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5th INTERNATIONAL STRATEGIC MANAGEMENT CONFERENCE

**“Striking the Right Balance Between Existing Strategy and
New Opportunities with Special Emphasis on Turbulent Markets”**



**Proceedings of 5th International
Strategic Management Conference**

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TABLE OF CONTENTS

CRISIS MANAGEMENT & GOVERNANCE

<i>The Changing's Of Share Price In The Financial Crisis: A Comparative Study For Auto Makers (EROL EREN, SERDAR ALNIPAK, METIN UYAR)</i>	3
<i>Global Economic Crisis Management From Strategic Management And Marketing Perspectives: The Case Of Textile Industry (ESIN BARUTÇU, CELALETTIN SERINKAN, SÜLEYMAN BARUTÇU)</i>	15
<i>Nightmare Of Insurance Directors: Effects Of Global Crisis On Turkish Health Insurance Business (AYÇA TÜKEL, ONUR YARAR, OĞUZ ÖZYARAL)</i>	23
<i>Changes In Economy Policies After Global Financial Crisis And Their Effects on Developing Countries : The Case Of Turkey(ENGIN ERDOĞAN, MELIHA ENER)</i>	33
<i>Performance Measures Along The Relational Continuum In A Bilateral Governance Structure(QUAMRUL ISLAM)</i>	41
<i>The Forms Of The EU Governance And Construction Of The EU Borders (FILIZ COBAN)</i>	49
<i>Corporate Governance: Problems And Relationship Between Board Of Directors, The Chief Executive Officer, And Top Management Integration To European Banking Legislation (GÜRAN YAHYAOĞLU)</i>	55

STRATEGIC LEADERSHIP & STRATEGIC ALLIANCES - AMBIDEXTERITY

<i>Hosting Strategic Conversations: Some Alternative Approaches For Leaders (MARIUS UNGERER)</i>	69
<i>The Relationship Between The Strategic Influencing Skill And Intra-Organization Communication In Leadership And A Chain Store Application (MEHMET TIKICI, SELMA KARATEPE, MEHMET DENİZ, SINEM GÜRAVŞAR GÖKÇE)</i>	83
<i>Creativity For Gaining And Sustaining Competitive Advantage: The Role Of Leadership Styles (A Quantitative Research In Turkey's Top 500 Industrial Enterprises In Iron And Steel, Automotive And Textile Industries)(F. OBEN ÜRÜ, UĞUR YOZGAT)</i>	93
<i>The Effects Of Leadership Styles And Organizational Culture On Firm's Innovativeness (ETHEM DUYGULU, EMİR ÖZEREN)</i>	109
<i>A Qualitative Study Of Key Success Factors For Multinational Corporations Operating In Sub-Saharan Africa (A.C. PARKER, J. HOUGH, E.W. NEULAND)</i>	123
<i>Strategic Alliances And The Impacts Of Star Alliance Network On Turkish Airlines (ÖZLEM ATALIK, ALI HALICI)</i>	135
<i>Attitudes Towards Strategic Supplier Alliances In The Natural Stone Supply Chain: The Case Of Global Companies (SÜLEYMAN BARUTÇU, MUSTAFA TANYERİ, ŞÜKRÜ GÖREN)</i>	147

INTERNATIONAL INTEGRATION & FOREIGN DIRECT INVESTMENT

<i>China-Africa Cooperation In The 21st Century: Analysis Of The Obstacles And Challenges To Good Cooperation (KIERAN E. UCHEHARA)</i>	493
<i>Management Of The Governmental Support Of Russian Agro-Industrial Complex On Entering The World Market (KUZNETSOV N.G., OVCHINNIKOV V.N., SOLDATOVA I.Y., CHURIKOVA K.S.)</i>	503
<i>Effective International Expansion Strategies Of Developing Countries: Some Preliminary Evidence From The Turkish Manufacture And Export Of Television Sets (TANSES GÜLSOY, ÖZLEM ÖZKANLI, RICHARD LYNCH)</i>	511
<i>Turkey's Role In Process Of Eurasian Economic And Strategic Integration (SEFER ŞENER, MESUT SAVRUL, CÜNEYT KILIÇ, YEŞİM KARADAĞ)</i>	533
<i>Purchasers' Involvement In Sustainable Development: Great Expectations And Various Realities (FABIENNE FEL)</i>	545
<i>Policies And Strategies For The Promotion And Attraction FDI In Services (VESNA BABIĆ-HODOVIĆ, ELDIN MEHIĆ)</i>	555
<i>The Relationship between Subsidiary Size And Subsidiary Autonomy In Turkish Outward Foreign Direct Investments (İBRAHİM ANIL, BINALI DOĞAN)</i>	567

