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Organizational Performance as an Outcome of Adaptive Capability: A Review of Literature

Leonard Warui Mwangi, Godfrey Kinyua, PhD, Anne Muchemi,PhD

Department of Business Administration, School of Business, Kenyatta University

Corresponding Authors:** ***Leonard Warui Mwangi, *Department of Business Administration, School of Business, Kenyatta University, Kenya*

Abstract: *Discontinuous environmental changes that are inconsistent with organizations dominant logics can create crises for companies. Organizations must increasingly deal with discontinuous, complex and unpredictable change. Learning to respond to weak signals of environmental changes constitutes the development of dynamic capabilities for environmental adaptation, or what is simply called, adaptive capabilities. Adaptive capabilities can help to trigger and guide strategic renewal processes. The difference in firm performance depends on the ability of the adaptation, namely the firm's efforts to understand and adapt to threats and opportunities from environmental change. Enhancing adaptive capabilities enables firms to gain a competitive advantage while also improving performance. The study entails conceptual literature, theoretical literature, empirical literature as well as proposed theoretical model. The purpose of the study is to review existing conceptual, theoretical and empirical literature on adaptive capability and organizational performance with a view to highlighting the knowledge gaps suitable to form basis for future research work. Existing empirical literature on the relationship between adaptive capability and organizational performance have been conducted in developed countries using small samples hence diversity of contextual variables. The review also revealed key indicators of organizational performance as one of the outcomes of adaptive capability in organizations. From the reviewed literature, a set of relationships for the dimension of adaptive capability and organizational performance were modeled as a guide for future research work in the field of strategic management.*

Keywords: *Adaptive Capability, Competitive Advantage and Organizational Performance*

1. INTRODUCTION

Understanding the determinants of firm performance has long been a key goal within organizational research (Short, McKelvie, Ketchen & Chandler, 2009) because performance is considered the most important criterion in evaluating organizations, their actions, and environments. The current business environment is characterized by rapid changes in customer preferences, technology, and competition. Companies must be more creative to sustain their survival efforts. Innovative ability, organizational learning, market orientation, and entrepreneurial ability become the main ability for an organization to achieve profit competitiveness (Hult & Ketchen, 2001; Hurley & Hult, 1999). Taouab and Issor (2019) conceptualized firm performance in terms of the extent to which firms achieve their goals. The concept of firm performance is based on the idea that a firm is an interaction of productive resources to create value. Therefore, as the organization creates a value that meets or exceeds the value that its providers expect, resources will continue to be made available and the firm will continue to survive and prosper (Gavrea, Ilies & Stegerean, 2011). To effectively achieve performance, most organisations are working hard to achieve adaptive capability. Adaptive capability helps to develop and improve the performance of organizations (Zulfiqar, Hongyi, & Murad, 2017).

Adaptive capability encompasses basic processes and activities such as financial management and operational planning, data collection and analysis, prediction of events, superb operational efficiency, risk management and higher rate of financial returns (Wu, Chen, & Olson, 2017). Adaptive capability helps the organization to keep abreast with stiff competition in the market. Through adaptive capability managers notice organization's performance shifts as they emerge, hence act diligently to pre-empt competitors' tactics and maintain the targets (Awuah, 2016). Adaptive capability turns valuable decisions to an economic advantage, allowing the firms to foresee future trends and provide economic security (Courbe, 2016). It is through adaptive capability that organizations can make informed decision for growth and expansion. This is because adaptive capability is aboutforesight, vision, system thinking and motivation (Alhamadi, 2020).

In other words, adaptive capability is the mind of the organization hence aims to understand and foresee the future of the organization and finds ways to maintain its competitiveness (Alomian, Alsawalhah, & Almarshad, 2019). Thus, it is a prerequisite for business success, it improves various information processes and increase value in the operation processes (Rajnoha, Štefko, Merkova, & Dobrovič, 2016). In this case firms engage adaptive capability to make better decisions. Adaptive capability plays a role of transformation, changing or upgrading systems,hence creating more agility and operational efficiency (Harms, 2018). This is an indication that adaptive capability leads to innovation, resulting to superior performance and high return on equity. Moreover, manager's ability to grow an organization or entrepreneurial behaviour is related to adaptive capability (Ahmadi, et al., 2020). Adaptive capability provides organizations with a competitive edge to thrive in turbulent business environment, therefore,using its resources and competences to attain competitive advantage over other firms in its business environment (Hill, 2017).

