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Market-Focused Strategic Flexibility: Conceptual Advances and an Integrative Model

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This article develops the concept of market-focused strategic flexibility. It begins with a review of the historical perspectives of strategic flexibility. To support the conceptualization, the authors offer a theoretical schema that considers market-focused strategic flexibility as conceptually rooted in capabilities theory, resource-based views of the firm, and options. With the conceptualization in place, the authors propose an integrative model that explicates the mediating role of market-focused strategic flexibility in marketing strategy frameworks. Propositions are developed relating market-driven and driving orientations to market-focused strategic flexibility with consideration for how turbulent macro environments modify the relationship. In addition, the authors offer propositions regarding outcomes of market-focused strategic flexibility under conditions of macro environmental turbulence.

As technology unfolds and globalization progresses, firms face ever increasing complexities and enlargement of their competitive field. Even prior to the global momentum, scholars recognized that the natural state of affairs in the strategic planning arena may be best described as a constant, chronic state of flux with continual variation in the activities and responses of buyers and sellers (e.g., Dickson 1992). The dynamics of disequilibrium can quickly outstrip and overwhelm strategizing in any static tradition (e.g., Dickson 1992; Dickson, Farris, and Verbeke 2001; Mintzberg 1994; Mintzberg and Waters 1985). Turbulence and disorder in the environment can attenuate, or potentially incapacitate, currently effective marketing programs. Given such an ever-changing environment, a firm's ability to quickly change directions and reconfigure strategically, particularly with regard to products and markets, becomes crucial if it is to succeed and achieve sustainable competitive advantage. We refer to this notion as *market-focused strategic flexibility.*

The concepts of flexibility and/or strategic flexibility are not new. They appear in the management literature as early as the 1950s. However, in the decades since, the concept has been defined in numerous ways and has become shrouded in vagaries and ambiguity. Interestingly and more important, our extensive review of several literatures suggests that a preponderance of treatments involve internal, that is, manufacturing or operational perspectives on flexibility, and perhaps even more important, it has rarely been considered from strategic marketing perspectives. With few exceptions (e.g., Harrigan 1985), extant research is surprisingly silent on flexibility with regard to strategically crucial market-linking activities.

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Issues involving products and their positioning and distribution (Dickson 1997), as well as other important firm-level initiatives, such as those involving new-product introduction, market entry, and expansion of the product line, that establish and maintain a firm's relationship to markets all comprise strategically crucial market-linking activities. Given that the firm's success and, indeed, its very survival depend on the creation and delivery of superior value propositions to its markets through these market-linking activities, their omission from the flexibility literature is surprising. Without being market focused, any type of flexibility (i.e., strategic, tactical, or operational) will not result in superior value creation and sustainable competitive advantage.

Thus, although a considerable and informative literature on flexibility exists, these treatments tend to overlook the critical issues related to products and markets. In light of the contemporary competitive environments faced by many firms in many industries, the time is appropriate for redefining and rethinking strategic flexibility as market focused. Both marketing scholars and strategists would benefit from a reconceptualization of flexibility that emphasizes strategic perspectives and especially one that emphasizes products and markets. Beyond a refined and advanced conceptualization, managers and researchers would benefit from a deeper understanding of how market-focused strategic flexibility develops in the firm, how it relates and works with other important strategic marketing concepts, and how it works with these concepts to affect outcomes relevant to the marketing manager and the firm.

In this article, our fundamental premise is that strategic flexibility as related to products and markets undergirds the firm's success and superior performance. Consistent with this premise, we offer a conceptualization of market-focused strategic flexibility and a model that integrates it with current marketing theory. First, after reviewing extant treatments of strategic flexibility, we draw on theoretical foundations provided by capabilities theory and resource-based views of the firm to extend our understanding of strategic flexibility. Second, we use that extended understanding to define and develop the concept of market-focused strategic flexibility. Third, we integrate market-focused strategic flexibility with a concept central to contemporary marketing thought, that is, market orientation. Specifically, we develop propositions suggesting that two important perspectives on market orientation, market driven and market driving, relate to market-focused strategic flexibility. Fourth, we consider the effects of market-focused strategic flexibility on outcomes that include financial and strategic performance. In the final sections of the article, we offer a discussion of implications and concluding comments.

HISTORICAL PERSPECTIVES AND CONCEPTUAL REFINEMENT OF MARKET-FOCUSED STRATEGIC FLEXIBILITY

Strategic flexibility has been addressed by research in strategic management, organization theory, economics, and marketing (Genus 1995). It is not surprising, therefore, that a reasonably diverse array of definitions exist in the literatures across disciplines (see reviews by Carlsson 1989; Genus 1995). In Table 1, we provide an overview of existing conceptualizations and definitions. Table 1 demonstrates the scope of research on flexibility.

A review of the literature on flexibility reveals a distinction between operational, tactical, and strategic flexibility (Bowman and Hurry 1993; Buckley 1997; Carlsson 1989; Hayes and Pisano 1994). Operational flexibility is short-term flexibility pertaining to day-to-day operations (Galbraith 1990; Sethi and Sethi 1990; Suarez, Cusumano, and Fine 1995). It involves the ability to deal with short-term fluctuations in demand, raw material shortage, or equipment failure (Carlsson 1989); complexity of the production process caused by manufacturing a variety of products (Suarez et al. 1995); and the implementation of new products or technology in the manufacturing process (Galbraith 1990). Operational flexibility is therefore a determinant of the speed and cost of response, reinvestment, and degree of interruption in the existing system (Sethi and Sethi 1990). Improvisation arises from operational flexibility. Improvisation implies that planning and implementation of marketing actions coincide (Moorman and Miner 1998). A higher level of operational flexibility enables a firm to shorten the time between planning and implementation through quick adjustments and thereby enhances the firm's ability to improvise.

A second perspective on flexibility that appears in the literature is tactical flexibility. Tactical flexibility pertains to changes in the product design and in the product mix, the rate of production or plant/equipment use (Carlsson 1989) in response to fluctuations in demand or market imperfections (Hart 1940; Stigler 1939).

Strategic flexibility, a third aspect of flexibility found in the literature, involves the creation, maintenance, and realization of options for a firm's future (Bowman and Hurry 1993; Buckley 1997). Extant definitions often suggest that the concept of strategic flexibility pivots on the ability to take some action in response to environmental changes (Buckley 1997; Evans 1991). Thus, strategic flexibility can be viewed as a capability (Aaker and Macarenhas 1984; Bahrami 1992; Das and Elango 1995; Grewal and Tansuhaj 2001; Matusik and Hill 1998).

