The best equilibrium in organizational flexibility-stability continuums

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Abstract

Purpose – This work aims to analyse the flexibility-stability continuum and explore the question of where the best equilibrium lies on this continuum and to what extent it can be realized.

Design/methodology/approach – After analysing the concepts of flexibility and stability, along with their trade-off relationship, from a theoretical standpoint, the optimum in the flexibility-stability continuum is determined by means of a triangulation of theories. The subsequent operation to determine best possible practice is also accomplished via a theoretical analysis.

Findings – Organizational flexibility and stability are two poles of a continuum that are interdependent. The optimum in a flexibility-stability continuum lies, according to Gossen's first law, where marginal utility is zero. Determination of the optimum requires a great deal of information, however, which is difficult to collate and process because of its complexity. As an alternative to the "optimum", "best possible practice" is introduced. This provides an alternative to the less satisfactory method of "best practice according to benchmarking."

Originality/value – The value of this work lies in finding an optimum in the flexibility-stability continuum. As the (theoretical) optimum is difficult to determine and realize due to inherent complexities, "best possible practice" is presented as an alternative. This takes into account the idea of optimization meaning no improvement is possible if the goal is achieved. "Best possible practice" defines an implementable, best possible state that can be used for organizational goal formulation. To achieve the best possible equilibrium in the flexibility-stability continuum, the respective advantages of stability and flexibility should be ideally exploited to lead to competitive advantage.

Keywords Change management, Flexibility, Organizational development, Adaptability, Stability, Responsiveness, Agility, Equilibrium, Transition management

Paper type Research paper

Introduction

A degree of organizational flexibility is required to manage change (Volberda, 1998). New realities arising from change inevitably lead to the necessity that either the existing (stable) measures are flexibly deviated from or that no rules are defined from the outset; otherwise change would not occur. The importance of the successful implementation of change is evident in the examples of Amazon and Blockbuster. At Amazon, the internal changes that expanded the operations of the online retailer to a company active in e-commerce, cloud computing, artificial intelligence and many additional areas led to positive sales. For example, in the second quarter of 2018, net income increased to $2.5bn and revenue increased 39 per cent from $38 to $52.9bn (Spiegel, 2018). On the other hand, at Blockbuster, changing customer requirements were not promptly translated into internal changes (O'Reilly and Tushman, 2016) and customers were lost to competitor Netflix. The executives of Blockbuster underestimated the importance of streaming and stayed with the tried and tested. The lack of willingness to change and poor anticipation of customer needs led to a

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defunct strategic direction, with the consequence that Blockbuster had to declare bankruptcy in 2010 (Wachman, 2010). These examples show that competitiveness depends on adaptability and the willingness to change, which in turn requires flexibility. The extent of the flexibility requirements depends on the nature of the desired change and for how long any change projects have been deferred. The longer the change has been delayed, the more urgent the need for it may be – for example, a company may be consistently losing income or have higher costs due to a deferred change (Kotter and Schlesinger, 2008). Blockbuster, for example, could have bought out Netflix for $50m in 2000 (Randolph, 2019), but by 2019 the cost had risen to $149bn (Levy, 2019).

It is recognized that most change projects fail – according to Ulrich *et al.* (2012), between 75 and 80 per cent. This raises the question of why this might be, and what measures might be taken to ensure successful change management. For that, one can fall back on the concept of flexibility. However, if one focuses only on flexibility, the other side, stability, will be neglected. This could lead to a one-sided evaluation in any change scenario, which may result in vital aspects of any potential change implementation being ignored, leading to failure. Too much flexibility or too much change can lead to people losing their orientation and becoming insecure (Schumacher *et al.*, 2016), as old behaviours may no longer result in success, and employees may find that the range of their existing skills is exceeded by the extent of change (Cacaci, 2006) or that there are fewer opportunities to put these skills to use (Gallie *et al.*, 2017). This uncertainty can result in anxiety and distress (Cacaci, 2006; Shoss, 2017) and ultimately in a "blockade" attitude among affected staff (Kotter and Schlesinger, 2008; Tavakoli, 2010).

So far, research has focused on organizational flexibility potential (Bernardes and Hanna, 2009; Boyle, 2006; Dreyer and Grønhaug, 2004; Englehardt and Simmons, 2002; Liu *et al.*, 2009) and only rarely on the coordination between stability and flexibility. In cases where reference is made to the importance of the balance between flexibility and stability (Deuringer, 2000; Mayrhofer, 1997; Volberda, 1998; Yanine *et al.*, 2016), the question of where the optimum on the flexibility-stability continuum lies has not been addressed. However, this is an essential question because there is by definition no better condition than the optimal condition (Gigerenzer, 2007). There is room for improvement in anything other than an optimal situation, therefore an optimal situation should always be sought (Spengler, 2006).

By moving the focus from flexibility to the balance between flexibility and stability, one can facilitate change by avoiding too much focus in one direction or the other. For this reason, this paper explores the questions of where the optimum lies on the organizational flexibility-stability continuum and whether or not an optimal balance on this continuum is practically achievable. Given the difficulties involved in achieving an optimal balance discussed in this paper, questions regarding which alternative is possible and how it can be implemented are finally asked.

To answer the question of where the optimum lies on the flexibility-stability continuum, a triangulation method is used. Triangulation means that the research object is analysed from at least two different perspectives, using different approaches (e.g. different theories or methods) (Denzin, 2017; Flick, 2008). With a triangulation-based approach, multiple theoretical contexts can be provided (Bennett, 2019) in which different theories can be used together to address the object under investigation (Denzin, 2017). This wider network of contextual relationships results in a broader gamut of information, which in turn can provide a better foundation to support the outcomes of the investigation (Flick, 2008). Furthermore, triangulation can be used to reduce bias (Mathison, 1988) and overcome methodological deficiencies (Denzin, 2017). It can also open the scope of the investigation

beyond the boundaries of individual theoretical or methodological approaches. By thus incorporating multiple theories, an attempt can be made to go beyond the limits to accessible knowledge imposed when using a single theory (Denzin, 2017). In the first place, the substitution principle of Gutenberg (1983) and Gossen's (2015) first law can be used to determine where the optimum lies on a single continuum. However, where there are several flexibility-stability continuums, the (total) optimum for all continuums is determined by means of Gossen's second law. By means of this triangulation, it becomes clear that when considering several continuums in parallel, the individual optimum may be different than it would have been if one had looked at each continuum separately. The triangular approach is also used to address the question of which target state in the flexibility-stability continuum is most desirable, and also whether it is feasible; for this purpose, different target states are analysed. For the subsequent operation, a theoretical–analytical approach is used; various theories are analysed in relation to the subject to reveal relevant details.