Over the last decade the competitive landscape has pushed organizations to compete not solely on their own capabilities but with their entire resources (Hult, Olson, & Slater, 2017). Increased customer requirements coupled with competitivepressure from globalization have forced managers to ensure that their organization's resources are well aligned across all its functional areas. This alignment is critical in developing and maintaining capabilities required in meeting evolving customer demands. Competitive advantage from information technology can only come from strategic agility of the enterprise architecture backed up by flawless execution. The concept ofstrategic fitemphasizes the point that competitive advantage can be realized only if the strategic alignment is complemented by optimization of effort. Strategic fit of technological activities means they should not only be consistent and reinforce overall business strategy, but also ensure optimization of technology activities. Strategic fit ensures that technology activities contribute to building a firm's competitive advantage. While strategic alignment aims to accentuate a firm's existing competitive strengths, IT architectural flexibility and IT delivery efficiency is key to realizing optimization of effort to ensure sustainable competitive advantage (McAdam, *et al.*, 2019). Good management characteristics find perfect match between a firm's resources and business environment. Effective leadership of top management helps in aligning organizational resources and capabilities to the business environment with the ultimate goal of achieving superior and sustainable performance (Ambrosini & Bowman, 2018).

2. Statement of the Problem

Despite its importance to strategic management, research on the concept of firm performance suffers from gaps such as lack of consensus on its definition and selection of indicators (Gross, 2015). Because of the lack of a universal definition, many studies have measured firm performance with a single indicator (mainly financial performance) thus represented the concept as uni-dimensional when it is multidimensional (Slapper & Hall, 2011). Consequently, strategic management theory requires more studies to get a more precise conceptualization of firm performance and identify better indicators for use in measurement (Richard et al., 2009).

Similarly, there is limited consensus as to how adaptive capabilities are linked to performance because the concept of adaptive capabilities itself has not been exhaustively studied. Thus, there are different perceptions of how adaptive capabilities influence firm performance (Gorgól, 2017). For instance, scholars have portrayed adaptive capabilities as direct drivers, preconditions, moderators, or mediators of firm performance (Arend & Bromiley, 2009). There is, therefore, a need for further research to validate previous research on the relationship between adaptive capabilities and performance.

Furthermore, most of the empirical studies on the effect of adaptive capabilities on firm performance were done in developed countries with different cultural and economic settings (Protogerou, Caloghirou & Lioukas 2012). This makes it difficult to generalize the results to developing countries. More empirical studies are therefore needed in developing countries to provide more academic rigor to the concept. According to Arend and Bromiley (2009), many studies on adaptive capabilities relied on small samples. This may reflect a careful choice of firms that researchers believed would possess adaptive capabilities. This raises issues of, generality and reliability of results to other settings, companies, or countries. This study, therefore, sought to fill these research gaps by examining the effect of adaptive capability on organizational performance.

3. Conceptual Literature

3.1. The Concept of Adaptive Capability

The origin of the concept of adaptive capability can be traced back to thoughts of scientific management founded by Frederick Taylor in the early 1900s (Haber 1964). While the concept of adaptive capability developed in natural resource management workshops by means of decision making, scientists as well as managers focused on making simulation models to discover key suppositions as well as uncertainties (Bormann, Clark, & Stankey, 2005).

Organizations increasingly must deal with discontinuous, complex and unpredictable change. We contend that learning to respond to weak signals of environmental changes constitutes the development of dynamic capabilities for environmental adaptation, or what we call simply, adaptive capabilities. Adaptive capabilities can help to trigger and guide strategic renewal processes (Hrebiniak & Joyce, 2008).