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TABLE 1
Conceptualizations and Definitions of Strategic Flexibility

Source	Definition
Ansoff (1965)	"Flexibility can be measured by two proxy objectives: external flexibility achieved through a diversified pattern of product-market investments, and internal flexibility through liquidity of resources" (p. 55); "not putting all of one's eggs in a single basket" (p. 55).
Eppink (1978)	Flexibility makes an organization less vulnerable to, or better able to respond successfully to, unforseen environmental changes.
Aaker and Macarenhas (1984)	"The ability of the organization to adapt to substantial, uncertain and fast-occurring environmental changes that have meaningful impact on the organization's performance" (p. 74).
Harrigan (1985)	"The ability of firms to reposition themselves in a market, change their game plans, or dismantle their current strategies when the customers they serve are no longer as attractive as they once were" (p. 1).
Kogut (1985)	"Flexibility is gained by decreasing the firm's dependence on assets already in place" (p. 27).
Galbraith (1990)	"The ability to shift or replicate core manufacturing technologies quickly and effectively between different facilities, both domestically and internationally" (p. 56).
Evans (1991)	"Capability to modify strategies" (p. 77).
Bahrami (1992)	"The ability to precipitate intentional changes, to continuously respond to unanticipated changes, and the ability to adjust to unexpected consequences of predictable changes" (p. 36).
Bowman and Hurry (1993)	"To keep options open" (p. 760); ability to exercise "flexible options (i.e., choices to switch investment streams)" (p. 763); ability to exercise incremental options: strike successive calls to continue strategies, strike/abandon calls to reverse strategies (p. 763).
Hayes and Pisano (1994)	"The capability to switch gears—from, for example, rapid product development to low cost—relatively quickly and with minimal resources" (p. 78).
Das and Elango (1995)	"The ability of an organization to respond to changes in the environment in a timely and appropriate manner with due regard to competitive forces in the environment" (p. 62).
Upton (1995)	"Whether one is referring to products, production volumes or manufacturing processes, flexibility is about increasing range, increasing mobility, or achieving uniform performance across a specified range" (p. 76).
Sanchez (1995, 1997)	"Firm abilities to respond to various demands from dynamic competitive environments" (p. 138); "impact of new product creation technologies on resources for developing, producing, distributing, and marketing products" (p. 138); "critical interdependencies between the flexibilities in a firm's product creation resources and the firm's ability to apply those resources effectively through new product strategies and organizational structures" (p. 138).
Lau (1996)	"Strategic flexibility refers to a firm's ability to respond to uncertainties by adjusting its objectives with the support of its superior knowledge and capabilities" (p. 11).
Lei, Hitt, and Goldhar (1996)	"Strategic flexibility suggests that firms will need to become more adept at responding to competitor moves while engaging in opportunistic searches for under-served or unlocated market segments and niches" (p. 512).
Buckley and Casson (1998)	"Ability to reallocate resources quickly and smoothly in response to change" (p. 23).
Hitt, Keats, and DeMarie (1998)	"The capability of the firm to proact or respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage" (p. 27).
Matusik and Hill (1998)	"A firm's ability to respond quickly to changing market conditions" (p. 682).
Young-Ybarra and Wiersema (1999)	"The flexibility to modify the alliance and the flexibility to exit the alliance relationship when the alliance is performing poorly" (p. 440).

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Market-Focused Strategic Flexibility: Toward a Conceptual Refinement

In sum, our review of the flexibility literature suggested two important conclusions. First, extant conceptualizations rarely if ever consider strategic marketing perspectives or incorporate market-linking strategies and issues. Second, with very few exceptions, extant conceptualizations cast flexibility exclusively as reactive or responsive. While the notions of reaction and response to change are certainly important, flexibility is not limited to this. For example, according to definitions in a number of dictionaries (e.g., *The American Dictionary of the English Language*), flexibility means being capable of variation or modification, suggesting that it is much more than an ability to respond or react. In other words, some external happening, factor, or issue is not necessarily required to drive or evoke it. Thus, we suggest a conceptual refinement of strategic flexibility that incorporates both proactive and responsive perspectives.

With regard to the first issue, as we noted, operational components and aspects implicitly, if not explicitly, dominate current thinking with regard to flexibility (e.g., Sanchez 1999). Even where this is not the case, extant conceptualizations give little consideration to options arising from strategically crucial market-linking activities, for example, products, their positioning, and their distribution. The capabilities to change production processes and redeploy resources, for example, do not necessarily imply creation of a superior value proposition for customers, that is, products that better serve wants and needs, for new or changing customer segments. Assuming that the firm's goal is the creation of a superior value proposition for its customers, and therefore sustainable competitive advantage, an advanced conceptualization of strategic flexibility should incorporate a market-focused perspective and directly consider a firm's options with regard to products and markets. In this respect, we suggest that market-focused strategic flexibility could provide the underpinning for the firm's long-term well-being.

With regard to the second concern, another factor apparent in the extant literature is that strategic flexibility is a response to increases in environmental variability (e.g., Ansoff 1965; Bowman and Hurry 1993; Harrigan 1985; Sanchez 1995, 1997). Strategic flexibility allows firms to deal with adverse consequences or opportunities arising from changes in demand or the competitive environment (Das and Elango 1995; Lau 1996). Again, implicitly and often explicitly, the literature emphasizes that flexibility derives from the need to deal with environmental variability and adapt to changes. In an early definition, for example, Eppink (1978) suggested that strategic flexibility makes firms "better able to respond successfully to unforeseen environmental changes." Eppink's early position pervades later works (e.g., Aaker and Macarenhas 1984; Das and Elango 1995; Lau 1996; Sanchez 1995). Throughout the literature, in conceptualizing flexibility, numerous authors continue to focus on the importance of reacting to changes (Buckley and Casson 1998; Harrigan 1985; Matusik and Hill 1998).

No doubt, the firm's ability to adapt (cf. McKee, Varadarajan, and Pride 1989) or respond to its environment is a crucial aspect of strategic flexibility. However, continued focus exclusively on this responsive dimension leaves the other crucial aspect of strategic flexibility neglected and its full strategic potential untapped. As early as 1934, Schumpeter proposed that entrepreneurial firms influence markets through "creative destruction" (also see Dickson 1992), for example, by introducing product innovations that make existing products and associated production processes, organizational knowledge, and skills obsolete. Evans (1991) explicitly included this proactive dimension in his conceptualization of strategic flexibility. Evans (1991) conceptualized strategic flexibility as composed of not only the ability to respond but also the ability to actively preempt or generate activity in the environment. Notably, although Evans does not stipulate it as such, the environmental activity generated involves the firm's local or primary task environment (e.g., Achrol, Reve, and Stern 1983; D'Aveni 1995).

Although many continue to focus on the reactive view (e.g., Das and Elango 1995; Lau 1996), the proactive perspective has begun to appear in the literature (D'Aveni 1995). For example, Hitt, Keats, and DeMarie (1998; also see Lei, Hitt, and Goldhar 1996) alluded to reactive and proactive dimensions, proposing that strategic flexibility is "the capability of the firm to enact *and* respond quickly to changing competitive conditions and thereby develop and/or maintain competitive advantage" (p. 27). Although treatments that include a proactive dimension of strategic flexibility are still relatively rare, we find them compelling logically and theoretically. Thus, our conceptualization of market-focused strategic flexibility explicitly considers both a proactive and reactive component.