STRATEGIC HUMAN RESOURCE MANAGEMENT & ORGANIZATIONAL BEHAVIOR

<i>The Relationship Between Strategic Management, Human Resource Management And Knowledge Management In Higher Education Institutions (LOGANATHAN NARAYANSAMY GOVENDER)</i>	583
<i>The Employee Satisfaction In Banking Sector: The Differences Between The Employees In Virtual Banking And In The Branches (FATMA ZEHRA SAVI, MÜRTAZA ÖNAL)</i>	597
<i>Strategic Human Resource Information Systems (SIAMAK AZADI)</i>	607
<i>Emotional Human Resource Management (TANJU ÇOLAKOĞLU)</i>	613
<i>The Moderating Role Of Formalization In Determining The Effects Of Strategic Flexibility And Perceived Risk On Affective Organizational Commitment (MEHMET ŞERİF ŞİMŞEK, ŞEVKİ ÖZGENER, METİN KAPLAN, ASLI KAPLAN, GÖKŞEN TOPUZ)</i>	619
<i>Are The Workers And Managers Having Same Level Commitment To Organization? A Research In Organizational Echelons With Logistic Regression Model With Implication Of Quasi Variance (ASLI EKMEKCI, NILAY YUCEL, MURAT KASIMOĞLU)</i>	629
<i>The Process Of Cross-Cultural Business Negotiations: A Comparison Of American, Japanese And Turkish Approaches (SİBEL NİTELİK)</i>	637
<i>A Research To Determine The Stress Factors On The Employees That Are Dismissed Due To The Downsizing Strategy (BÜNYAMIN AKDEMİR, SİNEM GÜRAVŞAR GÖKÇE)</i>	647

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THE MODERATING ROLE OF FORMALIZATION IN DETERMINING THE EFFECTS OF STRATEGIC FLEXIBILITY AND PERCEIVED RISK ON AFFECTIVE ORGANIZATIONAL COMMITMENT

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ABSTRACT

The purpose of this study is to investigate the moderating role of formalization in determining the effects of strategic flexibility and perceived risk on affective organizational commitment in tourism industry. The findings of the research indicated that strategic flexibility and perceived risk were found to be positively related to affective commitment for the senior executives and middle managers. Moreover, the participants suggested that the interaction of perceived risk and formalization had a negative effect on affective commitment. Formalization moderated only the relationship between perceived risk and affective commitment. Finally, practical implications are discussed, and suggestions for the future research are made.

Key words: Strategic Flexibility, Perceived Risk, Affective Commitment, and Hotel Businesses

INTRODUCTION

Tourism, now a universal practice, is flourishing rapidly to become one of the leading industries in the world today. Based on the intense competition and globalization in the sector, value creating, speed, quality and cost have become the fundamental dimensions of the sustainable competition especially in terms of the hotel businesses. Therefore, the hotel managers focus on formalization and strategic flexibility. To be obtained benefits anticipated from strategic flexibility and formalization depends on managers' risk perceptions and hotel employees' affective commitment to organization. Undoubtedly, it is known that managers encounter some difficulties to solve problems in this respect. In order to overcome the mentioned difficulties, the number of the guiding researches that analyze the relationships between strategic flexibility, perceived risk, formalization and affective commitment is also relatively limited. Thus, this study will investigate the moderating role of formalization in determining the effects of strategic flexibility and perceived risk on affective organizational commitment in hotel businesses.

Strategic Flexibility

In strategic management literature, strategic flexibility is a critical organizational competency in creating continuously customer value and generating competitive advantage leading to success and survival in the 21st Century. Flexibility, as a competitive priority, is possible thanks to volatile markets, shorter life cycles,

affective commitment, strategic leadership, core competences, new technologies, formalization, flexible structures and culture (Hitt et al., 1998: 39; Gomez-Gras and Verdu-Jover, 2005: 842).

Strategic flexibility refers to the ability to precipitate intentional changes and adapt to environmental changes through continuous changes in current strategic actions, asset deployment, and investment strategies (Nadkarni and Narayanan, 2007: 245).