This paper makes a contribution to the established research that the optimum on the flexibility-stability continuum is determined by Gossen's first law, and to the substitution principle of Gutenberg (1983). Additionally, it demonstrates how Gossen's second law can be used to determine the optimum in several discrete flexibility-stability continuums analysed in parallel. However, where an attempt is made to determine the (total) optimum using this approach, it is often difficult to ascertain the optimum or achieve it in practice due to lacunae in available information. For this reason, "best possible practice" is presented as an alternative. "Best possible practice" is defined as a workable, best possible state that can be used to formulate organizational goals; by setting these as target values, e.g. to reduce the time from storage to purchase of goods from 2 weeks to 2 days. Whether the best possible practice values or best practice according to benchmarking values are used, the process of formulating organizational goals remains the same. With "best practice according to benchmarking" benchmarks are determined that should be achieved in an organization (O'Dell and Grayson, 1998), so they can be used to formulate goals (Mann *et al.*, 1998), the same can be done with the values from best possible practice. The difference between the methods best practice according to benchmarking and best possible practice is how the target values are determined.

To achieve the best possible balance on the flexibility-stability continuum, the respective benefits of stability and flexibility should be ideally exploited so as to create competitive advantages (Kinkel *et al.*, 2013). From the resource-based view, there are sustained competitive advantages or strategic assets, if the resource is valuable, rare and imperfectly imitable and cannot be substituted (Barney, 1991; Michalisin *et al.*, 1997). If these criteria are met, a sustained competitive advantage can be achieved from organizational alignment (Powell, 1992; Priem and Butler, 2001). Because organizational alignment emphasizes organizational structure and environment (Powell, 1992), balancing the organizational rules/organizational structure in the continuum of flexibility and stability can lead to sustained competitive advantages. In this case, achieving the best possible alignment of the organizational rules in the flexibility-stability continuum is a skill which can be said to be one of the intangible resources of the organization (Michalisin *et al.*, 1997). Intangible resources are relevant for achieving competitive advantages, Michalisin *et al.* (1997, p. 379) reached the conclusion that "strategic assets are intangible in nature."

The top executives are responsible for the management of the balance between stability and flexibility (Tetenbaum, 1998). This is an essential responsibility because balancing, e.g. the organizational structure or corporate strategy in the flexibility-stability continuum can be beneficial for change management and change management is, in turn, a crucial organizational capability (Mitra *et al.*, 2019), necessary to maintain a place in the market

(Kotter, 1990), e.g. to counteract dysfunctional organizational lock-ins and the loss of flexibility associated with lock-ins (Schreyögg and Kliesch-Eberl, 2007; Schreyögg and Sydow, 2011). To manage change, exploration (companies explore new markets) and exploitation (companies use the available resources optimally) are both necessary, according to the organizational structural ambidexterity concept (O'Reilly and Tushman, 2016). Google's rule that engineers can spend 20 per cent of their time on work other than their core tasks (Bock, 2016) is an attempt to strike a balance between flexibility (employees are exempt from their core task for 20 per cent of their working hours) and stability (employees have to take care of their core task for 80 per cent of their working time).

Rosing *et al.* (2011) specify what is meant by the term ambidextrous executive. An ambidextrous executive proves him or herself when:

- motivating employees to innovate, e.g. through experimentation to promote exploration;
- motivating employees to comply with guidelines and other criteria, to foster exploitation; and
- their flexibility allows them to switch between the previous two, as the situation requires.

Regarding the first two requirements for an ambidextrous executive, the question arises as to how he or she manages to determine and achieve a best possible balance between flexibility and stability; for example, it could be asked whether a division of working hours other than the 80/20 split at Google would be better.

Blockbuster, Polaroid and Kodak can be used as negative examples to demonstrate a lack of necessary ambidextrous management/change management and Apple, Amazon and Google as positive counter-examples. To manage and lead an organization successfully change management and ambidextrous management are important and for this reason, it is beneficial to achieve a balance in the flexibility-stability continuums. For this purpose, this paper presents a possible operational method for the determination and operationalization of the best possible balance on the flexibility-stability continuum. Thus, this paper provides a holistic view of the organizational flexibility-stability continuum, moving from the definition of stability and flexibility, to the determination of the optimum on the flexibility-stability continuum and to the operationalization of the best possible achievable balance on the flexibility-stability continuum.

Figure 1 gives an overview of the content and structure of this work. In the first column is a sequential numbering of content and in the second column, the sections in this paper are listed. In the third column are the main topics that are dealt with in the respective sections and in the fourth column the sub-topics.

The aim of this paper is to promote change/ambidextrous management by creating the best possible balance in the flexibility-stability continuum. After the introduction and the general explanation of flexibility and stability (No. 1 in Figure 1) follows the determination of the optimum on the flexibility-stability continuum (No. 2 in Figure 1). Next, the problems of optimization are explained and it is demonstrated that an optimum state in an organization is difficult or impossible to implement or even recognize (No. 3 in Figure 1). Further options are introduced and the closest alternative (best possible practice) is examined. The following step outlines a possible procedure to determine the best possible practice (No. 4 in Figure 1). The final sections are discussion and conclusions and a statement on limitations and the need for further research (No. 5 in Figure 1).