Based on the preceding discussion, we define *market-focused strategic flexibility as the firm's intent and capabilities to generate firm-specific real options for the configuration and reconfiguration of appreciably superior customer value propositions*. In this definition, we view market-focused strategic flexibility in terms of the firm's *both* intent and capabilities to create option bundles for various value-creating configurations of products, their positioning, and their distribution in various markets. By options, we refer to "preferential access to future opportunities (e.g., opportunities for growth or opportunities to earn capital gain by divestiture)" arising from "the interplay of the organization's existing investments, its knowledge and capacities, and its environmental opportunities" (Bowman and Hurry 1993:762).

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In addition to an explicit consideration of strategic market-linking activities, it is noteworthy that these option bundles are not necessarily cast as reactive but, more important, we expect that some will be proactive as well. As a further addition to those noted, two more important components of the definition emerge. First, the notion of intent is embedded in the definition (e.g., Hamel and Prahalad 1989). If a firm has the necessary capabilities but does not intend to act on them, market-focused strategic flexibility will not result. Thus, we propose that capabilities and intent are two components of market-focused strategic flexibility.

Second, even in light of the diverse conceptualizations of flexibility, the literature consistently implies that strategic flexibility depends on the availability and deployment of resources in the firm, and the existence of the appropriate accompanying capabilities (e.g., Kogut and Kulatilaka 2001). We advance the idea that this set of capabilities is composed primarily of resource identification, acquisition, and deployment capabilities, as well as strategic option identification capability. These capabilities underpin what some researchers have called a "real options heuristic" and provide the firm with access to various viable paths for both exploration and exploitation in its environment (Kogut and Kulatilaka 2001). Thus, in the following sections, we draw on resource-based views of the firm (RBVs) and capabilities theory to develop further understanding of market-focused strategic flexibility.

Market-Focused Strategic Flexibility: Conceptual and Theoretical Roots

Although perhaps vague on some issues, as noted above, the flexibility literature is fairly clear and consistent with regard to the role of resources in flexibility and with regard to the role of firm capabilities in resource application. Consistent with this, in our conceptualization, market-focused strategic flexibility depends significantly on the firm's resource portfolio. More important, however, it involves the accumulation of a resource portfolio with certain unique characteristics. Theory suggests that both tangible (capital, production facilities, etc.) and intangible (technical know-how, reputation, efficient procedures, etc.) resources tied semipermanently to the firm may contribute to its competitive advantage (Rumelt 1995; Wernerfelt 1984). In addition, the resources must be valuable, rare, inimitable, and have no subsititutes (Barney 1991; Peteraf 1993). These characteristics, sometimes referred to as the VRIN framework, assess the potential performance outcomes of resources (Barney 1991; Black and Boal 1994; Wernerfelt 1984).

Particularly with regard to achieving superior product market positions, researchers have noted the importance of certain scarce assets or resources and their deployment (e.g., Dierickx and Cool 1989). Marketing resources a firm can acquire and deploy that have been identified as critical include, for example, brands, sales forces, channel relationships, dealer loyalty, customer trust, and marketing expertise (e.g., Capron and Hulland 1999; Day 1994; Dierickx and Cool 1989; Kapferer 1992). These assets have the VRIN characteristics and in addition, for the most part, are nontradeable so they must be built within the firm (Dierickx and Cool 1989). Because they contribute significantly to the generation of options in achieving superior product market positions, these resources lie at the heart of the firm's competitive position.

According to our conceptualization, the firm skills itself in four ways to develop market-focused strategic flexibility. Specifically, the firm develops capabilities in (a) the identification of resources, (b) the acquisition of resources, (c) the deployment of resources, and (d) the identification of options. These resource-based capabilities may be considered higher order or dynamic capabilities because they are composed of socially complex routines deeply embedded in the firm. In addition, they involve the configuration, adjustment, and reconfiguration of resource portfolios over time (Eisenhardt and Martin 2000; Teece, Pisano, and Shuen 1997). Firms develop resource-based capabilities just as they develop other capabilities, through learning and building knowledge that are integrated in activities and decision making over time (e.g., Day 1994; Fiol and Lyles 1985; Simon 1969; Sinkula 1994; Slater and Narver 1995).

With regard to market-focused strategic flexibility, resource identification capability is necessary to build a portfolio of marketing resources with competitive advantage generation potential. Having identified the resources, acquisition capabilities come into play. The firm must be able to obtain and accumulate these resources either through internal development or external sources. In conjunction with identification and acquisition, resource deployment capabilities involve the firm's ability to leverage and use the resources. The firm must effectively configure and deploy the resources and subsequently continue to reconfigure and redeploy them. To achieve market-focused strategic flexibility, the marketing resources identified and acquired must be amenable to change and be able to accommodate multiple deployment and configurations. Furthermore, the more enduring the adaptability of the marketing resources, the better the resource bundle may be reconfigured and redeployed time and again.

The direct implication is that the composition and configuration of these resource-based capabilities forms the foundation for generating real options such as those involving market entry and product introduction. Options represent the choice mechanism–underlying strategy in that strategy revolves around the bundle of options, that is, a set of discretionary actions that can be taken at a later appropriate time (Bicksler and Chen 1990; Bowman and

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Hurry 1993; Kogut and Kulatilaka 2001). As various outcomes are revealed, options allow the manager to adjust accordingly (Bowman and Moskowitz 2001). It is noteworthy that while this set of capabilities provides the basis to generate options with regard to products and markets, it does not necessarily follow that this is an optimal bundle of options. Another capability, option identification, comes into play for generating an enhanced and possibly even optimal bundle of real options.

Option identification capability, as the term implies, entails management's ability to recognize various options as they unfold. Perhaps as important, this capability involves the ability to spot hidden options. Hidden options, also described as shadow options, are options that have not yet been identified as they are often more subtle and more difficult to see, recognize, and understand. Hidden options are less apparent and may be slower to unfold. The firm converts shadow options into real options by recognizing them. This recognition and uncovering of hidden or shadow options is a skill or capability that contributes directly to an enhanced option bundle. It often involves the breaking down of activities and strategies into smaller sequential activities for experimentation so that options come into focus (Bowman and Moskowitz 2001). Striking a real option alters the configuration of resources, which in turn leads to new options for the future. Thus, a sequential striking of this option chain eventually unfolds the strategy for the firm (Bowman and Hurry 1993).

Options identification capability depends to a significant extent on the firm's market-sensing abilities.[1] By market sensing, we mean the firm's alertness to market signals and its ability to read them. It suggests that the firm develops sense-making skills to anticipate developments in the market (Dickson 1992). Market sensing involves the heuristic mental model for visualizing latent market potential (Amit and Schoemaker 1993). It allows for a broad-based panoramic surveillance of the market to identify emerging technologies and best practices (Teece et al. 1997). All of this sensing, surveillance, and visualization of the market greatly facilitates the recognition and uncovering of shadow options as they emerge. Market-focused strategic flexibility, therefore, derives from capabilities in assembling and maintaining an appropriate resource portfolio, and the coupling of the resource portfolio with option identification and recognition.