Adaptive capability is firmly connected to an organization's strategic plan to respond to changing business requirements by identifying and nurturing its key capabilities, resources, and other organizational processes (Teece, Pisano, & Shuen, 1997). Paliokaite (2018) suggested that adaptive capability offers a competitive advantage, particularly in continuously changing environments. Adaptive capability is conceptualized as the consideration of three dimensions: horizon scanning, change management, and resilience.

A varying resource base is a crucial antecedent to adaptive capability. The dynamic examining and scanning of market conditions is an integral part of adaptive capability (Lockett, Wiklund, Davidsson, & Girma, 2016), which consists of investigating strong and weak tie sources (Julien, Andriambeloson, & Ramangalahy, 2014). Horizon scanning is the continuous process of gathering information about customers, suppliers, competitors, society, and technology, and using this information to make informed decisions.Change management is associated with amendments to objectives, plans, structures, and governance systems (Rathgeber & Kotter, 2015) based on the horizon-scanning information.

The magnitude of adaptive capability depends on changes in market/product expectations (McKee, Varadarajan, & Pride, 1989), and the firm's ability to meet those expectations with its existing resources and capabilities (Penrose, 1959). Change management is a structured process for managing organizational and/or technological change. Therefore, any change in the firm's previous resource base and new resource combinations correlate with a change in its adaptability (McKee, Varadarajan, & Pride, 1989). Resilience is the firm's ability to endure disruptions of all types (Sheffi & Rice, 2016; Ponomarov & Holcomb, 2017). It could be viewed as adaptability, responsiveness, and the ability to vigorously revamp the business and strategies as the circumstances change before the case for change becomes desperately obvious (Gunasekaran, Rai, & Griffin, 2015).

3.1.1. Perspectives of Adaptive Capability

Organizational adaptive capability is a broad term and was studied from different perspectives, such as market, technology, and management system, in the management literature. Indeed, an organizational adaptive capability helps firms to: search for new markets and technologies; process new information continuously; adjust and re-configure organizational structure and management quickly; and explore and exploit new knowledge simultaneously (Oktemgil and Greenley, 1997; Staber and Sydow, 2002; Teece, Pisano, and Shuen, 1997), which are critical for firm product innovativeness. However, as the literature indicates, organizational adaptive capability is a broad term and is defined from the different perspectives such as marketing (e.g., Atuahene-Gima& Ko, 2001; Oktemgil&Greenley, 1997), technological (e.g., Hansen & Serin, 1997), and organizational design (e.g., Neill, McKee, & Rose, 2007).

In this respect, Tuominen, Rajala, and Möller (2004) propose that in order to understand the concept of organizational adaptive capability, the different intertwined perspectives of the adaptive capability (i.e., market, technology, and organizational design need to be investigated simultaneously. Here, we put forward that organizational adaptive capability is not a single construct or measure; rather, it is a process of the dynamic interaction of market, technology, and organizational design that is addressed as management system-related adaptive capability constructs. Further, these constructs are iterative in that each factor contributes to the development of each other, and the reciprocating interactions among the constructs bring to life the concept of organizational adaptive capability (Oktemgil & Greenley, 1997). Therefore, ignoring, or minimizing, one or more of the component constructs is likely to reduce the real impact of adaptive capability on product innovativeness in the organization. Nevertheless, to our knowledge, there is a lack of an empirical study in the TIM literature testing the impact of organizational adaptive capability, composed of the covariant market, technology, and management system-related adaptive capability constructs, on product innovativeness.

In addition to the impact of organizational adaptive capability on the product innovativeness, the antecedents or drivers of organizational adaptive capability should also be investigated empirically from a managerial perspective. This will help managers to understand how to improve a firm's market, technological, and management system adaptability for a successful product development effort. For instance, most of the traditional management writers indicate that the development of organizational adaptive capability is often accompanied by the evolution of organizational forms, such as formal structures involving formalization, integration, centralization, and complexity (Hage, 1999). However, in addition to the formal structures, writers in the contemporary management literature suggest informal structural dimensions, which are framed as loose coupling, multiplexity, and redundancy by Staber and Sydow (2002), to create and manage the organizational adaptive capacity (Wang and Ahmed, 2003, 2007). Interestingly, the roles of loose coupling, multiplexity, and redundancy on the organizational adaptive capability were not empirically investigated in the TIM literature, and no systematic framework for their relationship was developed from the management practice in order to expand and refresh the current theory on adaptive capability and informal structures. Further, the concept of loose coupling, multiplexity, and redundancy was not operationalized as perceptional measures, as suggested by Staber and Sydow (2002).