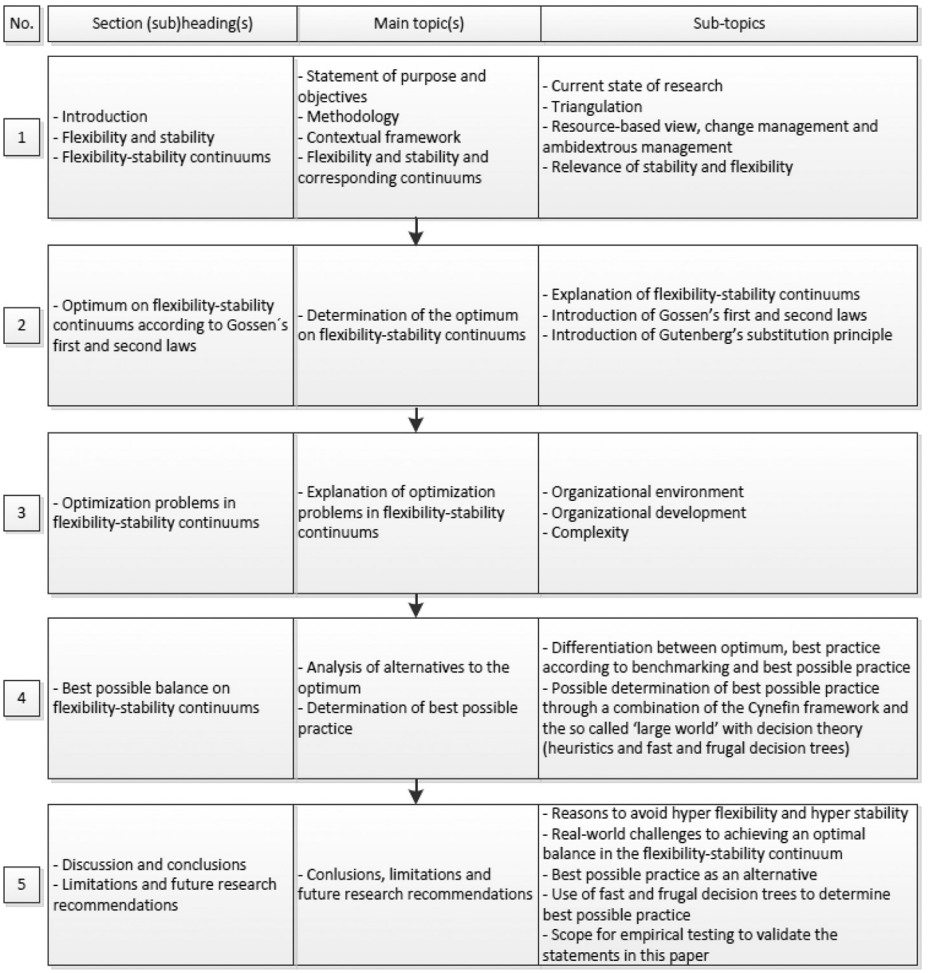

Figure 1.
Structure and content of this paper

Flexibility and stability

There are many definitions of flexibility in literature, such as those outlined by Dunford *et al.* (2013). The term "flexibility" in this paper generally refers to relative stability (Laser, 2017). More specifically, flexibility can be understood as the ability to adapt proactively or retroactively to modified conditions (Golden and Powell, 2000). According to Hatum and Pettigrew (2006), the concept of flexibility is polymorphic; for example, it could be differentiated under manufacturing flexibility, functional flexibility and organizational flexibility or according to Liu *et al.* (2009), strategic flexibility, co-ordinational flexibility and resource flexibility. Resource flexibility can be further divided into labour and machine flexibility (Chauhan, 2016). Organizational flexibility, for example, summarizes the organizational and management capabilities that allow the organization to adapt rapidly to environmental change (Hatum and Pettigrew, 2006). This is conducive to change and ambidextrous management/organizational development, which, in turn, is relevant for

sustainable competitiveness. This paper refers to organizational flexibility as an example of the flexibility concept. This perspective on the flexibility concept is the common thread that runs through all sections of this paper.

In addition, a differentiation between internal and external stability/flexibility is possible; the former refers to the ability of the organization to adapt to external change, whereas the latter can be understood to mean that the organization actively influences its environment (Volberda, 1998).

The term "stability" encapsulates the attempt to standardize activities and communication processes within the organization – for instance, by setting up rules, organizational charts, job and process descriptions. This establishment of rules introduces structures (Schreyögg and Geiger, 2016) which, accordingly, limit the leeway for free individual action and stabilize the organization. Incidentally, rules and structures are also necessary for agile procedures such as Scrum. As an example, the role of the Scrum Master, as the servant leader/coach, ensures that the Scrum process is carried out effectively and any corresponding rules are implemented (Sutherland, 2015).

Achieving stability is important as an organizational means to enhance work efficiency, as scientific management aims to do through the division of labour (Taylor, 1998). Due to the division of labour, opportunities for specialization may arise. For example, regular repetition of any specialized tasks and any related learning can lead to greater efficiency, with the potential of lowering production costs and exploiting competitive advantages. In addition, stability provides security. One way in which this is manifested is in an orientation framework for employees that supports their reliance on existing knowledge and experience, thereby saving time in decision-making situations. This orientation framework influences the individual and collective behaviour of employees without any direct interaction with managers, which is why one speaks of depersonalized leadership (Türk, 1995).

Top executives in the current ever-changing markets can no longer hope, as in the industrial age, that the reconciliation of their activities will continue unaltered for years to come (Hugos, 2009). Nowadays, product lifecycles are getting shorter (Hamel and Prahalad, 1994), more often measured in months or weeks than in years. For this reason, the trend of reducing stability in favour of flexibility, which has become apparent in recent years, is understandable. For example, the trend towards greater flexibility can be seen in the reduction of hierarchies (Sohr, 2005; Storey, 2000). By means of a lower depth of hierarchy, shorter decision-making and communication channels may be created, as well as better information processing, with the aim of reacting more quickly and flexibly to corresponding environmental changes (Storey, 2000). A lower depth of hierarchy transfers decision-making powers from the line managers to the employees, which can foster a greater degree of flexible responsiveness (Englehardt and Simmons, 2002). The trend from operational stability towards more flexibility can result in a company being able to detect risks more rapidly or react faster to discontinuities.

It can be seen that (organizational) flexibility can lead to competitive advantages (Dreyer and Grønhaug, 2004). However, this should not be taken to mean that more flexibility necessarily leads to enhanced competitiveness and vice versa. To clarify the need for an adjustment between flexibility and stability, the flexibility-stability continuum is first explained and a theoretical optimum on this continuum is then elaborated.

Flexibility-stability continuums

To illustrate the interdependence between flexibility and stability, they can be juxtaposed on a continuum. There is a trade-off relationship between flexibility and stability, which means that the greater the flexibility, the less the stability will be. It is also the case that a

desirable level of flexibility can only be achieved with a degree of stability (De Leeuw and Volberda, 1996). Neither one nor the other state is desirable in its most extreme form (Yanine *et al.*, 2016), as in something approaching a one hundred per cent flexible (hyper-flexible) or stable (hyper-stable) situation. Hyper-flexibility would lead to chaos and inefficiency, because organizational members would not know what, when or how to act or with whom, due to a lack of rules and organizational structures. In the end, it would not even be possible to speak of an organization if 100 per cent in the flexibility-stability continuum were to be achieved, because the organization could not be differentiated from the surrounding environment. An organization is characterized by the fact that it reduces the complexity of the environment by means of rules (Schreyögg and Geiger, 2016). On the other hand, hyper-stability should be avoided because change requires flexibility, and without the ability to change, a company will not be competitive in the long run (Hatum and Pettigrew, 2006). Rather, an optimal balance, oriented to environmental conditions, is required between stability and flexibility, making the most of the advantages offered by both. In their research project on visionary companies, Collins and Porras (2011, p. 10) describe this as follows: "Visionary companies do not brutalize themselves with the 'Tyranny of the OR' – the purely rational view that says you can have either A *OR* B, but not both. [. . .] Instead, they embrace the 'Genius of the AND' – the paradoxical view that allows them to pursue both A *AND* B at the same time."