THE MEDIATING ROLE OF MARKET-FOCUSED STRATEGIC FLEXIBILITY

We expect that market-focused strategic flexibility plays a crucial role in the firm's success and ability to earn superior rewards. More important, we suggest that this happens in conjunction with, and is facilitated by, the firm's market orientation. Market orientation has been conceptualized as the cultural (e.g., Narver and Slater 1990) and behavioral (Kohli and Jaworski 1990) manifestation of the firm's acceptance and internalization of the marketing concept. Essentially at issue is a normative philosophy advocating the achievement of superior performance through the creation of superior customer value (Narver and Slater 1990).

A significant number of studies have explored the effect of market orientation on performance (e.g., Jaworski and Kohli 1993; Narver and Slater 1990). Interestingly, no real pattern of relationships has resulted. In fact, the results seem equivocal (e.g., Han, Kim, and Srivastava 1998). Several studies found no significant relationship between performance and market orientation (e.g., Jaworski and Kohli 1993 [in terms of market share]; Narver and Slater 1990), while other studies found a significant relationship (e.g., Jaworski and Kohli 1993 [in terms of general business performance]). These mixed results suggest that perhaps some mediating factor may be playing a role. Scholars have suggested that while the cultivation of market orientation undoubtedly is important, it does not stand alone as a mechanism for effective strategizing or sustainable competitive advantage. "Creating a market orientation is only a start" (Slater and Narver 1995:63). With very few exceptions (e.g., Han et al. 1998), critical mediating factors for converting market orientation into superior performance have not been widely addressed. We propose that market-focused strategic flexibility is one of those important mediating factors. Figure 1 shows the framework we propose to depict the crucial role of market-focused strategic flexibility in translating market orientation into superior firm performance.

Often market orientation is considered a culture (e.g., Deshpandé, Farley, and Webster 1993; Han et al. 1998; Narver and Slater 1990; Slater and Narver 1994) of knowing and understanding customers and competitors (Day 1994; Jaworski, Kohli, and Sahay 2000). Initial conceptualizations cast market orientation as having three dimensions: customer orientation, competitor orientation, and interfunctional coordination (e.g., Slater and Narver 1994). However, some have advocated a two-dimensional approach, suggesting that interfunctional coordination is an intrafirm communication mechanism apart from market orientation (e.g., Day 1994; Gatignon and Xuéréb 1997). Consistent with these, given that our focus is the firm's external market linking, in our framework, we rely on the customer and competitor dimensions as proposed by Day and Nedungadi (1994).

Market orientation provides a framework for the development of effective marketing strategies, focusing on creating customer value propositions superior to those offered by the competitors (Day 1994). In our conceptualization, consistent with Day's (1994) work, we treat market orientation as a cultural variable that guides the

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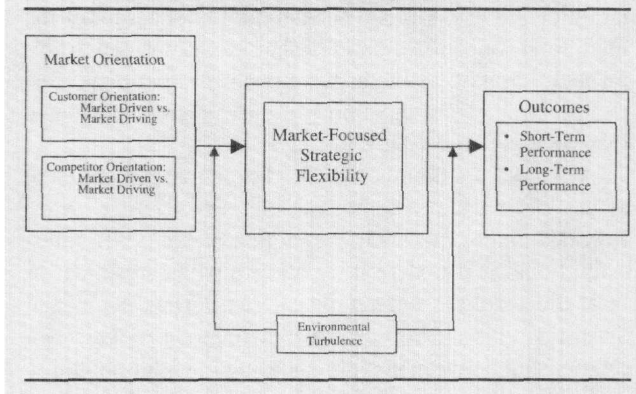
FIGURE 1
An Integrative Framework for Market-Focused Strategic Flexibility



development of market-focused strategic flexibility. This provides grounding for our premise that market orientation in terms of both the customer and competitor dimensions tends to generate greater levels of market-focused strategic flexibility. However, this can happen in several divergent ways depending on the form that market orientation takes.

Recently, two schools of thought regarding market orientation have emerged in the literature. These include the market-driven perspective and the market-driving perspective (Jaworski et al. 2000). These perspectives may be the logical outgrowth of the natural state of market disequilibrium where constant changes in supply interplay with constant changes in demand (e.g., Dickson 1992). This situation, termed by some as *hypercompetititon* (D'Aveni 1995), involves rapid change and radically dynamic competition in the firm's immediate task environment.

With a market-driven perspective, the firm responds and acts within the framework and constraints of the existing market structure and characteristics. The firm's actions are therefore determined by environmental forces, such as changing consumer needs, competitive forces, and technological innovations. In a sense, the firm acts as a market taker rather than a market maker, adjusting supply in response to changes in demand. In contrast, market-driving perspectives suggest that the firm can and will act to induce changes in the market structure and changes in the behaviors of the players (customers and competitors) in the market (Jaworski et al. 2000), such as changing supply and capitalizing on the subsequent response of demand (cf. Narver, Slater, and MacLachlan 2001). Here, the firm, through its changing of supply and therefore competition, is itself generating market disequilibrium rather than responding to it (D'Aveni 1999).

Market-driven versus market-driving perspectives are rooted in different assumptions. For example, in market-driven situations, the assumption is that customer preferences can be measured (Carpenter, Glazer, and Nakamoto 2000) and that competitors are similar in their interpretation and processing of information (Glazer and Weiss 1993). In contrast, from the market-driving perspective, the assumption is that customers do not know their own preferences and the marketer can act to develop and form them (Carpenter et al. 2000). The differences can be seen in terms of innovation versus imitation. Market driving suggests a significantly stronger, if not exclusive, emphasis on innovation, whereas market driven suggests a full range of both innovation and imitation.

The underlying differences between market driven and market driving have significant implications for the firm's strategic approach. In general, we expect that driven and driving often, but not necessarily always, generate different levels of strategic flexibility. In any case, however, the form and configuration of the options bundle will differ. In Table 2, we depict how the market-driving and market-driven perspectives might generate diverse strategic directions for the firm in terms of *potential and possible* options. The distinction between market-driving and market-driven perspectives in Table 2 is meant to illustrate two extreme positions on what is basically a continuum of perspectives under which firms operate at any given point in time. In Table 2, we do not intend to imply that market-driven and market-driving perspectives are mutually exclusive. For example, a firm could be market driven in the short run and market driving in the long run or vice versa. Furthermore, as with imitation versus innovation, while either market driven or market driving may predominate, it is difficult to imagine how this would be to the total exclusion of the other.

Below, we discuss these effects of market-driven versus market-driving perspectives on market-focused strategic flexibility. Table 2 also illustrates the implications of a firm's customer and competitor orientation on the type of options created. A firm can either be customer oriented, competitor oriented, both, or neither (Day and Nedungadi 1994). Again, Table 2 is meant to be an illustration of two possible firm orientations. If a firm pursues both customer and competitor orientation, it would approach option creation differently (e.g., corrective and protective types of options if a firm is market driven at a point in time and both customer and competitor oriented).