The organizational adaptive capability is seen as a dynamic process of continuous learning, and this ability permits an increase in firm product innovativeness. However, as noted, organizational adaptive capability is a broad term and was investigated in different perspectives in the literature, such as marketing skills, technology, and management system (Tuominen et al., 2004). For instance, market adaptive capability emphasizes learning quickly in order to market and target customers' requirements and competitor behaviors by scanning the market, monitoring customers and competitors, and allocating resources to marketing activities. In addition, it addresses how to organize to be responsive to customers, and how to empower and reward employees to ensure customer responsiveness and satisfaction (Oktemgil and Greenley, 1997; Tuominen et al., 2004).

Technology adaptive capability indicates a firm's ability to monitor technical change, secure access to desired technologies, achieve technological complementarities, improve product quality and performance, and avert the potential risk of the products (Tuominen et al., 2004; Wong, Shaw, & Sher, 1998). Management system adaptive capability finally addresses whether the firm's management systems encourage people to challenge outmoded traditions and practices, and allows a firm to respond quickly to changes in the market and evolve rapidly in response to shifts in its business priorities (Gibson and Birkinshaw, 2004; Tuominen et al., 2004).

3.1.2. Dimensions of Adaptive Capability

While adaptive capability is considered to be a fundamental component for enhancing organizational performance, it is a particular aspect of organizational capacity for organizations that requires more research (Connolly & York, 2003). Adaptive capability is viewed in different dimensions, Sussman (2004) viewed adaptive capability in four dimensions, External Focus, Network Connectedness, Inquisitiveness, and Innovativeness. Paliokaite (2012) suggested that adaptive capability offers a competitive advantage, particularly in continuously changing environments and is conceptualized as the consideration of three dimensions: horizon scanning, change management, and resilience.

Organizations with an adaptive capacity areresponsive to what is happening outside their organizational boundaries. They consciously interact with their environment which, in turn, provides information-rich feedback, stimulates learning and ultimately prompts improved performance (Sussman, 2003). With an external focus, organizations are sufficiently porous to outside perspectives and proactively take steps to ensure that they do not become isolated from their surrounding environment (Brooks, Adger, & Kelly, 2016).

An organization with external focus is aware of interdependence with surrounding environment and locates resources and capacities from outside of organization. The organization also elicits ideas as well as information from outside the organization and constructs strategic partnerships. An external focus organization has a board that brings in ideas and affiliates with other organizations and colleagues (Gunasekaran, Rai, & Griffin, 2015).

We generally view capacity building as something that happens internally, involving the reengineering of core organizational processes. But to be adaptive and to further strengthen programs, organizations need to be acutely focused on the dynamism and complexity that exist in their operating environments (Ambrosini& Bowman, 2018). The dynamism, quickly changing circumstances that exist outside of a company, and complexity, numerous forces operating at the same time to have an effect on programmatic outcomes, provide a compelling rationale for treating external focus as a key attribute of adaptive organizations. Adaptive organizations are acutely conscious of their interdependence with their environment and their need to leverage capacity, resources and allies from outside the organization. They look not only to adapt nimbly to their environments but also, when possible, to adapt their environments to them (McKee, Varadarajan, & Pride, 1989).

In the present-day world, most phenomena as well as events are connected, caused by, and interact with an enormous number of other parts of a complex universal puzzle (Teece, 2017). Up till now, we tend to overlook this profound realization when it comes to organizational capacity building, and the outcome is over-attendance to interior capacity building. Companies continuously interrelate with their environment; a primal ecosystem consisting of relations, foundations, government agencies, colleagues, economic market forces, as well as competitors, the media, the list could go on for an indefinite period. Through their relations with these agents, companies can influence and also are influenced. Looked at on a macro scale, these interactions create system wide behavior, the way a field is funded or a certain kind of work is regulated or the way a subject is understood and discussed, for example. The existence of this type of influential system wide behavior makes consciousness concerning the external environment an important element of adaptive capacity (Uhl-Bien & Arena, 2018). Organizations that exhibit network connectedness develop networks to attain mission. The organizations again understand its potential to build systematic change through strategic alliances and joint efforts with other companies (Folke, Colding, &Berkes, 2016).