Strategic flexibility helps firms manage risks better by responding in a proactive or reactive manner quickly (Celuch et al., 2007: 190). Flexible firms exhibit both diversity in strategic responses and rapid shifts from one strategy to another (Nadkarni and Narayanan, 2007: 245). In this context, small firms, relative to larger firms, are more likely to achieve strategic flexibility as a result of entrepreneurial alertness and faster response and implementation times (Celuch et al., 2007: 190). Strategic flexibility depends both upon a firm's resource flexibility and on the firm's ability to flexibly apply those resources to alternative courses of action when necessary. This allows the firm to have strategic options when dealing with dynamic environments (Lin and Chen, 2009: 826). While strategic flexibility may entail a number of organizational capabilities and resources, two organizational capabilities (product flexibility and cross-functional coordination) are most crucial to a firm's ability to pursue a variety of strategic options in response to the demands of changing markets (Zhang, 2005: 166). Furthermore, strategic flexibility is built on the planned emergence perspective, as managers incorporate different mechanisms in their strategic planning processes, routines, or norms to adapt or change the formalized strategic plan to more adequately reflect the needs required to compete in global markets (Dibrell et al., 2007: 28-29). In hotel businesses, the strategic flexibility is substantially crucial in terms of cross-functions collaboration, unconditional customer satisfaction, speed, and service quality. In the sector, the businesses particularly need the strategic flexibility thanks to entrepreneurial alertness, quick response and effective resource utilization.

Perceived Risk

Perceived risk in the study is a one's anticipation of adverse consequences and feelings of uncertainty regarding the services provided by the organization (Johnson et al., 2008: 355). Perceived risk, therefore, is a function of the unexpected results of adoption and an outcome that deviates from expectation. Perceived risk may negatively influence the decision to adopt new products (Hirunyawipada and Paswan, 2006: 186). Perceived risk is also seen to stem from a number of commonly identified elements—product, purchase situation, people, culture, financial, performance, time or physical, social, and psychological risks (Mitchell, 1999: 167). Managers are more concerned about negative outcomes (losses) rather than positive outcomes (gains), and often tend to define risk only in terms of negative outcomes (Forlani et al., 2008: 294).

Previous studies have shown that the greater the perceived risk, the greater the number and types of information sources consulted by managers (Yeoh, 2005, 181). Managerial risk perceptions play a more vital role in managers' ultimate decisions than purely normative or otherwise objective risk assessments. When the managerial perceived risk literature is viewed, the most significant findings are classified in three groups (Forlani et al., 2008: 295):

- (1) managers tend to define risk in terms of the amount of money that could be lost;
- (2) managers tend to believe that risk can be controlled through managerial ability and talent; and
- (3) managers will revise objective risk assessment reports until the estimates match their preconceived perceptions.

Formalization

Formalization is the degree to which decisions and working relationships are governed by formal rules, standard policies and procedures (Daugherty et al., 1992: 50). Formalization is a core dimension of organizational structure. Formalization provides a shared language that facilitates communication and control social actors' behavior and outputs (Bodewes, 2002: 215-221). Formalization is comprised of both codification and observation. Codification is the placement of rules, procedures, and regulations in writing. Observation is the degree that employees are informed of the codification, and the degree that they are expected to follow the rules and regulations (Lambert et al., 2006: 28).

Formalization may allow individuals to make more objective decisions about whether to internalize the organization's goals as their own (Michaels et al. 1996:11). It also features in related fields such as

technology management, strategic flexibility, organizational behavior and organizational communication (Bodewes, 2002: 215).

Formalization is believed to enhance performance by eliminating ambiguity, reducing risk, developing rules and procedures to routinize repetitive activities and transactions, and clarify priorities (Daugherty et al., 1992: 50). The objective of formalization is to prescribe what is to be done rather than how it is done (Daugherty et al., 1992: 51). While empirical investigations into the nature of formalization support the contention that formalized organizations tend to clarify priorities and avoid ambiguity, there is also an indication that formalized organizations tend to be less innovative and adaptive than organizations less formally organized (Daugherty et al., 1992: 51). By taking into account the short crisis period that often takes place in the global market, rapid technological changes, and rapid changes in customers' preferences, this study will investigate whether or not formalization play the role of moderator in terms of the effects of strategic flexibility and perceived risk on affective organizational commitment in hotel businesses.

Affective Commitment

In recent years in the tourism sector as in many industries restructuring, outsourcing, delayering and rightsizing have been considerably prevalent. This trend causes great concern related to the nature of the job security within the context of the employment and psychological contract. Undoubtedly, employees who feel affective commitment to their organizations are more likely to overcome the turbulent processes.