Customer Orientation

Customer orientation involves a focus on customers by identifying, analyzing, understanding, and answering their needs. A firm emphasizing the market-driven perspective responds to customer signals within a given established market structure (Achrol and Kotler 1999; Day

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TABLE 2
The Illustration of the Interplay of Market Orientation Perspectives and Market-Focused Strategic Flexibility

	Perspectives	
Orientation	*Market Driven*	*Market Driving*
	Firm responds to acts within the framework and constraints of existing market structure and characteristics	Firm can and will act to induce changes in the market structure and changes in the behaviors of the players (customers and competitors)
Customer orientation	Correction	Preemption
Identifying, analyzing, and answering to customers' needs	Predict which technologies are likely to be successful, given consumer needs and preferences (e.g., Achrol and Kotler 1999) Respond to the market structure (e.g., Day 1999)	Shape consumers' behavior proactively (e.g., Carpenter and Nakamoto 1989; Jaworski, Kohli, and Sahay 2000) Pioneer (e.g., Carpenter and Nakamoto 1989; Lieberman and Montgomery 1998) Predict how consumer needs and market boundaries evolve with various technological futures (e.g., Achrol and Kotler 1999)
Competitor orientation	Protection	Exploitation
Generating, disseminating, and using information about competitors	Continuous benchmarking (e.g., Day 1994) Imitating (e.g., Day 1994)	Shape the market structure proactively by deconstruction, construction, or functional modification approach (e.g., Jaworski, Kohli, and Sahay 2000) Identify and develop difficult-to-imitate internal and external competences (e.g., Teece, Pisano, and Shuen 1997) Discontinuous disruption (e.g., D'Aveni 1999)

1999). In such cases, this market responsiveness generates strategic approaches that are corrective in nature. This is because the firm tries to adjust and correct its offerings and strategies after customer needs have been measured (Evans 1991). In contrast, a firm with a market-driving perspective in its customer orientation may adopt preemptive approaches. Preemptive approaches involve the creation of a range of options that involve anticipating customer needs and wants, and shaping how market boundaries evolve (Achrol and Kotler 1999). Preemptive approaches differ from corrective ones in that the former relates to ex ante, while the latter relates to ex post (Evans 1991). In this range of options, the firm essentially holds various ways in which it can attempt to shape customer behavior proactively (Jaworski et al. 2000).

Corrective and preemptive approaches are likely to involve differing levels of market-focused strategic flexibility. To follow a preemptive approach, the firm needs to have a wider focus in options identification and market-sensing capabilities that move beyond existing market structures and preferences. In addition, the firm would develop a capability portfolio that generates a wider bundle of options. The capability portfolio and resultant options bundle would increase the firm's capacity to anticipate, shape, and drive markets. Thus, driving orientations suggest that the firm would have a higher level of market-focused strategic flexibility to pursue a preemptive approach. On this basis, we offer the following proposition:

Proposition 1a: Customer orientation with an emphasis on market-driving approaches will result in relatively higher levels of market-focused strategic flexibility than customer orientation with an emphasis on market-driven approaches.

Competitor Orientation

The competitor dimension of market orientation involves a focus on generating, disseminating, and using information about competitors (Narver and Slater 1990). A firm emphasizing the market-driven perspective will respond to its competitors in a given structure. As shown in Table 2, in this case, the firm often uses protective strategic approaches. Such protective approaches allow a firm to adjust its strategies in response to competitors' moves. This responsive posture could involve following competitors' footsteps by, for example, continuously benchmarking and imitating (Day 1994).

On the other hand, a firm emphasizing the competitor-driving perspective tends to take strategic approaches that redefine the competitive structure and reshape the behaviors of competitive players in the market (D'Aveni 1999; Jaworski et al. 2000). In such cases, a firm would develop proactive strategic approaches and exploit opportunities before competitors move. Jaworski et al. (2000) suggested deconstruction, which involves the elimination of players, and construction, where competitors are realigned, as examples of proactive approaches. D'Aveni (1999) suggested discontinuous disruption. Hamel and Prahalad (1994) highlighted that a firm must either see opportunities not seen by other leading firms or be able to exploit opportunities that other companies cannot. Therefore, exploitative approaches encourage a firm to identify difficult-to-imitate internal and external abilities and capabilities to

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exploit the markets before its competitors do (Evans 1991).

To realize exploitative approaches, the firm would have to develop market-sensing and options identification capabilities that go beyond existing competitive structures. Likewise, the appropriate capability portfolio must be coupled with strong intent to generate viable and, to some extent, necessarily radical exploitation options for the firm. Exploitation necessarily involves a wider range of options than protective strategic directions in that it is targeted toward the development of more different and more radical options. This suggests that with market-driving competitor orientations, the levels of market-focused strategic flexibility would tend to be higher than with market-driven competitor orientations.

It is critical to note that at any given point in time, protective and proactive options approaches are mutually exclusive. Firms focusing on the generation of protective options by continuously benchmarking and imitating their competition (Day 1994) preclude disruption-focused options. On the other hand, firms striving to deconstruct and disrupt competition would necessarily forego benchmarking and imitation (as described in Table 2). Thus, protective and proactive options approaches are essentially mutually exclusive, although over time, a firm may shift from protective to exploitative strategies or vice versa. These discussions give rise to the following proposition:

> *Proposition 1b:* Competitor orientation with an emphasis on market-driving approaches will result in relatively higher levels of market-focused strategic flexibility than competitor orientation with an emphasis on market-driven approaches.

As shown in Figure 1, we suggest that turbulence in the macro environment moderates the impact of market orientation on market-focused strategic flexibility. Environmental turbulence is defined in terms of "(1) high levels of interperiod change (in magnitude and/or direction) in the 'levels' or values of key environmental variables, *and* (2) considerable uncertainty and unpredictability as to the future values of these variables" (Glazer and Weiss 1993:510). Our conceptualization of turbulence focuses on factors in the macro environment, including regulatory, economic, political, and social changes affecting the firm's primary and secondary task environments (Achrol et al. 1983). This distinction is important because of the proactive dimension of market-focused strategic flexibility. With this proactive dimension, the firm's intent is to cause disturbance in the primary task environment (e.g., D'Aveni 1999). In this sense, primary task environmental turbulence could be considered as endogenous to market-focused strategic flexibility. However, a variety of factors can drive turbulence. Sometimes, as when it involves the proactive elements of strategic flexibility, it is rooted in the firm's task environment, for example, competition, customers, and the ways of competing. Other times it is science, regulations, economic conditions, and wars across the globe (Tushman and O'Reilly 1996). It is this latter perspective we find of interest in understanding market-focused strategic flexibility.