It also becomes clear from these remarks that a one-sided demand for an increase in flexibility is not the option to pursue, because it is precisely the flexibility-stability continuum itself that must be considered and not just one of its poles. Improvement in balance on the flexibility-stability continuum should be formulated as the primary goal, with the potential consequence of increasing flexibility.

Achieving an optimal or best possible balance on the flexibility-stability continuum can be considered an organizational key competence (what Hamel and Prahalad (1994) call a "meta-competency"). A key competence is essential for entrepreneurial activity (Robles and Zárraga-Rodríguez, 2015) and plays a crucial role in achieving the core competencies (Hamel and Prahalad, 1994), core competence being a "bundle of skills and technologies that enables a company to provide a particular benefit to customers" (Hamel and Prahalad, 1994, position 3511). The key competence of achieving optimal alignment on the flexibility-stability continuum is, in turn, essential for other key competencies, such as innovation capability or (core) competencies such as package tracking (Hamel and Prahalad, 1994).

Optimum on flexibility-stability continuums according to Gossen's first and second laws

The relationship of flexibility to stability can be illustrated in a flexibility-stability continuum, as in the lower part of Figure 2.

The outer left- and right-hand points on this continuum represent, respectively, hyper-flexible and hyper-stable scenarios. Because neither extreme is desirable, the question of what would be the optimal adjustment in this tension ratio is raised. To answer this question, Gossen's ideas from the utility theory of economics can be called on. Gossen states in his first law that the optimum is reached when the marginal utility of a variable is zero (Gossen, 2015). Take, for instance, the variable of stability: because changes in stability have a proportional and simultaneous effect on flexibility, it is irrelevant at this point whether stability or flexibility is used as the variable. Marginal utility (U) refers to the supplementary value associated with an additional increase in stability, assuming that this additional value is subject to diminishing returns as stability increases, to the point where additional stability enhancements add no further value, arriving at a marginal utility of zero. In this

way, the total optimum – the accumulated value of all realized marginal utility values – is reached.

The representation in Figure 2 can be used for all flexibility-stability continuums – for instance, with regard to the complexity of organizational structures. The higher the degree of organization, the more rules exist, resulting in a lower degree of freedom for employees. The inverse also applies.

In this paper, the degree of organization (organizational regulatory frameworks) is used as a central example because a flattening of the organizational hierarchies and a (transformative) leadership based on trust along with the corresponding corporate culture can go hand in hand with a reduction in rules. Nevertheless, rules remain necessary, as can be seen, for example, from the empowerment of employees. Empowerment is characterized by the fact that employees can make decisions in a previously defined framework without consulting their line managers and thereby gain control and efficacy (Rothman *et al.*, 2019), to meet the requirements placed on them (Schultz, 2014). However, boundaries for action must also be defined (Schultz, 2014), to clarify the limits of actionable options. Therefore, the degree of organization is an essential variable that influences and is influenced by a large number of other variables that are relevant for successful corporate management. For these reasons and because of the current importance of the degree of organization, it is used as a central example here.

Gutenberg (1983) differentiates case-by-case from general regulations. Case-by-case regulations mean that in a given situation where there are fewer regulations governing the behaviour of individuals, those individuals can proceed according to their discretionary leeway. On the other hand, in environments where work is repetitive, planned and highly structured, and little change is desirable or anticipated, general regulations should be applied. Gutenberg introduces a substitution principle which replaces case-by-case regulations with general regulations, where there is decreasing variability in operating conditions, to arrive at a marginal utility of zero (Gutenberg, 1983; Schreyögg and Geiger, 2016). This results in an equilibrium which can be similar to an optimum, as in Figure 2. If discrete, case-by-case, decision situations are directed by general rules, the result is over-organization. If, on the other hand, routine and largely similar decisions are arrived at case-by-case, then under-organization results. In Figure 2, it is assumed that 50 per cent of the tasks require general and 50 per cent case-by-case regulations.

For the parallel determination of the optimum apex of several flexibility-stability continuums, Gossen's second law can be used (Gossen, 2015). By applying this law, it can be determined where the optimums – for instance, for strategic flexibility and, at the same time, for organizational flexibility – occur. According to Gossen's second law, the optimum of all flexibility-stability continuums lies where the result of dividing individual marginal utility

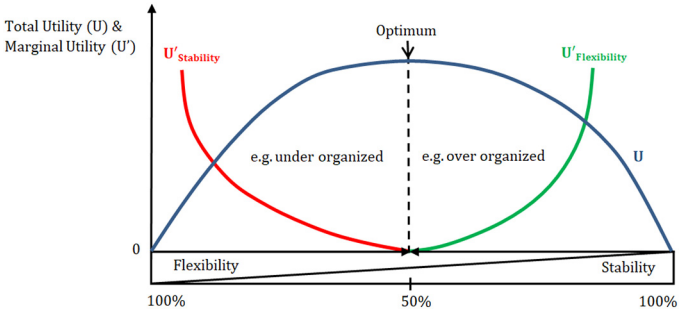

Figure 2.
Exemplary relationship of total and marginal utility on the flexibility-stability continuum

by the respective costs of achieving this marginal utility for all flexibility-stability continuums is equal. Where this result is not equal across continuums, there is no overall optimum, which, in turn, indicates room for improvement. An improvement is possible through investing more resources in the flexibility-stability continuum which has the highest value of marginal utility divided by the corresponding costs. If this procedure/key competence fulfils the conditions (valuable, rare, imperfectly imitable and cannot be substituted) already mentioned above, then according to the resource-based view a sustained competitive advantage will result.

An optimum which has been determined with the aid of Gossen's first law (individual consideration of a flexibility-stability continuum) may differ from the optimum determined by Gossen's second law (collective consideration of several flexibility-stability continuums). The latter addresses resource scarcity in an organization, which may result in not all available resources being used for a single flexibility-stability continuum. For example, in individual analysis, the optimum may lie towards the organizational flexibility end of the continuum, whereas, in a collective consideration, it may lie towards the stability end of the continuum due to the costs of achieving additional organizational flexibility being so high that the available resources are instead used for other measures.

Thus, prioritization can be made, which can be used to focus on any significant improvement potentials.

