

Global uncertainty may force businesses to rely on flexibility rather than efficiency

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Most businesses have never faced an era when uncertainty is so rampant.

While companies are inherently used to dealing with risk, few are

prepared for total unpredictability. That's the premise of a new article by Minyoung Kim, associate professor of strategy and international business at the University of Kansas.

"Branching and Anchoring: Complementary Asset Configurations in Conditions of Knightian Uncertainty" appears in the *Academy of Management Review*. It's part of a special issue on the implications of uncertainty for management and organization theories.

"We highlight how firms may unknowingly direct complementary assets in ways that favor current value appropriation at the expense of future value creation. Their efforts to capture a larger slice of the pie may end up with a smaller pie, negatively impacting [firm performance](#), especially in these times of uncertainty," Kim said.

The article (co-written with Curba Morris Lampert and Francisco Polidoro Jr.) maintains that previous studies assume relevant assets and asset configurations are generally well-known to an innovating firm. This assumption is applicable under conditions of risk, where decision-makers can know outcomes and probabilities. What is less known is how these insights apply under conditions of Knightian uncertainty.

Coined by economist Frank Knight in 1921, Knightian uncertainty refers to a total lack of quantifiable knowledge about a possible occurrence. "Branching and Anchoring" advances a theory that accounts for these Knightian conditions, thereby aligning with contemporary realities surrounding innovating firms.

"Risk is something you can predict. If you flip a coin, over time you know that half will be heads and half will be tails. The nature of choice between heads and tails involves a risk because you can bet with these probabilities. So, in conditions of risk, you can distribute your investment into certain proportions against different outcomes that you

may expect," Kim said.

"But uncertainty means there's nothing you can do about it beforehand. You know neither the outcomes nor the probability. I would call that the 'unknown unknown.' This could be a natural disaster or Brexit. If you knew, you might prepare against it. But you don't know that you don't know."

Kim explains how firms try to be efficient by allocating their supply chain management systems in the most optimal way. That works in conditions of risk because they can calculate the likelihood of those things. In conditions of uncertainty—such as the coronavirus pandemic—what they consider an efficient system can turn into a rigid one. And they're not able to turn this into a more flexible way to deal with a new reality.

"We can witness how small U.S. firms as well as major [firms](#) such as Apple or Nike suffer from the disruption in the [global supply chain](#) due to the pandemic. That's one of the most relative areas of application," he said.

He can also study, for example, how a medical supply company might deal with Knightian uncertainty.

"Say a firm with an efficient global supply chain came up with an innovative face mask," he said. "But the firm may not be able to distribute the face mask in a timely fashion and in the needed scale if unexpected events such as the pandemic or closure of national borders happen in the country where its manufacturing activities are located. In this situation, the firm may be better off geographically dispersing its manufacturing activities and secure flexibility, although it means they need to sacrifice efficiencies."

Kim is in his eighth year at KU. His research studies the intersection between strategic management and international business.

"Basically, we advance a new theory that argues there's a trade off between efficiency and flexibility that is important, especially when the business environment is volatile," Kim said. "So managers may want to achieve more flexibility in times like these, even if they need to sacrifice a little more efficiency."

More information: Curba Morris Lampert et al. BRANCHING AND ANCHORING: COMPLEMENTARY ASSET CONFIGURATIONS IN CONDITIONS OF KNIGHTIAN UNCERTAINTY, *Academy of Management Review* (2020). [DOI: 10.5465/amr.2018.0238](https://doi.org/10.5465/amr.2018.0238)

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