Slack Resource Effect on Multinational Firm
Global Strategic Posture

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ABSTRACT

While empirical research points to a host of factors affecting firm-level variation for internationalization, it largely overlooks whether firm slack resources relate to firm global strategic posture. Moreover, research regarding differential effects of distinct slack components on global strategic posture is lacking. On the one hand, excess resources can enact new global strategies or expand firm international operations. On the other hand, excess resources can feed managers’ irresponsible behavior, breeding inefficiency and irrational optimism that may decrease firm international operations. Hence, the argument is made that available and absorbed slack presents a nonlinear relationship with firms’ global posture. In contrast, potential slack accounted for presents a positive linear relationship for firms’ global posture. This study develops causal logic for different forms of slack resource influence on global strategic posture. A proposed theoretical framework analysis provides insights into slack and global strategic posture relationships in this research, offering better understanding of the slack resource role in global strategic posturing.

Keywords: Slack Resources, Internationalization.

INTRODUCTION

Going global has emerged as one of the most important business management issues among management practitioners and researchers. Recent global competition pressure has driven firms to expand their operations and markets globally. Previous research pointed out a variety of determining factors for firm internationalization, such as institutional ownership differences (Tihanyi, Johnson, Hoskisson, & Hitt, 2003), top management team advice networks (Athanassiou & Nigh, 1999), and top management team heterogeneity (Carpenter & Fredrickson, 2001). These factors imply that firm resources availability, including financial resource, human resource, even relation network resource, are vital variables for continued firm internationalization momentum (Calof & Beamish, 1995; Welch & Luostarinen, 1988).

The resource-based view proposes that unique resources, including tangible and intangible, influence the rate and direction of a firm’s global expansion, and achieve sustainable competitive advantage (Penrose, 1959; Wernerfelt, 1984). For example, Calof & Beamish (1995) pointed out that a change in firm resources may critically alter internationalization patterns. Additionally, adapting to dramatic shifts in global competitive landscapes is attributed to slack resources (Bourgeois, 1981; Cyert & March, 1963). Evidence similarly indicates that management team conceptualization and use of firm resources influence firm internationalization path and performance. In other words, slack resources critically affect firm-level variation in global expansion.

Although substantial conceptual research has focused on slack resource effect on an organization, the role slack plays is still under debate. Proponents of slack argue that slack resources have been recognized as vital for organization because of its ability to buffer firms from external environmental turbulence as well as its potential to foster innovation (Cyert & March, 1963; Thompson, 1967). Slack opponents contrarily counter that slack resources are inefficient due to manager self-serving interests (Jensen & Meckling, 1976; Jensen, 1986). Recent researches indicate the curvilinear effect of slack resources (Bourgeois, 1981; Nohria & Gulati, 1996; George, 2005), arguing that slack improves performance or innovation within, but hinders it beyond a given range.

Aside from the above slack effects, slack resources on firm internationalization paths remain ambiguous. In an increasingly dynamic world, slack resources admittedly allow firms to continuously adapt to complex competitive environments (Levinthal, 1997). Adequate or excess resources provide firm flexibility to enact strategies in response to
global challenges. At the same time, however, slack resources are coming under closer examination as organizations facing increasingly intense global competition feel pressured to eliminate all forms of slack (Nohria & Gulati, 1996). These two countervailing forces suggest a potential paradox. This dilemma raises a question about the relationship between slack resources and firm internationalization. Although prior research reports a variety of determining factors in firm internationalization, it typically ignores the relationship of slack resources to firms’ global strategic posture. Moreover, given internationalization’s increasing importance as a major and complex corporate strategy component (Prahalad, 1990), such a context may be particularly well suited for observing slack resources effects. Therefore, this study first examines the relationship between slack resources and firms’ global strategic posture.