Optimization problems in flexibility-stability continuums

If an organization attempts to find the optimal adjustment on flexibility-stability continuums, problems become apparent. This is because the optimum of any flexibility-stability continuum is affected by many variables. The multiplicity of variables and their possible interconnectedness mean that changes in one place may lead to unpredictable secondary and long-range effects (Dörner, 2011).

A possible variable is the business environment of the organization. If an organization operates in a highly dynamic environment where problems rarely reoccur in the same way, individual innovative solutions are necessary and fixed routines can be a hindrance. The choice between structured and innovative solutions will also vary from one organizational department to another, depending on the activities of each. For example, a structure of routinely repeated tasks is the most efficient option where work is carried out in accordance with fixed organizational rules, as in a finance department or in payroll administration. The room for manoeuvre and the opportunity to generate competitive advantages through innovative and individual approaches increases where there are fewer (statutory) requirements, as in research or marketing. The interdependency of variables can be illustrated by using the example of Blockbuster: if Blockbuster had developed a streaming service, this would have been a new business area, possibly requiring higher organizational flexibility, because some of the company's tested experience and rules would not have been adequate for the new business environment. This may, in turn, have had an impact on activities in some departments, such as in payroll. New rules and procedures might have had to be tested, as new payroll systems and billing procedures might have been introduced, which, in turn, may have led to a greater need for flexibility. In reality, however, the extent of any existing interdependencies is difficult or even impossible to determine.

That the determination of the optimum on the flexibility-stability continuum is complex is also made clear by the fact that the optimal degree of an organization depends on which phase of development the company is in. According to Glasl and Lievegoed (2016), an organization goes through different phases during its existence (pioneer phase, differentiation phase, integration phase and association phase), beginning with the pioneer

phase. In this phase, there are fewer standards and rules, less planning and more improvisation than in the subsequent differentiation phase. In the differentiation phase, standards, automation and formalization are introduced as the organization grows to improve transparency for employees and minimize coordination issues. The focus in this phase is on the technical-structural system (Glasl and Lievegoed, 2016).

Organizational development also influences leadership style and leadership techniques. In the pioneering phase, a charismatic leadership style can produce the best results, but in the phase of differentiation, a technocratic leadership style may be more advisable (Glasl and Lievegoed, 2016).

If only these two phases are considered, then flexibility requirements are reduced during the transition from the pioneer phase to the differentiation phase, and stability requirements increase in the differentiation phase. To be able to respond to the changing requirements throughout these development phases, transitions from one phase to the next should be clearly delineated. This can be difficult, as the phases may overlap and transitions may occur in a creeping manner and so may not be noticed.

Another potential problem is that employees, motivated during the pioneer phase by the higher degree of freedom, may lose motivation during the differentiation phase, which comes with more rules. At Netflix, for example, cofounder Randolph stepped down as chief executive officer (CEO) because he did not consider himself to be the most suitable CEO after the start-up phase of Netflix (Randolph, 2019). Leaders have an additional challenge, as they are required to adapt their leadership style during the course of organizational development. This can be difficult, as leadership styles also depend on the personality of the leader, and it is possible to change the personality and emotionality of adults only to a limited extent, if at all (Roth, 2018). It is questionable then whether or not rules should be adjusted, given that this could produce a negative effect on the motivation and work performance of the existing workforce. On the other hand, if the rules are changed, leaders may persist with an obsolete management style rather than adapting to the new conditions; for this reason, it may be that the changing conditions cannot be successfully navigated by existing managers. In other words, there is the problem of how the changing requirements of the organizational structure are to be matched with the changing requirements for personnel management.

Other variables that influence the optimal balance on the flexibility-stability continuum are the culture of the country and that of the individual organization. According to Hofstede *et al.* (2010), one way in which a culture can be distinguished is with reference to the dimension of uncertainty avoidance. Also, there are cultures (e.g. Germany's) in which unknown situations are more likely to cause discomfort and anxiety than in other cultures (e.g. Great Britain's). If it is known that unfamiliar situations in a culture cause discomfort to the employees, one can try to plan as much as possible to set up appropriate rules and conditions that meet the employees' needs for emotional security. This becomes more complex when different cultures work together, such as in international joint ventures.

The above issues illustrate that the optimization problem dealt with in this paper is characterized by many variables which can be opaque and interdependent. It may also be the case that some variables and interdependencies may not be known. For the determination of the optimum, however, all relevant information is required, i.e. to what extent the target variable (e.g. the level of organizational regulation) is influenced by other variables – otherwise, its utility cannot be assessed – and on the other hand, a method to determine this optimum is also necessary (Gigerenzer, 2007). Using models containing objective functions which maximize or minimize target states is a way to determine the optimum (Suhl and Mellouli, 2009; Spengler, 1999). These (mathematical) models, however, are simplified representations of reality (Laux, 2007; Rommelfanger and Eickemeier, 2002),

in which not all information can or should be included because of the volume of information involved and any gaps in knowledge (Laux, 2007; Spengler *et al.*, 2019). Nevertheless, an understanding of the relevant components and their interrelations is necessary for constructing a model, that provides structural equivalence or similarity with the actual organizational environment (Bamberg *et al.*, 2019; Spengler *et al.*, 2019). Given the above lack of knowledge, however, the optimal balance on the flexibility-stability continuum cannot be determined because the relevant interrelations between the components of the model are at least partially unknown. Therefore, it cannot be known whether or not a better result may be achievable.

Best possible balance on flexibility-stability continuums

If an optimal balance cannot be established on flexibility-stability continuums, there exists the potential to find the best alignment by means of other target states, namely, "best possible practice" and "best practice according to benchmarking." "Best practice according to benchmarking" means the identification and implementation of best practices (Bhutta and Huq, 1999; Helgason, 1997), whereby a cross-industry comparison or a comparison within an organization can be made (Berthel and Becker, 2017; Bhutta and Huq, 1999). With "best possible practice", a feasible target state is introduced with the idea that no better target state can be achieved. The differences between the target states of "optimum", "best possible practice" and "best practice according to benchmarking" are shown in Table I. The distinctive features in Table I relate to the respective target states in general. Based on the determination of the best possible balance in the flexibility-stability continuum, these features can be used to determine in which category (optimum, best possible practice or best practice according to benchmarking) the desired goal can be placed. The contents of the target states "optimum" and "best practice according to benchmarking" in the following table are outcomes of the previous and following explanations in this paper, for instance, the unrealistic nature of a theoretical optimum state (see under the target state "optimum" the distinctive feature "realization possibility" in Table I) that results from a lack of necessary

Table I. Differentiation between optimum, best possible practice and best practice according to benchmarking

	Target state		
Distinctive feature	Optimum	Best possible practice	Best practice according to benchmarking
Focus of the investigation	Persons affected, organization internally	Persons affected, organization internally	Third party, organization internally and externally, intersectoral, persons affected
Primary method	Analytical	Analytical	Empirical
Method timeframe	Present, future	Present, future	Present, past
Innovativeness/ openness of the method	High	High	Low
Quality of target achievement	There is a no better theoretical or practical state.	In practice, a better state is currently not achievable or possible.	There is a possibility that best practice can be improved.
Realization possibility	Unrealistic	Realistic	Realistic
Relevant Cynefin framework domain(s)	Complicated, simple	Simple, complicated, complex, chaotic, disorder	Simple

information and knowledge. The values for the target state "best possible practice" result from the synthesis of the "optimum" and "best practice according to benchmarking."