Affective commitment refers to the employee's emotional attachment to, identification with, and involvement in the organization (Allen and Meyer, 1990). Affective commitment is the extent to which employees are involved with and have attached emotionally to their organizations because they identify with the goals and values of their organizations (Addae et al., 2008: 569).

Individuals with a high level of affective commitment continue to work for an organization because they want to (Aube' et al., 2007: 481). Affective commitment is considered to be the product of an exchange between employee and organization, whereby individuals bring skills to the workplace, expecting to find an environment in which their abilities can be productively used and their basic needs can be met (Abraham, 2000: 275).

Affective commitment has positive effects on employees' organizational behaviors, for instance, intention to quit, turnover and job performance (Luchak and Gellatly, 2007; Vandenberghe et al., 2007). In addition, keeping the qualified employees in the businesses, benefiting from the advantages of tacit knowledge and responding to changing customer needs at once in the global competition is vital for the hotel businesses. Strategic leadership, flexibility structures, high performance teams, participatory management, organizational support, alternative work arrangements and empowerment have a crucial role in increasing affective commitment of employees in these businesses

In this context, the research objective of this study is to investigate the moderating role of formalization in determining the effects of strategic flexibility and perceived risk on affective organizational commitment in tourism industry.

There have been few studies which have demonstrated the relationships between formalization, strategic flexibility, perceived risk and affective commitment. Roca-Puig et al. (2005) examined the fit between employees' commitment to organization and strategic flexibility. They suggested that the greater the degree of strategic flexibility, the greater the positive effect of organizational commitment on performance. Morris and Steers (1980) analyzed structural influences on organizational commitment. The results showed that formalization was positively associated with organizational commitment. On the other hand, Bowen and Chen (2001) investigated the relationship between customer loyalty and customer satisfaction in hotels. According to the results, positive word-of-mouth decreased customer's perceived risk in hotels. Finally, Johnson et al. (2008) discussed the relationship between customer satisfaction, perceived risk and affective commitment. The findings of the research showed that there was no indication of current perceptions of risk having a detracting effect on commitment. In the light of these findings, the research model has been designed as following:

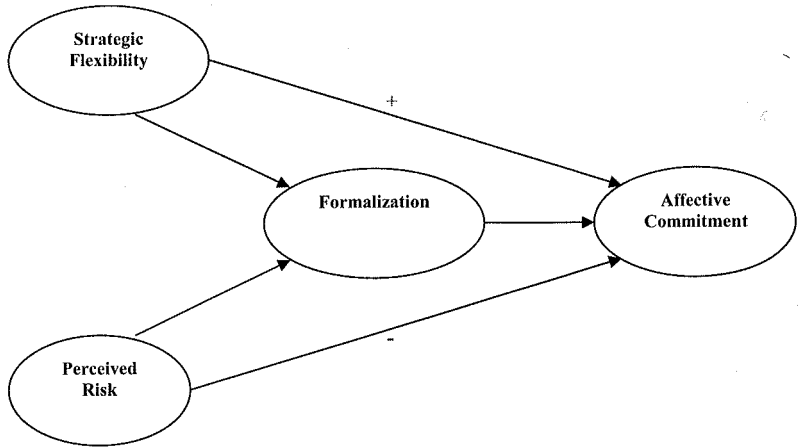


Figure 1: Research Model

The hypotheses developed in this context of the model are as follows:

- H1:** Strategic flexibility positively influences affective commitment.
- H2:** Perceived risk negatively influences affective commitment.
- H3:** Formalization will moderate the relationship between strategic flexibility and affective commitment.
- H4:** Formalization will moderate the relationship between perceived risk and affective commitment.