Some researchers additionally note that the effects of different types of slack on an organization present distinct results (Geiger & Cashen, 2002; Greenley & Okemigil, 1998; Tan & Peng, 2003). Several studies articulate slack resource classifications (discretionary or nondiscretionary) (Bourgeois & Singh, 1983; Singh 1986; Sharfman, Wolf, Chase, & Tansik, 1988). Sharfman et al. (1988) suggesting that different slack resources provide managers distinct discretion and flexibility levels in their approach to reducing internal or external pressures. Singh (1986) reports that various types of slack differently effect firm performance. It is likely that the relationship between slack and global strategic posture may differ between different components of slack. However, work has not been done on different slack type effects on global strategic posture. Thus, the second purpose of this research is to investigate different slack resource influences on firms’ global strategic posture and examine slack from a multidimensional perspective. The expected results may lead to a better understanding of the slack and global strategic posture relationship.

The following sections provide a brief sketch of slack resources drawn from organization and economic theory perspectives. Two theoretical perspectives elucidate how slack resources affect an organization. Next, key concepts and premises of a theoretical framework integrate slack resources and global strategic posture; in addition, several theoretical propositions derived from the framework are also presented. The last section presents discussion and conclusions.

THEORETICAL BACKGROUND

Slack Resources

Slack has been widely discussed in the literature. Cyert & March (1963) first defined slack as “the disparity between the resources available to the organization and the payments required to maintain the coalition.” Bourgeois (1981) 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.” Nohria & Gulati (1997) 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.” Moreover, they noted that these resources vary in type, including excess inputs (e.g., surplus employees, idle capacity, and capital expenditures) and overlooked or exploited 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.” The evolving literature has provided three implications. First, slack is conceptually defined as not being used to the fullest extent possible. Second, slack resource characteristics include location (e.g., absorbed versus unabsorbed) and accessibility (e.g., immediately versus deferred) (Daniel, Lohrke, & Fornaciari, 2004). Third, the central purpose of slack resources is to act as a buffering mechanism to counter threats and as a facilitator to exploit opportunities.

How can this aspect of slack resources be utilized? Previous efforts have found two ways to measure slack resources. One is measuring the degree of slack within each department by questionnaire including two questions: (1) “Assume that due to a sudden development, time, persons working in your department must spend ten percent of their time on work totally unconnected with the tasks and responsibilities of your department. How seriously will this affect your output over the next year?” (2) “Assume that due to a similar development, your department’s annual operating budget is reduced by ten percent. How significantly will this affect your work over the next year?” (Nohria & Gulati, 1996). The second measurement is based upon previous studies that articulate a rationale for forms and antecedents of
slack by measuring slack according to financial indicators (Bourgeois, 1981; Bourgeois & Singh, 1983; Sharfman et al., 1988; Singh 1986). These studies have forwarded slack classification systems based on managerial discretion in resource deployment. Bourgeois & Singh (1983) first introduce three components, ranking in order of decreasing availability: (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) makes a distinction between absorbed and unabsorbed slack. The former indicates excess overheads, which could be cut in organizations, and the latter indicates “excess, uncommitted liquid resources,” which could be better utilized. Sharfman et al. (1988) suggests that slack resources be anchored along a managerial discretion continuum, and distinguished between high-discretion and low-discretion slack. More discretionary slack resources can be used in a wide variety of situations and less discretionary slack resources can be used only in a few specific situations. Recently, George (2005) viewed absorbed slack as low-discretion slack and unabsorbed slack as high-discretion slack. Accordingly, different types of slack resources not only provide a greater or lesser degree of discretion and flexibility to managers to reduce internal or external pressures, but also give tight or lax discipline to managers to increase self-interest behavior.

As mentioned above, two theoretical streams sketch the role of slack and its effects on an organization: organization theory perspective, such as the behavior theory of the firm (Cyert & March, 1963; Thompson, 1967) and resource-based theory (Barney, 1991) as well as economic theory perspective, including the resource constraint literature (Baker & Nelson, 2005; George, 2005), agency theory (Jensen & Meckling, 1976) and X-efficiency (Leibenstein, 1969).