Like much about capacity, being externally focused is not a destination but a trajectory. Hence adaptive companies push themselves to be connected and engaged, and they oppose impulses to become isolated and inward-looking. They nurture and maintain a wide mixture of extra-organizational contacts with individuals, companies as well as communities to guarantee a rich flow of information (Grothmann&Patt, 2005). These contacts are determined through the activation of the board, through thoroughly constructed strategic partnerships and through informal personal, professional and organizational associations. In terms of adaptability, the action is outside the organization. But the capacity to relate to and interact with the external environment is internal. It is an orientation evident in the company’s everyday operations (Teece, 2017). To have a system-wide impact, organizations should be connected to a larger network of organizations. Organizations with this awareness understand that they can more successfully fulfill their mission by developing strategic alliances and interdependent relationships outside of the organization (Sussman, 2004).

Inquisitive organizations are voracious learners, continuously generating as well as applying new knowledge (Hrebiniak & Joyce, 2008). Acting as learning organizationsthese companies appreciate the importance of knowledge management and outcome measurement (Hill, 2017). Finally, companies need to persistently embrace innovation, thus demonstrating an openness to new ideas, diversity of opinion, and experimentation (Sussman, 2004). An inquisitive organization has a desire for inquiry, looking for information as well as the data so as to learn, apply and share the knowledge. Collection of data, learning as well as knowledge development is a fundamental firm-wide effort. An inquisitive organization evaluates activities and this is considered as a tool for learning and improving performance (Sussman, 2004).

Innovation embraces dramatic new services in addition to programs as well as modest enhancements to accessible processes, policies, procedures, systems as well as structures. Innovations can even be, as they most often are, a novel recombination of old ideas. Innovation is an imperative dimension of adaptive capacity both since it suggests the generative process of creating something new or different and for the reason that it entails the vital complementary ability of challenging accepted wisdom. Innovation is the generative element of adaptive capacity; the ability to not just react but initiate (Marcus & Anderson, 2015). An innovative organization involves in creating as well as implementing new ideas and setting off steady improvement. It also takes challenging fundamental hypotheses and accepts wisdom as well as rewarding experimentation in addition to taking risk. An innovative organization is open to diversity (Ambrosini & Bowman, 2018).

A varying resource base is a crucial antecedent to adaptive capability. The dynamic examining and scanning of market conditions is an integral part of adaptive capability (Lockett, Wiklund, Davidsson, & Girma, 2011), which consists of investigating strong and weak tie sources (Julien, Andriambeloson, & Ramangalahy, 2014). Horizon scanning is the continuous process of gathering information about customers, suppliers, competitors, society, and technology, and using this information to make informed decisions. Change management is associated with amendments to objectives, plans, structures, and governance systems (Rathgeber & Kotter, 2015) based on the horizon-scanning information. The magnitude of adaptive capability depends on changes in market/product expectations (McKee, Varadarajan, & Pride, 1989), and the firm's ability to meet those expectations with its existing resources and capabilities (Penrose, 1959). Change management is a structured process for managing organizational and/or technological change. Therefore, any change in the firm's previous resource base and new resource combinations correlate with a change in its adaptability (McKee, Varadarajan, & Pride, 1989). Resilience is the firm's ability to endure disruptions of all types (Sheffi& Rice, 2016; Ponomarov& Holcomb, 2017). It could be viewed as adaptability, responsiveness, and the ability to vigorously revamp the business and strategies as the circumstances change before the case for change becomes desperately obvious (Gunasekaran, Rai, & Griffin, 2015).