METHODOLOGY

The sampling consists of senior executives and middle managers in hotel businesses licensed by the Tourism Ministry in the Cappadocia Region, Turkey. 24 hotels (five-star, four-star, three-star) take place in the region of Cappadocia. Nearly 110 senior executives and middle managers are estimated to serve in these hotels. More than one executive in the same hotel responded to the questionnaire in this study. Interviewers were used to distribute questionnaires to hotel businesses. 110 questionnaires were distributed. 77 questionnaires were returned. This represented an overall response rate of 70%. Affective commitment was designated as the dependent variable in this study while strategic flexibility and perceived risk were considered as the independent variables. Existing scales were adopted to measure all three constructs. Moreover, formalization as a moderator variable was used in the relationships between dependent and independent variables. *Strategic flexibility* is measured with six-item Likert scale ranging from 1 “not at all flexible” to 5 “very flexible”, taken from the work of Barringer and Bluedorn (1999). The instrument had reliability (Cronbach’s alpha) of 0.91. Usually, a value of 0.70 in the Cronbach’s alpha is considered adequate in order to ensure reliability of the internal consistency of a scale (Nunnally, 1978). To measure *perceived risk*, we used the six items perceived risk scale adopted by Sweeney et al. (1999) and Forlani, et al. (2008). Participants responded on a 5-point Likert-type scale dictating to the extent which they agree with each statement as it reflected their present work environment (1= strongly disagree, 5= strongly agree). The scale showed adequate reliability. The Cronbach’s alpha coefficient was 0.85. On the other hand, to measure *formalization*, we used six items scale adopted from Oldham and Hackman (1981) and Finlay et al. (1995). The six items were answered by a five-point Likert-type response scale ranging from strongly disagree to strongly agree. The instrument had reliability (Cronbach’s alpha) of 0.86. In this study, *Affective commitment* was measured using eight-item scale developed by Allen and Meyer (1990). Each item was linked to a five-point Likert response scale ranging from “strongly disagree” (1) to “strongly agree” (5). This scale is reliable (0.85)

THE RESULTS

The demographic profiles of senior executives and middle managers are shown in Table 1. 16.9% of participants that responded to the questionnaire were female and 83.1% were male. In terms of education

levels, 58.4% of participants had graduated from secondary school and 16.9% from high school. 23.4 percent of the participants had a bachelor's degree and 1.3% had a master's degree or higher. Participants held a variety of positions in hotels. They included Senior Executives (41.6%), Director (18.1%), Division Manager (13.0%) and Owners (27.3%). 49.4% of those responding had more than 5 years of managerial experience. 54.6% of the participants' age ranged from 26 to 40.

Table 1: Demographic Characteristics of Sample

Characteristics	%		Characteristics	%	
<i>Size of business (number of employee)</i>			<i>Managerial experience (number of years)</i>		
1 to 25			0-5		
26 to 50	3.9		6-10	9	0.6
51 to 75	2		11-15		
76 to 100	4.5		More than 15	8	3.4
100 or more	5				
		2.5	Gender	6	0.8
Hotel age			Female		
0-5	1.3		Male		5.2
6-10					
11-15	7.8		Age		
16 or more	3		Less than 25	3	
			26-30		6.9
Hotel Category	0		31-40	4	
Five-star	9.91		40 or more		3.1
Four-star	7	3.0			
Three-star	7	2.1	Education Level of		
			Participants		
Organizational title/rank			Secondary school	8	7.8
Senior Executives		5.0	High school		
Director			Bachelor's degree	4	3.4
Division Manager	0		Master's degree or PhD	9	1.2
Owners	3	6.0			
	4	2.9	Status of a person		
		1.1	Married		7.6
			Single		
				5	
				3	8.4
				8	6.9
	4	1,6			
					3.4
	0	8.1			
					1.3
	1	3.0		3	
		7.3		4	
					8.8
					1.2

N=77

Table 2 presents descriptive statistics and correlations of the study variables. According to senior executives or middle managers, strategic flexibility was found to be positively related to affective commitment at the 0.05 level. Thus, the results supported H1. Perceived risk ($r=0,315$; $p<0,01$) and formalization ($r=0,326$; $p<0,01$) were also found to be positively related to affective commitment. Namely, H2 was not supported.

Table 2: Descriptive Statistics and Inter-correlations among Study Variables

Variable	Mean	Std. Dev.	1	2	3	4
1. Strategic Flexibility	3,43	1,08	(0.91)			
2. Perceived Risk	3,29	0,91	,071	(0.85)		
3. Formalization	3,18	1,02	,312(**)	,198	(0.86)	
4. Affective Commitment	3,38	0,82	,246(*)	,315(**)	,326(**)	(0.85)

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Regression analysis was used to test the moderating role of formalization in determining the effects of strategic flexibility and perceived risk on affective organizational commitment for senior executives and middle managers. The variance inflation factors (VIFs) associated with each regression coefficient (ranging from 1.041 to 1.429) was all smaller than the suggested threshold of ten indicating that multi-collinearity is not a problem. Furthermore, correlations between variables ranged from 0.326 to 0.071 and were significant at a minimum level of 0.01. Given that none of the bivariate correlations was greater than 0.80, we can assume that multi-collinearity is not a problem in data. Moreover, unstandardized regression coefficients to analyze and interpret the effect of an independent variable on a dependent variable were used in this study (Akdogan et al., 2008: 244). Cohen and Cohen (1983) strongly suggested the use of unstandardized regression coefficients if there is no theoretical or empirical background to use standardized ones.

