

An important aspect often overlooked in definitions on flexibility is that it is not the company that is flexible, but the people in the company that are flexible.[5] In other words, the flexibility in organisations exist in the people in the organisation rather than in the structures, products, distribution networks, etc. One wonders how often prospective employers attempt to assess applicants' flexibility and their ability to deal with, and initiate change, prior to appointments.

WHAT KINDS OF FLEXIBILITY EXIST?

As mentioned above, different kinds of flexibility have been identified in companies and it is important for management to identify the kind of flexibility that should be created in their companies. Flexibility may initially be divided into two main categories, called internal and external flexibility.[6] External flexibility is seen simply as the positioning of the organisation by "not putting all one's eggs in a single basket".

In contrast, internal flexibility is seen as a buffering mechanism, as "the seeking to provide a cushion in response to catastrophe".

Flexibility can be created in each of the different functions of the organisation. Flexibility can, for example, be created in:[7]

- Research and development by having several technologies and multi-product programs;
- Finance by maintaining immediate access to funding;
- Operations by manufacturing in different locations and using multi-purpose manufacturing facilities and equipment;
- Marketing by participating in multiple product markets;
- International by maintaining a presence in more than one country;
- Managerial/structural by decentralising decision making and providing sub-units with greater discretionary authority.

Many other categories of flexibility are referred to in the literature. The main issue is however not to provide an exhaustive list of categories, but rather to emphasise that each business is unique and that management should use the uniqueness and portfolio of skills in their companies to identify the areas where greater flexibility will add value. This suggests that a generally flexible company may not necessarily have the same competitive advantage as one where flexibility is concentrated in the areas of core competencies.

HOW TO MEASURE FLEXIBILITY?

In order to establish how flexible your company is you need, first, to measure your levels of flexibility and, second, to compare your measures against some benchmark (either your company's levels in previous years or strategic aims or the flexibility levels achieved by competitors or those achieved in your business sector).

The need to measure flexibility in order to determine direction, trend and pace is in itself problematic. In fact, Gerwin[8] acknowledges that the measurement of flexibility is the single most important research priority, and also the most unexplored area, of flexibility. There are however, some guidelines available on the development of flexibility indicators for your company.

Three levels of flexibility that are of importance to companies can be identified, namely:

- required flexibility (RF), which is the predetermined level of flexibility that should be achieved;
- actual flexibility (AF), which is the level of flexibility that has at present been achieved in the company (the *status quo*); and
- potential flexibility (PF), which is the unused flexibility within the company itself that it can harness in a short time span.

The different combinations arising from the three levels of flexibility are shown in diagram 1.

An example

The above guidelines for measuring flexibility are best explained in an example. Assume that Company A operates in an industry where the product life cycles are extremely short. A strategic objective of Company A is to increase product innovation in order to retain market share. The directors of the company select changeover flexibility as the appropriate type of flexibility to develop. (Changeover flexibility is the ability to quickly substitute new products for existing ones.)

Diagram 1

Position	Action
AF Δ RF	Usually no action required unless strategic repositioning is required.
RF > AF	Investigate PF to establish whether further flexibility may be generated so that progress is made towards RF = AF + PF
RF> AF + PF	If AF and PF are not sufficient to meet RF, internal restructuring or reengineering may be required.

Diagram 2

Performance Objective	Flexibility Indicators	AF	RF	PF
• Reduction in lead time in introducing new products	• Days from research to manufacturing • Number of successful research programs completed			
• Altering the design of products	• Number of design variations per product. • Number of parts used. • Number of subassemblies required. • Number of new products introduced.			

Changeover flexibility will be created in Company A by reducing the lead time for introducing new products and by altering the design of products. Flexibility indicators which may be developed are illustrated in diagram 2.

Once the flexibility indicators for Company A are identified, the current status (AF) of each is determined. Next, agreement is reached on the required flexibility usually through strategy, planning or benchmarking. The final step is more complicated for the potential changeover flexibility available in Company A should be assessed. This may require a broader investigation of aspects such as the existing products, potential products, research in progress, the designs of products, the structure of the research and development department, the research staff, etc. The three levels of flexibility are then analysed as shown in Diagram 1 and the direction of the actual changeover flexibility in Company A is monitored over time.

CONCLUSION

Flexibility is an important vehicle that management of companies can use to reposition their businesses optimally in relation to competitors in a rapidly changing business environment.

Management should identify those areas of core competency in their companies where the development of additional flexibility may provide competitive advantage. This requires the development of innovative indicators which provide a measure of the flexibility of the company. For each indicator management should establish the required level of flexibility, the actual level of flexibility and the potential level of flexibility. These indicators should be monitored over time to ensure that the flexibility aims of the company are achieved. If the information is available it may also be useful to develop similar flexibility indicators for competitors as part of the process of benchmarking.

References

1 Peters T *Thriving on chaos* New York Harper Perennial 1991

2 Steers RM "Problems in the measurement of organisational effectiveness" 1975 *Administrative Science Quarterly* Vol 4 No 2 pp 546-558

3 Volberda HW *Building the flexible firm* New York Oxford University Press 1998

4 Bahrami H The emerging flexible organisation 1992 *California Management Review* Vol 34 No 4 pp 33-52

5 Pasmore WA *Creating strategic change* New York John Wiley 1994

6 Ansoff HI *The new corporate strategy* New York John Wiley 1988

7 Aaker DA and Mascarenhas B "The need for strategic flexibility" 1984 *The Journal of Business Strategy* Vol 5 No 2 pp 74-82

8 Gerwin D "Manufacturing flexibility" 1993 *Management Science* Vol 39 No 4 pp 395-410. ❐