Frontiers of Entrepreneurship Research

Volume 26 | Issue 15
CHAPTER XV. GOVERNANCE

Article 7

6-10-2006

FIRM SIZE, ORGANIZATIONAL FLEXIBILITY, AND PERFORMANCE: DO SMALL FIRMS HAVE A COMPETITIVE ADVANTAGE OVER LARGER FIRMS? (SUMMARY)

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SUMMARY

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Principal Topic

Firm Size and Organizational Flexibility

Large firms are at a resource advantage vis á vis smaller firms through superior access to resources, greater market power and recognition, and economies of scale and scope. Small firms are assumed to counter these resource disadvantages with flexibility. The flexibility argument, however, is often presented as an implicit assumption or taken for granted, approached as a unidimensional concept, or investigated only concerning specific resources and capabilities. The present study advances the resource-based view to develop refutable implications for the relationship between firm size, organizational flexibility and firm performance.

The dynamic capabilities that endow firms with flexibility are manifested at different levels, which can be considered a hierarchy of capabilities with operational flexibility, structural flexibility, and strategic flexibility.

We hypothesize that SMEs, being less capital intensive compared to large firms, will exhibit higher levels of operational flexibility. Further, SMEs are generally less bureaucratic and we hypothesize that size is negatively related to structural flexibility. At a strategic level, SMEs obtain flexibility from their portfolio external resources and certain resources that allow them to overcome some barriers relatively easy and exploit certain industry opportunities more readily than large firms. We hypothesize that size is negatively related to strategic flexibility.

Method

Data was collected from 1231 firms using a structured questionnaire. Scale items and the model's dimensions have been tested. Firm size was measured by the number of employees. Performance was measured using subjective items, which showed to be consistently significant with objective performance measures.

Results and Implications

Results indicate that firm size is indeed negatively related to operational, structural and strategic flexibility. We also found a positive moderating effect of firm size on the relationships between the various dimensions of organizational flexibility and firm performance. Large firms exhibit high levels of performance when endowed with high levels of flexibility, suggesting that avoidance of the competence trap creates competitive advantage. Contrarily, the relationship with performance is negative for SMEs. This implies that SMEs, naturally endowed with high levels of flexibility, should focus not so much on increasing their flexibility, yet on decreasing flexibility to develop exploitative routines and escape a renewal trap.

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