Evans (1991), among many others (e.g., Buckley and Casson 1998; Hamel and Prahalad 1994), noted that strategic flexibility is crucial, particularly in turbulent environments. This proposition encompasses the traditional implicit responsive view of flexibility. The firm devotes resources and capabilities to being strategically flexible in response to its environment. The corollary logic is that in environments characterized by low turbulence, resources and capabilities devoted to flexibility actually constitute suboptimal levels of slack, contributing to inefficiencies and costs but serving little use. More important, though, slack differs from strategic flexibility in that slack involves an idle bundle of resources not necessarily resulting from capabilities and not necessarily accompanied by intent to create options. In contrast, strategic flexibility implies that options have been generated out of the resource base, along with the options identification capabilities, and are available in the firm.[2]

In predictable and low-turbulence environments, market orientation will not necessarily generate enhanced levels of market-focused strategic flexibility because the firm will simply not require the same options bundle that it would in highly turbulent environments. The firm manipulates and enlarges its options bundle consistently in conjunction with its enactment of environmental change. In contrast, in highly turbulent environments, market-focused strategic flexibility allows for increased reaction speed and an extended scope of strategic options in the firm's market-linking activities. In other words, our premise is that market orientation influences market-focused strategic flexibility, but environmental turbulence modifies the impact for both market-driven and market-driving perspectives, albeit differently.

In situations of high environmental turbulence, the firm's driving perspective with regard to the customer dimension of market orientation leads to a high level of market-focused strategic flexibility. In highly turbulent environments, the firm seeking preemption and market shaping must develop a large and diverse bundle of strategic options and allow for the unfolding of new options and identification of hidden options. This copious and somewhat unpredictable option bundle translates into quite high levels of market-focused strategic flexibility. A highly turbulent environment makes it unlikely that preemption and market shaping will last long. This requires a large number of alternative options that can be used when preemption efforts become obsolete due to changes in the environment. For options to be effective in shaping markets in highly turbulent environments, it is important to

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have options that can accommodate to the environmental fluctuations even though, given the unpredictability of the situation, anticipation is not viable. Having more options available increases the likelihood that the firm has appropriate options to be able to shape the market and, in a fairly real sense, stay ahead of it.

In contrast, with market-driven perspectives, a relatively high level of turbulence will also induce high levels of market-focused strategic flexibility, although not at the levels generated by market-driving perspectives. Turbulence at macro environmental levels trickles down and becomes manifest in the firm's immediate task environment, for example, customers. This means that the firm requires rapid reconfiguration in terms of corrective approaches and thus a substantial options portfolio to respond to the changes.

A logical extension of the above discussion involves the role of market-focused strategic flexibility in conditions of low environmental turbulence. The crucial distinction is whether the orientation is market driving or market driven. With market-driving perspectives, even though at the macro level, the environment may be relatively calm, the firm's intent to shape and develop market structures and direct customer behaviors in its immediate task environment requires a substantial and wide-ranging bundle of options. In other words, to effectively shape and direct markets and customer behaviors, the firm needs high levels of market-focused strategic flexibility regardless of environmental turbulence.

With respect to the competitor driving orientation, we expect a similar pattern. Market-driving competitor orientations in highly turbulent environments result in high levels of market-focused strategic flexibility, that is, large and diverse option bundles involving discontinuous disruption and market structure shaping, for example. However, with a market-driven approach, turbulence has a larger moderating effect. Somewhat similar to driving, market-driven orientations coupled with highly turbulent environments generate high levels of market-focused strategic flexibility in terms of protective responses to cope with the ever changing conditions. In situations of relatively calm environments, a market-driven orientation results in significantly lower levels of market-focused strategic flexibility. In such an environment, competitive activities and signaling will be easier to observe, information flows are more stable and predictable, and uncertainty is less of a problem. Therefore, high levels of market-focused strategic flexibility will tend to be suboptimal and costly to the firm.

In environments characterized by low turbulence, market-driven firms would tend to pursue efficiency to reduce costs, leading to an incremental and relatively invariant options portfolio. Again, in sharp contrast to market driven, we suggest that the moderating effect of environmental turbulence will be less significant when the firm's orientation is market driving. Firms would thus seek out an option portfolio that is larger and more variant. On this basis, we offer the following proposition:

> *Proposition 2:* Environmental turbulence moderates the effect of market (i.e., customer and competitor) orientation on market-focused strategic flexibility, with the moderating effects being greater for market-driven perspectives than for market-driving perspectives.

With driven versus driving perspectives on market orientation, the firm generates different levels of market-focused strategic flexibility. We contend that in environments with relatively high turbulence, market-driven orientations result in a wider disparity in the level of market-focused strategic flexibility. In contrast, with market-driving orientations, the moderating effects should be present but not as strong. When the environment is highly turbulent, the resulting levels of market-focused strategic flexibility will be quite high, while if the environment is relatively calm, market-driving orientations also result in a reasonably high level of market-focused strategic flexibility, although substantially less than in high turbulence.[3]

OUTCOMES OF MARKET-FOCUSED STRATEGIC FLEXIBILITY

Market-focused strategic flexibility is not an end in itself. Its value is in the facilitation and generation of outcomes that benefit the firm, that is, superior economic rewards, strong market positions. The general position from theory is that market-focused strategic flexibility results in enhanced firm performance (e.g., Evans 1991). However, when performance is considered in terms of various time horizons, the effects of market-focused strategic flexibility become less clear. While we suggest that market-focused strategic flexibility affects both short-term and long-term firm performance, we believe that those effects differ substantially. Here it seems appropriate to caution that there are no stock definitions nor even thumb rules for what constitutes short term or long term. The designations of time horizons for short-term and long-term firm performance tend to vary by industry or market. Despite this caution, it seems logical to speak of short-term outcomes generally in terms of cash flows and long-term outcomes in terms of market positions or shares.

In the long term, market-focused strategic flexibility enhances both strategic and financial performance. Strategic outcomes such as advantageous market positions, market shares, and growth, for example, might reflect the long-term effects of market-focused strategic flexibility. Market-focused strategic flexibility allows the firm room to take advantage of opportunities as they come along, and when they do not, it provides the firm with the ability to

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make its own opportunities and generate the competitive advantage by being proactive with regard to products and markets. In addition, in the long run, we generally expect that market-focused strategic flexibility would enhance long-term financial outcomes such as return on assets, for example.

In the short term, on the other hand, the picture changes. Market-focused strategic flexibility introduces costs and investments meant to pay off in an uncertain future. When the firm creates a range of strategic options, the capabilities developed and resources held may increase costs in the short term (Bowman and Hurry 1993; Buckley and Casson 1998; Day 1994). Beyond this, when assets are committed for market-focused strategic flexibility, the firm forgoes its short-term earning potential, introducing the additional burden of opportunity costs (e.g., Dierickx and Cool 1989). Thus, short-term financial performance outcomes, for example, cash flows, may be adversely affected.