In the first column of Table I, the distinguishing features of the individual target states are listed. In the "focus of the investigation" row "persons affected" are those persons directly affected by the examined practice or the possible change. Because the entrepreneurial challenges are often so individual that the approaches and rules used are not transferable to other companies, the distinguishing characteristics "persons affected" and "organization internally" are relevant to each target state. In best practice according to benchmarking, a broader focus is necessary because additional areas/persons – for example, from other organizations – are needed for comparisons to be made.

Two main methods are differentiated: analytical and empirical. Only with an analytical, individual procedure can the optimum or best possible practice be determined – for instance, using operational research. For determination of the best practice according to benchmarking target state, the empirical procedure is to be used because in this way the necessary comparative values can be determined.

The distinguishing feature "method timeframe" highlights that the empirical method refers to practices past and present. The analytical method refers to the present and the future.

The distinguishing feature "innovativeness/openness of the method" differentiates the extent to which the method used allows for new and innovative insights. In the best practice according to benchmarking target state, the empirical method only identifies past or current practices; this precludes new possibilities, making this approach more limited than the other target states. For this reason, the degree of innovativeness is low in the best practice according to benchmarking target state (Table I).

The last distinguishing feature in the first column relates to the four domains (simple, complicated, complex and chaotic) of the Cynefin framework (Snowden and Boone, 2007) in which the respective target states can be realized. The Cynefin domains demarcate the operational context of the decision situation. Because each domain requires a different approach to making decisions, determination of which domain best defines the decision-making situation is relevant. If this is not clarified, the decision situation falls within the fifth domain of the Cynefin framework – namely, disorder (Snowden and Boone, 2007).

According to Snowden and Boone (2007), best practice can be determined within the Cynefin domain "simple". In this domain, there are clearly recognizable cause and effect relationships, which allow one to recognize and speak of best practice. It follows that an empirical approach is advisable to determine the best practice according to benchmarking target state. If an analytical method is used as an adjunct to the empirical approach – an additional step that is not necessary to achieve this target state – best practice according to benchmarking could be determined within the Cynefin domains "simple" and "complicated"; however, this would add nothing to the achievement of the best practice according to benchmarking target state because for this target state practices are only being compared and categorized – rather, this would cross over into the realms of the best possible practice or optimum target states.

In the Cynefin domain "complicated", cause and effect relationships are not as clear as in the "simple" domain. Through expert analysis, these relationships may become clear, but this can be associated with high expenditure in time and resources (Kurtz and Snowden, 2003); this analysis notwithstanding, equally good and recommendable solutions – so-called "good practice" (Snowden and Boone, 2007, p. 3) – may be taken to be the best available option within the "complicated" domain, reflecting the increased number of variables or other complex factors. Nevertheless, if cause and effect relationships are identified, the

possibility exists that an optimum may be sought by means of analysis – for example, using decision theory. This is why in Table I the Cynefin domain "complicated" was also entered under the optimum target state. The optimum target state can also be determined in the less complicated Cynefin domain "simple" because in this domain the cause-and-effect relationships are also known.

In the best possible practice target state, all domains of the Cynefin framework are included, as in every domain the goal should be to achieve the best possible results.

Columns 2-4 in Table I contain the different target states. In the best practice according to benchmarking target state, the procedures already used – possibly also across organizations and sectors – are examined. For example, for department X, it is possible to determine whether there is room for improvement in comparison with departments Y and Z. Where it is determined that department Z has better practices, those practices could be used in department X. In this example, employees may perceive the new procedures being adopted in department X as new and innovative, but this method only identifies the status quo of the analysed subjects/departments and does not lead to any additional findings. Regarding the achievement of an optimal state, this goal is unrealistic, as discussed above, due to the information pertaining to the flexibility-stability continuum in a given organization being incomplete. The goal of the best possible practice is proposed as a workable alternative. Going beyond existing benchmarks through innovative situation-specific analysis, a better end state can be achieved with best possible practice than with the best practice according to benchmarking.

Regarding balance in the flexibility-stability continuum, decision theory can be used to reach the state of best possible practice. Prescriptive decision theory deals with the question of how a rational decision can be derived from the given target system and actionable options of an individual (Bamberg *et al.*, 2019; Eisenführ and Weber, 2003). Which method of prescriptive decision theory is used depends on the Cynefin domain within which the decision is to be made. Within one of the ordered domains (simple or complicated), certain methods – for instance, mathematical optimization – can be used because cause-and-effect relationships can be determined. In the unordered domains (complex and chaotic), the cause-and-effect relationship is not clear or is unknown. These domains are simulacra of the so-called "large world" (Luan *et al.*, 2013), in which it is assumed that attempts to achieve the best possible alignment in the flexibility-stability continuum are characterized by uncertainty; resources are limited and unforeseen events can occur. This contrasts with the assumptions made within a so-called "small world" that outcomes can be calculated (Luan and Reb, 2017), and that comprehensive data is available. According to Mousavi and Gigerenzer (2014), management decisions usually take place within the large world; thus decisions to determine the appropriate balance in flexibility-stability continuums as discussed in this paper belong to this large world. Decision theory also offers procedures for these situations, as follows.