3.1.3. Adoption and Outcomes of Adaptive Capability in Strategic Management

A firm possesses adaptive capability when it prominently adapts, responds and reacts (Grewal & Tansuhaj, 2014). This happens because adaptive capability focuses on effective search and balancing exploration and exploitation strategies (Staber & Sydow, 2015) through flexible resource adjustment, application and renewal (Wang & Ahmed, 2016). Adaptive capability is able to do so because it resides at the highest level of the hierarchy of firm dynamic capabilities; been powered therefore to utilize multiple other lower-level dynamic capabilities for its own function and aims.

Although it is argued that achieving and implementing adaptive capability is costly (McKee et al., 1989; Zammuto, 1982), the main benefit of adaptability should be improved performance (Bourgeois, 1980; Snow and Hrebiniak, 1980). Indeed, Hooley et al. (1992) found that prospectors, with high adaptive capability, seem to perform better than other companies. However, Snow and Hrebiniak (1980) concluded that analysers perform better than prospectors and defenders, which suggests that market adaptability is positively associated with performance up to a point, but that at higher levels there is a negative association. However, Miles and Snow (1978) hypothesized that there is no significant difference among the strategy types with respect to performance. This hypothesis was supported by the empirical study of Slater and Narver (1993), where no significant performance differences were found among prospectors, analyzers and defenders. Despite the conflict of evidence, the whole aim of adaptability, through pursuing product-market opportunities, developing and enhancing marketing activities, and responding more speedily than competitors, should be to enhance performance.

To view dynamic capabilities through a hierarchy lens is important. Dynamic capabilities were introduced as an efficiency platform, an extension to the resource-based view of the firm (Wernefelt, 1984) and defined as the assets by which firms integrate, build and reconfigure internal and external competencies to address rapidly changing environments (Teece, 2015). The view that dynamic capabilities operate as a hierarchy is rooted in Collis (1994) who assigned firm resources and capabilities at four layers. The first layer represented the resource base of the firm itself; the second represented the modification of existing resources; the third represented the extension of current capabilities while the fourth regarded a higher-order capacity, seen as a meta-routine. Subsequently, Danneels (2013) dichotomized dynamic capabilities in first-order (representing a firm's capacity to achieve individual tasks) and second-order (tapping into the firm's ability to renew through the creation of new first-order ones) and Winter (2014) similarly argued that dynamic capabilities operate to extend, modify or create ordinary capabilities.

Zahra et al. (2016) argue that an infinite spiral of capabilities to renew capabilities could be conceived. Moreover, Ambrosini et al. (2017) proposed a 3-level view of dynamic capabilities. The first level represents incremental repeatable capabilities which become embedded in the firm's structures and stabilize as firm patterns. The second level adjusts the resource mix by improving existing and developing new resources. The third level recreates however, the physiognomy of the firm components themselves and it allows the firm as a whole to change towards new states and practices (Ambrosini et al., 2017). Recreation occurs through grasping of market needs through the establishment of a dialogue throughout the firm to translate this knowledge for action, an organizational renewal process. Such recreation is also specific to each firm as dynamic capabilities are built within each firm's boundaries. The repercussion is that even if some base-layer resources may be similar, top-layer capabilities are not and these function in firm-unique and firm-distinct ways.

Adaptive capability is located at the top level and it is a higher importance dynamic capability operating in each firm uniquely and distinctly. Important to all firms but even more for small ones, adaptive capability rests on entrepreneurial competences and refers to clusters of small firm activities and adjustments for sensing, seizing and transforming (Teece, 2015). Adaptive capability allows the small firm to adeptly do so (Wang & Ahmed, 2016) and in doing so, it profoundly affects firms' competitive strategy-performance relationship.

3.1. The Concept of Organizational Performance

The concept of performance has gained increasing attention in recent decades, being pervasive in almost all spheres of the human activity. Performance is a subjective perception of reality, which explains the multitude of critical reflections on the concept and its measuring instruments. Didier Noyé (2014) believes that the performance consists in achieving the goals that were given to you in convergence of enterprise orientations. In his opinion, performance is not a mere finding of an outcome, but rather it is the result of a comparison between the outcome and the objective. Unlike other authors, Didier Noyé considers that this concept is actually a comparison of the outcome and the objective. The author's definition is far from clear, as both outcomes and objectives vary, most often, from one field of activity to another.