As shown in Figure 1, consistent with current theory (e.g., Grewal and Tansuhaj 2001), we suggest that the impact of market-focused strategic flexibility on firm performance is contingent on the level of turbulence in the macro environment. Our arguments are premised in the notion of performance advantages accruing to the firm that is in strategic alignment with its environment (e.g., Zajac, Kraatz, and Bresser 2000). In the short term, responsiveness and efficiency are the main drivers of performance. Table 3 shows how the effects of market-focused strategic flexibility play out in the face of turbulent environments in the short term. Cells (1) and (4) depict the situation of strategic alignment. In cell (1), market-focused strategic flexibility is high, allowing the firm to adapt and cope with changes in its task environment as they trickle down from the macro environmental turmoil. Environmental turbulence demands that firms assimilate, interpret, and use more complex and more unpredictable information (e.g., Gundlach and Achrol 1993). This creates difficulties in planning, coordinating, and implementing marketing strategies (Heide and Weiss 1995) and, consequently, influences performance (Dess and Beard 1984). In such conditions, the firm simply needs more market-focused strategic flexibility to operate effectively. In cell (4) of Table 3, the firm is in a stable situation and does not need adaptive capabilities. The firm is aligned with its environment and need not commit assets to flexibility to enjoy enhanced short-term performance.

Indeed, in the absence of turbulence, holding and investing in flexibility suggests suboptimal use of resources, inefficiency, and misalginment. Cell (2) shows this situation where the effect would be to depress performance in the short run. The unneeded flexibility is a cost burden and a drain on resources that could be more effectively used. Likewise, cell (3) depicts misalignment, except in this case, it is rooted in levels of flexibility too low to adjust to the environment and cope with change, the firm's strategic actions are constrained and limited, resulting in poor performance. In general, in the short term, the reactive perspectives on market-focus strategic flexibility predominate its influence on outcomes in the face of environmental turbulence.

Proposition 3a: Environmental turbulence moderates the effects of market-focused strategic flexibility on short-term performance such that
- a. high turbulence coupled with high market-focused strategic flexibility results in enhanced performance (cell 1, Table 3),
- b. low turbulence coupled with low market-focused strategic flexibility results in enhanced performance (cell 4, Table 3),
- c. high turbulence coupled with low market-focused strategic flexibility results in depressed performance (cell 3, Table 3), and
- d. low turbulence coupled with high market-focused strategic flexibility results in depressed performance (cell 2, Table 3).

The picture becomes more complex when the focus is changed to long-term performance. The proactive components of market-focused strategic flexibility play a more significant role. Table 4 shows these effects. Some researchers argue that the costs invested in better foreseeing the future can reduce the costs of change (Bowman and Hurry 1993; Buckley and Casson 1998), suggesting that market-focused strategic flexibility increases long-term strategic performance when facing turbulent environments. Investments in developing capabilities such as market sensing and options identification will increase costs for the firm (Glazer and Weiss 1993). However, in a dynamic environment, identifying strategic options as early as possible, even anticipating options as the firm acts to induce unfolding options, can improve forecasts and reduce costs of change (Buckley and Casson 1998). Market-focused strategic flexibility equips the firm to anticipate and direct how macro environmental effects play out in the firm's task environment. Thus, as with the short term, cell (1) in Table 4 depicts the situation of appropriate alignment between the environment and the level of market-focused strategic flexibility for strong long-run performance.

From the long-term performance perspective, cell (3) is the most dire situation. The firm has little or no flexibility that it can couple with macro environmental turbulence to generate or induce options. Furthermore, the firm is neither equipped to anticipate options nor even recognize them as they might unfold in its task environment. The firm is in a position such that it cannot take advantage of opportunities nor generate opportunities out of the

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TABLE 3
Proposition 4a: Moderating Effects of Environmental Turbulence on Market-Focused Strategic Flexibility and Short-Term Performance

	Environmental Turbulence	
Market-Focused Strategic Flexibility	*High*	*Low*
High	(1) +	(2) –
Low	(3) –	(4) ++

TABLE 4
Proposition 4b: Moderating Effects of Environmental Turbulence on Market-Focused Strategic Flexibility and Long-Term Performance

	Environmental Turbulence	
Market-Focused Strategic Flexibility	*High*	*Low*
High	(1) ++	(2) 0
Low	(3) --	(4) 0

macro environment. However, for different reasons, the outcomes for cells (1) and (3) are similar in the long and short run.

In the situation of low macro environmental turbulence, the competing pressures for efficiency and proactive options generation offset to neutralize the possible positive or negative effects of market-focused strategic flexibility as shown in cells (2) and (4) in Table 4. In low turbulence, the firm can realize payoffs in efficiency in the long term as well as short term, suggesting that low levels of market-focused strategic flexibility are appropriate for desirable long-term outcomes. However, there are also significant payoffs in creating and generating options, thus inducing change and turbulence in the local task environment (e.g., D'Aveni 1995, 1999). Such proactively controlled orchestration of change allows the firm long-term strategic advantage and eventual superior financial performance. These competing, offsetting pressures suggest that in situations of low turbulence, the effects of market-focused strategic flexibility, either positive or negative, are neutralized. Thus, we propose the following:

Proposition 3b: Environmental turbulence moderates the effects of market-focused strategic flexibility on long-term performance such that

a. high turbulence coupled with high market-focused strategic flexibility results in enhanced performance (cell 1, Table 4),
b. low turbulence coupled with low market-focused strategic flexibility results in no influence on performance (cell 4, Table 4),
c. high turbulence coupled with low market-focused strategic flexibility results in depressed performance (cell 3, Table 4), and
d. low turbulence coupled with high market-focused strategic flexibility results in no influence on performance (cell 2, Table 4).

DISCUSSION AND IMPLICATIONS

As technology unfolds and globalization progresses, firms face ever increasing competition and chaos. Such conditions quickly outpace and overwhelm strategizing in the static tradition. The contemporary marketing strategist coping with the dynamics of constant disequilibrium can address the challenge through market-focused strategic flexibility. In this article, we sought to refine and advance the conceptualization of strategic flexibility, augmenting it with a marketing perspective and a focus on market-linking activities. Building on extant definitions and historical treatments of flexibility, we traced the roots of flexibility and derived some common threads in the literature. On that basis, we reconceptualized and defined market-focused strategic flexibility. We drew on resource-based views of the firm and capabilities development to build a theoretical schema of strategic flexibility. In an integrative model, we related market-focused strategic flexibility to important theoretical concepts in contemporary marketing strategy, market-driven and market-driving orientations. In addition, we related market-focused strategic flexibility to important outcomes for the firm, both financial and strategic performance.

Theoretical Contributions

Theoretically, we offer several contributions. First, we develop and advance the notion of market-focused strategic flexibility. While strategic flexibility is an important construct, it is one that generally has suffered from a lack of theoretical development and has not been considered from strategically crucial marketing perspectives. Therefore, on the whole, it seems surrounded by vagaries and ambiguities. We delineate the concept and sort out the ambiguities. We develop a conceptual schema (to our knowledge, the first) of market-focused strategic flexibility grounded in an integration of RBV and capabilities theory. We suggest that capabilities in the identification and acquisition of a resource portfolio that allows for strategic options, and the capability to deploy these resources, drive market-focused strategic flexibility in terms of a strong bundle of strategic options for the firm. For market-focused strategic flexibility, the resource portfolio consists specifically of resources relevant to market linking. The options bundle focuses particularly on market-linking activities, that is, on products and their positioning and distribution. Although Peteraf (1993) explicitly considered

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ex ante competition in conjunction with RBV, we may be among the first to consider the ex ante role of capabilities. More important, we advance the notions even further and consider them in the genesis of market-focused strategic flexibility.