Organization theory perspective

Resource-based theorists argued that an organization could develop a sustainable competitive advantage using its unique resource endowments (Penrose, 1959; Wernerfelt, 1984). Barney (1991) posited that a firm must develop an asset or capability that is valuable, rare, imperfectly inimitable, and non-substitutable to achieve and sustain its competitive advantage. Moreover, Penrose (1959) proposed that a firm’s unused or residual resources are major forces pushing firms to expand. Following this concept, slack resources, including physical and human slack resources, are treated as a success source. A firm that owns more slack resources, both in terms of variety and amount, will have greater ability to launch new initiatives in response to both threats and opportunities. In sum, resource-based theory helps explain how slack plays a critical role in firm growth and expansion.

Alternatively, according to behavioral theory of the firm (Cyert & March, 1963; Thompson, 1967), a firm is an entity analogous to an organic body that ultimately seeks survival. For this reason, slack resources essentially ensure the long-run survival of the firm. Accordingly, this theory suggests that slack serves as (1) an inducement for organizational actors to remain within the system, (2) a resource for conflict resolution, (3) a buffering mechanism in the workflow process, or (4) a facilitator of strategic or creative behavior within the organization (Bourgeois, 1981). Firm behavioral theory particularly helps explain the key role that slack plays in fostering firm innovation.

Following such logical arguments in favor of slack, several empirical studies provide evidence about the positive effects of slack resources. Singh (1986), for instance, points out that slack has a positive relationship with risk taking in organizations, and a high slack level relates to good performance. Damanpour (1987) also finds that organizational slack has a positive innovation effect. Furthermore, Bromiley (1991) proposes a positive relationship between slack and organizational performance. Cheng & Kesner (1997) also show that as firms allocate more resources toward activities which enhance external market effectiveness, increases in slack increase the extent of their environmental response.

Economic theory perspective

Contrary to the above theories, other researchers challenged the notion that maintaining slack could be beneficial for the organization. For example, resource constraint literature (Baker & Nelson, 2005; George, 2005), argued that most organizations are characterized by different degrees of resource constraints. Even so, many managers embrace or even pursue new challenges despite their inability to acquire new resources these challenges demand (MacMillan & McGrath, 1997). These firms may survive and even flourish, solving problems and exploiting opportunities despite
resource constraints. Resource constraints seem to alter the behavior by which resources are obtained, accumulated and consumed, forcing managers to improve allocative efficiency. Accordingly, George (2005) proposed that firms with fewer resources seem likely to leverage their resources more efficiently.

The Agency theory regards the firm as a nexus of contracts between principals and agents (Fama, 1980). Since the goals of firms’ owners (principals) and managers (agents) typically diverge, managers may use slack for pursuing self-serving projects, such as maximizing their salaries, power, expense accounts, and so forth (Jensen & Meckling, 1976). This perspective posits that slack could encourage “satisficing,” political, or self-aggrandizing managerial behaviors that hurt organizations (Bourgeois, 1981). Thus, slack should be eliminated to minimize this possibility (Phan & Hill, 1995). As a result, slack may become a source of agency problems.

The X-efficiency theory introduced by Leibenstein (1966) distinguishes between allocative inefficiency and X-inefficiency. X-efficiency is the effectiveness with which a given set of inputs produce outputs. On the other hand, X-inefficiency occurs when X-efficiency is not achieved. X-inefficiency sometimes occurs because managerial goals conflict with cost-minimization (Leibenstein, 1969). This is an example of the principal-agent problem. Accordingly, slack resources result in X-inefficiency.