In a large world, heuristics may be suitable for decision-making (Artinger *et al.*, 2015; Goldstein, 2009; Luan *et al.*, 2013; Woike *et al.*, 2017). Gigerenzer (2007) recommends applying simplifying principles (heuristics) to some decision-making situations where not all of the information necessary for optimization is available. Heuristics as rules of thumb should only include the most important information and thus minimize the time, knowledge and computation needed to arrive at a decision (Artinger *et al.*, 2015). This reduces the number of decision-making factors, thereby simplifying and shortening the decision-making process, and allowing for the inherent limits of the human brain and computer processing power. This rationalization of the decision-making process recognizes that better decisions can be made with simple rather than complex methods (Artinger *et al.*, 2015), as the

likelihood of including irrelevant and misleading factors is reduced (Gigerenzer, 2007; Hozo *et al.*, 2017). Furthermore, in situations involving complex information, an intuitive approach may be best, as intuitive decisions rely on much more information than is readily available to the workings of the conscious mind (Roth, 2018). The relevance of intuitive processing can be seen in the work of Dijksterhuis *et al.* (2006). Dijksterhuis *et al.* (2006) came to the conclusion after four studies on purchasing decisions that in complex decision-making situations, conscious decisions are inferior to those made without a high degree of deliberation – namely, the deliberation-without-attention effect. As an example, in a study by Dijksterhuis *et al.* (2006), participants were informed about the characteristics of certain cars; some participants were then asked to opt for one of these cars after a 4 min period of careful consideration. Other participants were distracted after the information phase for 4 min and only then asked for a decision. The latter participants achieved better results.

Gigerenzer (2007, pp. 173-177), Hozo *et al.* (2017), Luan and Reb (2017) and Woike *et al.* (2017) illustrate with the "fast and frugal decision tree" an opportunity to apply simplifying principles. The fast and frugal decision tree supports both sequential and intuitive decision-making. Firstly, the most important decision factor is used for decision-making. If this does not lead to a definitive, final decision, the next decision factor will be evaluated, and so on: the most important decision factor comes first, and subsequent decision factors are considered in descending order of priority (Gigerenzer, 2007). Unlike full decision trees with 2^n exits (n = number of decision factors/cues), a fast and frugal decision tree has only $n + 1$ exits (Hozo *et al.*, 2017). This has the effect of increasing the transparency and speed of decision-making. Care must be taken in this process to ensure that the decision is not made under stress, wherein the risk of a poor decision increases (Roth, 2018).

In this paper, a fast and frugal decision tree is used as one example to operationalize the determination of the best possible balance in the flexibility-stability continuum because this method is designed for the "large world" (Luan *et al.*, 2013). In Cynefin terms, this would involve the complex, chaotic and disordered domains, these being the theatre in which alignment in the flexibility-stability continuum is determined. This match of method and environment is evident in the assumption that there are independencies between decision factors/cues (Woike *et al.*, 2017), whereas not denying that there may be some dependencies in reality. This assumption, that complete data on all possible dependencies between decision factors is not essential, removes unrealistic expectations of comprehensive data. In this way, the decision situation becomes manageable.

Figure 3 shows a fast and frugal decision tree with a central decision factor, namely, organizational regulation, because rules are essential for controlling the behaviour of the organization's members, for instance by setting up case-by-case or general regulations as explained above. In this fast and frugal decision tree, possible situations and corresponding general recommendations are illustrated. Change may not be required, as in Situation 2. In every other situation, organizational rules have to be adapted.

The recommendations in Figure 3 are so general that they need to be specified unless Situation 2 is present. A possible specification of the recommended action is presented in Figure 4. In this example, it is assumed that there is a situation of over-organization (Situations 1 or 4 in Figure 3).

In Figure 4, the fast and frugal decision tree for general regulation X is illustrated, with four decision factors/decision nodes – for example, legal requirements. If at the first decision factor a positive answer is given, it means that rule X is required by law and should, therefore, be retained; however, if this question is answered in the negative, then the decision

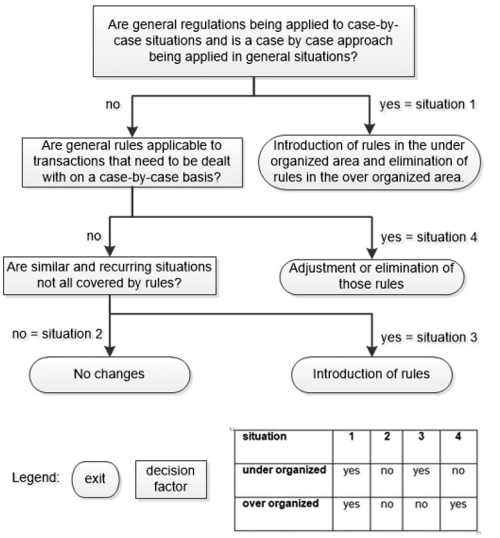

Figure 3.
Possible situations concerning the internal regulatory requirements of an organization

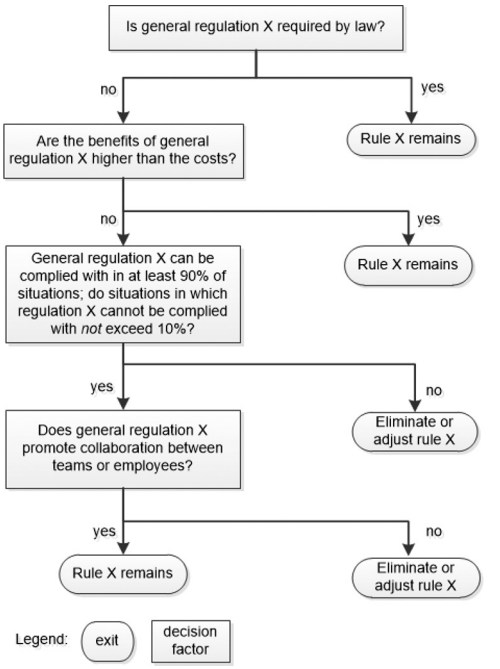

Figure 4.
Fast and frugal decision tree for general regulation X

maker proceeds to the next decision factor (in this case, the cost-benefit decision factor), and so on.

From these illustrations, it is not clear how the best possible equilibrium can be realized on a flexibility-stability continuum. To achieve this goal, all relevant rules should be

verified using the fast and frugal decision tree until Situation 2 in Figure 3 (no changes) is reached.

Previous studies of fast and frugal decision trees have shown that they have both descriptive value and prescriptive utility (Luan *et al.*, 2013; Luan and Reb, 2017). As an example of the utility of this procedure, a group of medical staff in the US trialled the simplified decision tree in heart attack prognosis; this was found to be more accurate than a more complex heart disease prediction tool (Gigerenzer, 2007).