Lebas (1995) characterizes the performance as future-oriented, designed to reflect particularities of each organization and is based on a causal model linking components and products. Lebas defines a successful business as one that will achieve the goals set by the management coalition, not necessarily one that achieved them. Thus, performance is dependent as much of capability and future.For Whooley (2008), performance is not an objective reality, waiting somewhere to be measured and assessed, but a socially constructed reality that exists in people's minds, if it exists somewhere. According to the author, performance may include: components, products, consequences, impact and can also be linked to economy, efficiency, effectiveness, cost effectiveness or equity. Both Lebas (1995) and Whooley (2008) consider performance as subjective and interpretative, not least, being related to the cost lines, which emphasizes the ambiguous nature of the concept.

Rolstadas (2016) believes that the performance of an organizational system is a complex relationship involving seven performance criteria that must be followed: quality of work, effectiveness, efficiency, quality, productivity, innovation, and profitability. Performance is closely related to the achievement of the criteria listed above, which can be regarded as performance objectives. According to Rolstadas, it cannot be established a precise definition of performance because it is dependent on the seven criteria of performance, that cannot be clearly defined. Organizational performance, according to Cho and Dansereau (2017), refers to the performance of a company as compared to its goals and objectives. In addition, Tomal and Jones (2018) define organizational performance as the actual results or output of an organization as measured against that organization's intended outputs.

3.2. Measuring Organizational Performance

The nature of organizational performance and its measurement has been a topic for both scholars and practitioners since organizations were first formed. How to determine if the efforts of the organization are being put to their best use and are achieving the desired outcomes is at the heart of several disciplines (Miller & Lee, 2013). Accountants devote their attention to fairly presenting the historical financial performance of organizations, while the management disciplines focus on how to improve current and future organizational performance. Organizational performance measures are categorized into; accounting measures, operational measures, market-based measures, survival measures and balance scorecard measures. In addition, measures of economic value creation are popular in practice but are not frequently used in strategic management or entrepreneurship research.

Accounting measures are those that rely upon financial information reported in income statements, balance sheets, and statements of cash flows. Accounting measures can be further subcategorized into profitability measures, growth measures, leverage, liquidity, and cash flow measures, and efficiency measures (Helfert, 2015). Profitability measures include values and ratios that incorporate net income or a component of net income such as operating income or earnings before taxes. It is through the generation of a profit that an organization is able to provide a return to providers of equity capital, once the profits have been converted into liquid assets. In the absence of profits or the likely prospect for profits, equity capital providers will withdraw their resources from an organization and redeploy them to alternative investments where a positive return can be realized (Davies, 2017).

Growth measures include values and ratios that present some indication of organizational growth. Growth has been conceptualized both in the context of resources and from a business operations perspective (Khatab, Masood, Zaman, Saleem, & Saeed, 2018). Typical accounting-based growth measures include absolute or percentage change in total assets, operating assets, sales, total expenses, and operating expenses. Measures of organizational size can be conceptualized as being part of the growth construct since size generally is measured in absolute terms of a growth variable of interest, where growth is the change in the variable. Size in absolute terms is typically used as a control variable and not an outcome variable (Davies, 2017).

Leverage, liquidity, and cash flow measures include values and ratios that represent the organization's ability to meet its financial obligations in a timely manner and provide a cash return to capital providers. The ability to meet financial obligations can be measured both by the ratio of liquid assets to liabilities, and/or by the organization's ability to generate sufficient cash flow to meet outstanding liabilities. Efficiency measures include values and ratios that represent how well the organization utilizes its resources. Typical efficiency ratios include asset turnover, net profit per employee, net profit per square foot, sales per employee, and sales per square foot. Clearly, most efficiency ratios require information that comes from outside the three basic financial statements.