Using the hierarchical regression analysis, this study analyzed the moderating role of formalization in determining the effects of strategic flexibility and perceived risk on affective organizational commitment of senior executives and middle managers.

Table 3 present the results of the effect of formalization on the relationships between independent variables (strategic flexibility, perceived risk) and affective commitment. The baseline Model 1 contains control variables. Model 2 introduces strategic flexibility, perceived risk and formalization, and Model 3 includes the interaction effects on affective commitment.

Table 3: The Results of Hierarchical Regression Analyses: The Effects of Strategic Flexibility and Perceived Risk On Affective Commitment

Independent variables entered	β	S.E	t-value	R ²	R ² Change
<i>Model 1 F(4-72) = 1,589</i>				0.08	
Gender	,37	,25	1,487	1	
Age	,14	,07	1,883		
Education	-,018	,10	-,166		
Managerial experience	-,098	,11	-,883		
<i>Model 2 F(7-69) = 3,140</i>				0.24	0.16
Gender	,26	,23	1,144	2	0
Age	,11	,07	1,534		
Education	-,069	,10	-,669		
Managerial experience	-,095	,10	-,901		
Strategic	,07	,09	,832		

flexibility	5	0		
Perceived Risk			,10	2,179*
	,221*	2		
Formalization			,09	2,106*
	,195*	3		
<i>Model 3 F(9-67)= 3,365</i>				
			0.31	0.07
Gender			1	0
	,27			
	6	8	,22	1,212
Age			,07	1,432
	,10	8		
Education			,10	-,725
	-	0		
Managerial experience	,072			
	-		,10	-1,173
Strategic flexibility	,120	2		
Perceived Risk			,26	-,404
	-	2		
Formalization	,106		,26	3,240*
	,871**	9		*
Strategic flexibility*Formalization			,38	2,040*
	,794*	9		
Perceived Risk*Formalization			,08	,679
	,05	5		
Formalization			,08	-2,591*
	,230*	9		

Notes: β indicates unstandardized regression coefficient. * $p < 0.05$; ** $p < 0.01$

Dependent variables: Affective Commitment

The results showed that Model 3 was significant ($R^2=0.311$; $F_{(9-67)} = 3.365$; $p < 0.05$). For affective commitment of senior executives and middle managers, Model 3 shows that the interaction between strategic flexibility and formalization is positive but not significant ($\beta = 0.055$; $p > 0.05$). Thus, H3 was not supported. That is, formalization did not moderate the relationship between strategic flexibility and affective commitment. On the other hand, the interaction of perceived risk and formalization had a negative effect on affective commitment ($\beta = -0.230$; $p < 0.05$), thereby meeting H4. The interaction term explained additional 7.0 percent of the variance in affective commitment. Formalization moderated only the relationship between perceived risk and affective commitment.

CONCLUSION

In this study, the effects of strategic flexibility and perceived risk on affective commitment were analyzed. According to the senior executives and middle managers, affective commitment was found to be positively related to strategic flexibility, perceived risk and formalization. The present findings are consistent with previous studies (Roca-Puig et al., 2005; Morris and Steers, 1980; Bowen and Chen, 2001). Unlike previous studies, the interaction between strategic flexibility and formalization does not have a significant effect on

affective commitment. Namely, formalization did not moderate the relations between strategic flexibility and affective commitment. However, the findings of the research suggested that the interaction of perceived risk and formalization had a negative effect on affective commitment. Shortly, formalization moderated only the relationship between perceived risk and affective commitment.

The findings of this study need to be interpreted with the following limitations in mind. First limitation is that the results cannot be construed to be representative of all senior executives and middle manager in hotel businesses around the world due to the highly limited nature of the sample. Therefore, the study needs to be replicated in different industrial settings. Moreover, since these findings may be subject to cultural and economics factors, there is also a need to replicate the study in cultural and economic contexts that differ from the present one. Second, participants may have been biased to present positive aspects of their businesses. Thirdly, we relied on a new scale to assess the dimensions of perceived risk. The scale used at this research hasn't proven reliability in many different settings/countries. As with any new measure; further tests in additional samples would help to establish our confidence in it.

There are several potential areas for future research. First, the relationships between social-identity functions and perceived risk are in need of investigation. Second, it would be interesting to establish the specific reasons of strategic flexibility for different industries or organizations.

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