Discussion and conclusions

The starting point of this paper was the question of how the handling of change can be improved. One way to improve it is to focus on the balance of the organizational flexibility-stability continuum. The main focus in the relevant literature has been on one side of the flexibility-stability continuum, namely, flexibility. According to De Leeuw and Volberda (1996), flexibility has a positive connotation. One reason for this may be that "we only notice what is changing" (Mintzberg, 2013, p. 11), and change requires some flexibility. However, if this leads to a one-sided view in an organization, which carries the possible consequence that too many measures are taken in an attempt to increase flexibility, the organization may find itself overwhelmed (Mayrhofer, 1997). For this reason, in this paper, the one-sided view is challenged by putting the focus not just on one side of the flexibility-stability continuum but rather on the balance between flexibility and stability. Because it is recognized that organizational stability and flexibility are interdependent and necessary, extreme situations – for example, hyper-flexibility on the flexibility-stability continuum – should be avoided; the status of both poles of the continuum should always be considered. If one focuses too much on one of the two poles, this can lead to higher levels of risk. For example, where flexibility is the main focus, employees at lower hierarchy levels may be given more decision-making power, as this reduces coordination with supervisors, enabling employees to respond more quickly to workplace demands. This, however, involves risks: employees might use this greater freedom to the detriment of the organization or may feel overwhelmed by the increased level of responsibility. An optimal adjustment between stability and flexibility is therefore essential. The determined optimum may at any given time change as a result of permanent changes in the environment (Sopelana *et al.*, 2012), true to the saying *panta rhei* (everything flows). During the start-up phase, for example, the optimum is 30 per cent stability and 70 per cent flexibility, but at a later stage, the optimum maybe 70 per cent stability and 30 per cent flexibility.

A mindset of continuous learning and alertness to changes in the environment is essential. Without this, awareness of changing conditions and the adaptation measures needed to respond to them will be lacking.

When assessing the optimum or best possible balance, it should be considered whether:

- The requirements and capabilities of existing employees have been taken into account in the determination of the equilibrium.
- These considerations are detached from any assessment.

In the first case, it is possible that no change will be made because the skills and desires of the employees do not allow any changes. In the second case, the employees could find planned changes overwhelming and may not meet any new requirements, with the consequence, for example, that these employees are dismissed.

A continual process of re-evaluation of the shifting optimum/best possible equilibrium reveals several challenges, such as the need for any existing leadership style and leadership behaviour to align with the flexibility-stability requirements. The challenge here is that

people may have persistent personality traits (for example, their degree of openness to new experiences) that are particularly relevant in one phase of organizational development but perhaps less so in another. This being the case, the question arises as to how managers and employees with static personality traits can be integrated into the process of change.

A theoretical contribution of this paper is the determination of the optimum in both one and several flexibility-stability continuums by means of Gossen's first and second laws. In practice, however, this is difficult. To determine the optimum, all variables and any pertinent causal relationships that influence the optimum must be known: otherwise, it cannot be determined whether or not a change in any particular variable might lead to a better state. This being the case, two further target states were introduced, namely, best practice according to benchmarking and best possible practice. Among these target states there will be some overlap, especially between the optimum and best possible practice states; coincidence between these two states – for example, potential innovativeness of the method used – is high.

Another theoretical contribution is made by analyzing the different target states, which ultimately allows a conclusion to be drawn as to which realistic target state leads to the best possible (or in other words "subjective rational optimum") flexibility-stability continuum. The approach used to determine the target state of best practice according to benchmarking is limited because it merely identifies current or past practice, ignoring the question of how this practice can be improved within the body subject to analysis; in the best possible practice target state, however, all possibilities for improvement are considered. Because the best possible practice target state allows for a more extensive and innovative analysis than best practice according to benchmarking, a more desirable target definition is possible, bringing this closer to – and perhaps unknowingly (because the optimal equilibrium cannot be determined, as discussed above), coinciding with – the theoretical optimal state.

As a practical conclusion, having established that an optimal ("objective rational optimum") state is unrealistic, it can be deduced that the target state "best possible practice" should be aimed at rather than the target state "best practice according to benchmarking" if the scope for achieving potentially superior target states is desired. A second practical conclusion is that to determine the best possible balance in the flexibility-stability continuum, given that all relevant influencing factors cannot be fully known, a heuristic approach can be applied, e.g. using the fast and frugal decision tree. The fast and frugal decision tree relies on the intuition of the decision maker, which may lead to better results than elaborate analysis, as it allows for the elimination of data that are irrelevant or confusing or both. On the other hand, intuitive decisions are subjective and may in some cases be based on misconceptions and so lead to errors in judgement (Kahneman, 2011). But even if the decision is made intuitively, measures of control and monitoring can be used to analyse whether the decisions taken lead to the desired goals. Intuitive decisions are thereby tested for their effectiveness by means of non-intuitive methods.

A systematic decision-making process also helps decision makers to avoid simply latching onto the most recent or novel idea, which, according to Ford (2017, p. 2), is key. He considered that: "[m]ost of the present acute troubles of the world arise out of taking new ideas without first carefully investigating to discover if they are good ideas."

It is clear from these remarks that change requires a balance between stability and flexibility, and that any reconciliation between stability and flexibility is itself subject to change. Achieving the best possible balance is a meta-competence that does not lose its practical value with repeated application, but rather the opposite; its relevance to core

competencies can help to generate competitive advantages and thus contributes to sustainable entrepreneurship.

Limitations and future research recommendations

A limitation of this paper is its focus on the flexibility-stability continuum "organizational regulation", neglecting other flexibility-stability continuums. Another limitation is that only one practical possibility – namely, a fast and frugal decision tree – for determining the target state "best possible practice" was presented, although other approaches – e.g. satisficing or a recognition heuristic (Luan and Reb, 2017) – may be more suitable. It can be also asked whether the questions in the fast and frugal decision trees can always be answered with a clear "yes" or "no" or whether there are also cases in which a less definite answer seems appropriate. This leaves room for the application of other approaches, fuzzy theory (Rommelfanger and Eickemeier, 2002; Spengler, 1999) for example, that might broaden the scope of enquiry.

This paper has evaluated how to determine the best possible equilibrium on flexibility-stability continuums, and the operationalization has been examined. A theoretical-analytical approach was used. To evaluate the practical application of these findings, empirical studies are required. Further empirical work could also explore the statements in this work more deeply, such as:

- The extent to which flexibility requirements depend on the importance of the desired change and the length of time any change projects have been deferred.
- Where an organization or department operates in a highly dynamic environment where problems rarely reoccur in the same way, individual innovative solutions are necessary and fixed routines can be a hindrance.

In addition, the fast and frugal decision tree was used to seek a determination of the best possible balance, but this was primarily related to one flexibility-stability continuum. Future research may address the question of how to determine, in practical terms, the best possible balance in relation to more than one flexibility-stability continuum.

Further research may also focus on the concepts of agility and responsiveness. In this way, these concepts and the definition of their extreme poles – such as agility and non-agility, responsiveness and sluggishness – along with the determination of the best possible adjustment on their respective continuums can be brought into focus.

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