Following these logical arguments against slack, some empirical studies have provided considerable evidence about the negative effects of slack resources on organizations. For example, Davis & Stout (1992) proposed that organizational slack, including greater cash flow and less debt, increased the risk of being taken over. Cheng & Kesner (1997) also indicated that as firms allocated more resources toward activities, which enhanced internal market effectiveness, increases in slack decreased the extent of their environmental response. Palmer and Wiseman (1999) reported a negative relationship between slack and risk taking of firms. Nickell, Nicolitsas, & Patterson (2001) also argued that firms which faced slack demand or were under financial pressure would introduce innovations in the way they organized and operated their businesses. Furthermore, Tan & Peng (2003) suggested a negative relationship between absorbed slack and organizational performance.

Based on these two theoretical streams sketching the role of slack in an organization, this research built arguments about slack resource effects on firms’ global strategic posture from a multidimensional perspective.

**PROPOSITION DEVELOPMENT**

Global strategic posture reflects the degree to which firms develop a global presence and come to depend on foreign operations and markets for achieving and sustaining competitive advantage, including foreign markets for customers and factors of production, along with the geographical dispersion of these markets and factors (Sullivan, 1994). Going global has been recognized as a critical strategy, for it enables firms to achieve efficiency in current operations, manage risks, learn innovation, and adapt to future changes (Ghoshal, 1987; Ghoshal & Bartlett, 1988). At the same time, increasing global activities is likely to create opportunities as well as produce tremendous managerial complexity (Prabhad, 1990; Carpenter & Fredrickson, 2001). The presence of slack allows an organization to interact or compete in its environment more boldly and adapt to complex competitive landscapes (Levinthal, 1997). Slack resources will therefore be required to buffer the organization core from rapid global environment changes and exploit foreign market opportunities. That is, as slack is generated, the organization can afford to experiment with new strategies (Bourgeois, 1981) by, for example, introducing new products, entering new foreign markets, and going global. Thus, this investigation attempts to extend this work by assessing the relationship between slack resources and the degree of firm internationalization.

Moreover, different types of slack may interact differentially with the degree of internationalization of firms, for different types of slack may motivate managers’ diverse strategic actions (Geiger & Cashen, 2002; Greenley & Okemgil, 1998; Tan & Peng, 2003). Unfortunately, few studies to date have examined relationships between various slack dimensions and global strategic posture of firms, thus leaving little knowledge of how various types of slack impact global strategic posture. It is possible that different types of organizational slack have different relationships with global strategic posture. Consequently, this research examines slack of three components common in management research: available slack, recoverable slack, and potential slack (Bourgeois & Singh, 1983; Cheng & Kesner, 1997). The
relationships between these three slack types and global strategic posture are discussed in the following section. Bourgeois & Singh’s (1983) slack resources classification is adopted, for it includes both ideas of a time frame over which resources can be redeployed with a flexibility dimension.

Available Slack and Global Strategic Posture

Available slack reflects the extent to which firms have readily available resources, and usually measures as a firm’s current ratio, i.e., current assets/current liabilities ratio (Bourgeois & Singh, 1983; Bromiley, 1991; Cheng & Kesner, 1997). A higher current ratio indicates a firms’ greater ability to meet its immediate resource needs.

Going global requires and consumes resources. Surplus resources allow firms to enact more aggressive global strategies. According to the resource-based theory (Penrose, 1959; Barney, 1991; Wernerfelt, 1984), firm ability to respond to strategic opportunities or environmental treats varies with its resource endowment, distributed non-uniformly across firms. In the global strategic posture case, slack resource availability may affect a firm’s propensity for going global. Slack resources ease capital restrictions and improve strategic choices of managers, including global strategies. Thus, a firm with excess slack may have an expansive global strategic posture. Moreover, according to behavioral theory of the firm (Cyert & March, 1963; Thompson, 1967), organizational slack necessarily ensures the firm long-run survival. This theory suggests that slack can provide resources for creative and innovative behavior, such as introducing new products, or entering new markets. Moreover, it allows experimentation and risk taking, which may have positive effects on internationalization. As such, slack resources might have a positive relationship with global strategic posture of firms.