In addition, our definition explicitly incorporates the notion of intent. A firm with intent will likely be driven to learn and develop the ex ante RBV capabilities as well as the other supporting capabilities. Such a firm will understand the importance of developing and holding strategic options, and this drive will permeate. Intent is crucial because it involves the drive and willingness to develop the necessary ex ante capabilities, to make commitments to the appropriate type of resource portfolio, and to embrace the notion of strategic shift.

Finally, our schema includes one other important contributing capability, options identification capability. Spotting hidden options to be realized in the future compels managers to come to terms with various option paths and how striking successive options closes some paths and creates others. Understanding the paths and patterns of unfolding strategic options essentially enlarges the firm's options bundle.

A crucial issue we address throughout our conceptualization is the assumption of responsive flexibility. Most treatments, implicitly if not explicitly, treat flexibility as a response to the environment. Some critical conceptualizations suggest that it can be proactive as well, yet the proactive aspects often seem lost or forgotten in most of the literature. More important, in our model, we contend that market-focused strategic flexibility can play a crucial role in gaining superior outcomes for the firm even when responding and reacting to the environments is necessarily a major factor. In stable environments, a firm need not have high market-focused strategic flexibility if the firm wishes to maintain its status quo in the industry. However, when the firm is oriented toward driving a market, it is more likely to have a higher level of market-focused strategic flexibility, even though that may introduce some losses in efficiency. In turbulent environments, the level of market-focused strategic flexibility is more likely to be higher if the firm wants to shape instead of follow the market. Therefore, a market-driving perspective in conjunction with a turbulent environment should require the highest level of market-focused strategic flexibility.

Model-Testing Issues

An important implication of our integrative model of market-focused strategic flexibility in marketing strategy is that it generated a number of testable research propositions. Given this intent to offer a testable model, an important next step involves operationalization of the constructs. Firm performance and environmental moderators have an established measurement history, having been measured in numerous studies in a number of fields. Several operationalizations of market orientation exist (e.g., Jaworski and Kohli 1993; Slater and Narver 1994), and further measurement refinements and advances continue in the literature (e.g., Deshpandé and Farley 1998). Preliminary operationalization and validation of constructs consistent with market-driving orientations have begun to appear. Narver et al. (2001) offered an operationalization of proactive market orientation, which along with the conceptual advancements offered here and by others (e.g., Carpenter et al. 2000; Jaworksi et al. 2000) provide a strong foundation for the operationalization of a market-driving orientation.

The essential issue in model testing is the operationalization of market-focused strategic flexibility. Our conceptualization pivots on a number of important notions, two of which specifically offer productive venues for operationalization. First is the role of resources in market-focused strategic flexibility. The firm develops a portfolio of capabilities that creates a bundle of options to be struck with successive chains ensuing. Thus, the measure of market-focused strategic flexibility could be approached in terms of capabilities, or perhaps even through the manager's intent and behavior to generate option bundles. The assessment of capabilities has been addressed in the extant literature. In the marketing literature, for example, Capron and Hulland (1999) demonstrated that capabilities as they relate to market-focused strategic flexibility can be measured.

The second pivotal notion in our concpetualization useful in construct operationalization is options. The essence of market-focused strategic flexibility involves the generation of an options bundle. Thus, market-focused strategic flexibility could be measured through managers' impressions of the extent to which product-market options exist in various projects, their various forms, and their preference for projects that generate options. Managerial impressions of the focus on option generation and identification (e.g., in the selection of new product projects) and the extent to which holding options are valued in the firm could provide avenues for operationalization of the construct.

The integrative framework we propose lends itself to investigation in two ways. First, the relationships of interest may be examined in a controlled environment. Implementing a Markstrat study, for example, allows for the close examination of manipulated environmental influences on the links between market orientations and market-focused strategic flexibility, as well as the impact of market-focused strategic flexibility on firm performance. Second, model testing could be done with survey research. Survey studies could provide insights into questions involving market-focused strategic flexibility and also the surrounding notions such as market sensing and identification of strategic options. Given that these

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capabilities are likely deeply embedded in the firm, they serve as key factors in building and maintaining competitive advantage through continuously contributing to strategic flexibility.

Managerial Concerns

Market-focused strategic flexibility is particularly relevant to managers. As extant research suggests, maintaining organizational slack in order to be flexible or responsive to one's environment does not always pay off (e.g., Clark, Varadarajan, and Pride 1994; Grewal and Tansuhaj 2001). However, the effectiveness of market-focused strategic flexibility depends on the firm's extent and approach to (driven versus driving) market orientation, along with the environment in which the firm operates. In summary, while market-focused strategic flexibility may not always result in superior performance, it may indeed be an important determinant of a firm's performance outcomes in certain circumstances.

Also, we suggest that the effectiveness of market-focused strategic flexibility depends on the firm's exploration and experimentation of threshold levels and satisficing levels of market-focused strategic flexibility. Experimentation provides what may be the only venue for information about the appropriate levels of market-focused strategic flexibility and other such high-level dynamic factors in the firm (e.g., McGrath 2001). However, even through experimentation and exploration, optimal stopping points likely prove illusive, and given the dynamics of the environments faced by many firms, optimal levels of strategic flexibility may be a floating target. It may be more fitting for managers to strive for satisficing levels of market-focused strategic flexibility. That is, rather than relentlessly pursuing on perfect level that maximizes performances outcomes, managers may be better off experimenting with various levels of adjusting to continually enhance rather than maximize performance outcomes.

It is, however, unlikely that any clear-cut normative prescriptions will emerge regarding the calibration of market-focused strategic flexibility at this point. Nevertheless, managers can benefit from our conceptualization by understanding that (1) operational and tactical flexibility do not necessarily result in market-focused strategic flexibility; (2) the creation of strategic options requires the development of critical resource identification, acquisition, deployment capabilities, and option identification capabilities within the firm. Since these are tacit, culturally embedded capabilities, they are difficult to develop, but once present within a firm, enhance its sustainable competitive advantage; (3) strategic options are useful only if the firm is willing to strike at some point in time; and finally, (4) market-focused strategic flexibility will result in better performance only if a firm focuses on providing superior value to its customers, regardless of whether the firm is responding to a shift in the market or inducing this shift.

The conceptualization and model we propose provides a way for managers to approach marketing strategy in dynamic conditions. The framework we provide may alter mental models used in strategizing. Strategic flexibility with emphasis on products and markets may allow managers to be more effective and result in superior firm performance.

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NOTES

1. Assuming that all real options arising from market sensing are good and that option identification capability ensures that the firm uncovers options that are good.

2. We thank one of the reviewers for pointing out this important distinction.

3. It is important to note that market-focused strategic flexibility is continuous rather than a two-state characteristic, although we dichotomize the degree of market-focused strategic flexibility into high and low levels to more succinctly develop our propositions.

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