In contrast, other scholars have adopted a more hostile view of slack. According to resource constraint literature, firms with lower resource levels will likely leverage their resources more efficiently (George, 2005). Based on the economic rationality norm, firms with less organizational slack perceive higher opportunity cost to resources required and consumed in the internationalization process. Presumably, firms with lower slack resource levels may cautiously pursue their internationalization process, and take an incremental approach to reduce uncertainty and segregate risks. In contrast, firms with higher slack levels have less incentive to increase their internationalization degrees. As such, slack resources may have a negative effect on firm global strategic posture. The agency theory alternatively posits that slack encourages “satisficing,” political, or self-serving managerial behaviors. For instance, managers are unwilling to accept the international joint venture or alliances strategy, because they may lose their present power. This situation illustrates that managers’ self-interest behaviors impede the firm’s international activities. Therefore, slack may become a source of agency problems, which breed X-inefficiency. George (2005) pointed out that slack might insulate a firm from external changes, engendering managerial complacency or irrational optimism which may decrease its international operations involvement. Slack resources permit managers to wait for opportunities rather than go out to seek them, i.e., they may adopt a passive global strategic posture. In addition, if managers perceive that their absolute slack levels far exceed competitors, they are likely to be overly optimistic about their global strategic posture and may inadvertently implement strategic actions that obstruct internationalization. As such, slack resources might have a negative relationship to firm global strategic posture.

Given these two contrasting views, firms should have surplus resources sufficient to address unforeseen threats or opportunities, but limited enough to prevent managers’ irresponsible behavior. In the case of available slack, too much or too little tends to handicap organizations from adequately adapting to environmental opportunities. In short, relations between available slack and global strategic posture are incomplete without including these two perspectives. One class is concerned with both resource-based view and behavioral theory of the firm. This highlights available slack and encourages firms’ strong global presence by providing more foreign market opportunities and protecting a firm from the negative consequences of unsuccessful internationalized actions. The other class concerns both agency theory and resource constraints perspectives (Jensen & Meckling, 1976; Baker & Nelson, 2005). Because of the cushion provided by available slack, control systems used by principals to monitor agents’ behaviors may become lax with relatively high slack levels. In this situation, managers could relax their decision-making and use available slack in ways to protect their own self-interest and decrease internationalization activities. Therefore, as slack rises beyond a given range, expanding global strategic posture will peak and decline (Geiger & Cashen, 2002). Considerable previous empirical
research also found a curvilinear relationship between available slack and risk-taking (Martinez & Artz, 2006), innovation (Geiger & Cashen, 2002), and performance (Tan & Peng, 2003). Therefore, this research suggests that slack positively relates to global strategic posture within a given range, but negatively relates to it beyond that given range, i.e., the relationship resembles inverse U-shaped curves. Hence the following proposition:

**Proposition 1: Available slack relates in a curvilinear manner with expanding firms’ global strategic posture. Specifically, the degree of internationalization will increase and then decrease with available slack increases.**

Recoverable Slack and Global Strategic Posture

Recoverable slack reflects the extent resources are absorbed into the organization systems as excess costs, but recoverable in financial difficulty. Recoverable slack is usually measured as a ratio of selling, general, and administrative expense (SG&A) to sales (Bourgeois & Singh, 1983; Bromiley, 1991; Singh, 1986). A higher ratio indicates that a firm has excess expenses greater than those needed by the firm.

Two similar major impacts must also be addressed. First, recoverable slack may act as both a buffering mechanism to absorb global environmental shifts, and a global strategy facilitator to exploit foreign market opportunities. Thus, firms’ internationalization process is enhanced by available slack. Second, too much recoverable slack may also incur agency problems, and thus, as recoverable slack rises beyond some point, expanding global strategic posture begins to decline.

Moreover, Singh (1986) reported a positive relationship between recoverable slack and risk-taking, while Geiger & Cashen (2002) reported an inverted U-shaped relationship between recoverable slack and innovation. Tan & Peng (2003) also showed that recoverable slack impact on performance is curvilinear. This research therefore presents that recoverable slack positively relates to global strategic posture within a given range, but negatively relates to it beyond that given range. The following proposition states this prediction:

**Proposition 2: Recoverable slack relates in a curvilinear manner to expansiveness of firms’ global strategic posture. Specifically, the degree of internationalization will increase and then decrease with recoverable slack increases.**

Potential Slack and Global Strategic Posture

Potential slack reflects the extent of unused borrowing capacity available to firms and is usually measured as a firm’s equity-to-debt ratio (Bourgeois & Singh, 1983; Bromiley, 1991; Cheng & Kesner, 1997). A higher equity-to-debt ratio indicates more firm potential slack, i.e., greater borrowing power.

Potentially available resources lessen anxiety and concern about foreign market risks. Furthermore, potential slack increases permit bold organizational competition in the global environment resulting in aggressive global expansion. Researchers report a positive relationship between potential slack and managerial risk-taking (Martínez & Artz, 2006). Geiger & Cashen (2002) recognized that potential slack increases encourage experimentation and innovation. Thus, potential slack should positively relate to firms’ global strategic posture expansiveness.

Nevertheless, it is unlikely that increasing potential slack weakens a firm’s control system, creating high levels of the previous two slack types (available slack and recoverable slack), since using potential slack may significantly impact a firm’s interest expense, performance, and stock price. If a firm has lax discipline around potential slack allocation, its performance, stock price, and even image will suffer due to a high equity-to-debt ratio. Managers will therefore carefully scrutinize potential slack use (Geiger & Cashen, 2002; Martínez & Artz, 2006). Contrary to the expected nonlinear relationship between other slack resources and global strategic posture, this study inferred that the relationship between potential slack and global strategic posture of firms would be linear and positive.

**Proposition 3: Potential slack positively relates to firm’s global strategic posture expansiveness.**
CONCLUSION

This paper proposes a coherent structure for studying slack resource effects on firm global strategic posture by drawing on arguments from both economic and organization theory perspective literatures. Beginning with a characterization of slack resources as both a facilitator of strategic behavior to initiate changes in strategy and enhance risk taking, and a source of agency problems which breed inefficiency and irrational optimism, we have proposed that both available and recoverable slack resources relate in a curvilinear manner to firms’ global strategic posture expansiveness. That is, the level of firm internationalization increases and then decreases with slack resource increases. Moreover, we proposed that potential slack positively relates to firms’ global strategic posture expansiveness. We summarily argue that different slack types may interact differentially with the internationalization degree of a firm, as different slack types will motivate managers’ diverse strategic actions.

This study provides valuable insights into resource accumulation and deployment for enacting global strategic posture and enriching the ongoing dialog of important resource endowments in organizations. The significance of this research is twofold. First, resource deployment impact on achieving organizational goals is fundamental to theories of how organizations act, evolve, and perform. This study explores slack resource implications on firms’ global strategic posture expansiveness. Some studies have tested slack and environment implications for strategic choices (Meyer, 1982; Smith, Grimm, Gannon, & Chen, 1991), but not for global strategic posture. Investigating the nexus of slack’s influences on global strategic posture strengthens the contributions of this study to management theory and practice.

Second, a major contribution of this study distinguishes different slack forms in order to articulate their relationship patterns with firms’ global strategic posture. Although considerable research has been devoted to slack resources, no work has been done on the effects of slack on global strategic posture expansiveness. This is the first study to examine resource constraints impact on global strategic posture. This study expects to provide greater insight into the relationship between slack and global strategic posture. Beyond theory building, we hope this research provides useful guidance for future empirical inquiry into the role that slack resource plays in enacting firms’ global strategic posture.

REFERENCES