Operational measures include variables that represent how the organization is performing on non-financial issues. Measuring performance on non-financial dimensions has received renewed attention over the past many years as corporations have adopted a balanced scorecard approach for the integration of strategy and performance measurement (Kaplan 1984; Kaplan & Norton 1992). These variables include market share, changes in intangible assets such as patents or human resources, customer satisfaction, and stakeholder performance. Most of the measures in this category require primary data from management in the form of their assessment of their own performance, which may lead to questions of the validity of the responses.

Market-based measures of performance include ratios or rates of change that incorporate the market value of the organization. These variables include returns to shareholders, market value added and holding period returns. The calculation of these variables requires a market valuation for the company and is generally only available for publicly traded companies. Survival measures of performance simply indicate if the organization remained in business over the time period of interest (Khatab, Masood, Zaman, Saleem, & Saeed, 2018). Barnard (1938) and Drucker (1954) proposed that survival is the ultimate measure of long-term performance. However, since most empirical research in entrepreneurship and strategic management address time horizons five years and less, survival is rarely used as a measure of overall organizational performance.

A balanced scorecard is a strategic management performance metric that helps companies identify and improve their internal operations to help their external outcomes. It measures past performance data and provides organizations with feedback on how to make better decisions in the future (Kaplan & Norton, 1992). One of the signature features of the balanced scorecard is that it looks at organizational performance from various Perspectives. Perspectives are the performance dimensions, or lenses, that put strategy in context (Kaplan & Norton, 2001). It takes several perspectives - usually four (Financial, Customer, Internal Process, and Learning and Growth) - to understand an organization as a system made up of elements that work together, like the gears in a clock or fine watch. The balance score card will help in generating new products and technology, speed of reaction to adversity, enhance new processes, develop new skills and knowledge, and develop new organization structures. Together, these elements create value, leading to customer and stakeholder satisfaction and good financial performance (Hoque & James, 2000).

4. LITERATURE REVIEW

An extensive review of the vast body of relevant theoretical and empirical literature was carried out as guided by the key construct in this conceptual review. This section therefore, presents the theories that underpin the construct of Adaptive Capability and Organizational Performance as well as related empirical literature.

4.1. Theoretical Review

The following two theories were reviewed:

4.1.1. Complex Adaptive System Theory

The term complex adaptive system was coined in 1968 by sociologist Walter F. Buckley (Walter, David, & Jeffrey, 1987) who proposed a model of cultural evolution which regards psychological and socio-cultural systems as analogous with biological species (Walter, 1968). In the modern context, complex adaptive system is sometimes linked to memetics, (Hokky, 2004) or proposed as a reformulation of memetics (Frank, 2008). Complexity theory was founded on researchers' attempts to rationalize the behavior of large and complex systems, believing they cannot be explained by usual rules of nature. It attempts to discover how the many disparate elements of a system work with each other to shape the system and its outcomes, as well as how each component changes over time. It is also one way to express the perceived domination of systems over their myriad smaller influences. As early as 1997, Kevin Dooley, defined Complex Adaptive System (CAS) as a group of semi-autonomous agents who interact in interdependent ways to produce system-wide patterns, such that those patterns then influence behavior of the agents.

The proponents of the complex adaptive system theory assumed that the most productive state for a system is the edge of chaos where there is maximum variety and creativity. Based on these properties it could be argued that complex adaptive systems are all around us, or that we are part of multiple complex adaptive systems (Dooley, 1997).

The relevance of the complex adaptive system theory is that it usefully describes evolutionary change processes, providing insight into how the origins of quality assurance were predicated on rational reductionism and linearity. New forms of governance do not neutralise previous models, but add further dimensions to them (Frank, 2008). Complex adaptive systems (CAS) theory characterizes the role of emergence in the world of frequent and continuous change. The turbulent nature of modern business environments requires organizations to react quickly and creatively to make the most of new opportunities and business models. In modern environments new economic realities, such as rapid development of technology and increased global competitiveness make organizations less stable, fast-changing and emergent (Truex, Baskerville, & Klein, 1999). Turbulent environments make businesses unpredictable and hence unplannable in the traditional sense of control and optimization (Riehle, 2016).

Complexity science seeks to explain the process of emergence of new properties and the spontaneous creation of order after change. CAS theory originated in the natural sciences and articulates how interacting agents such as organisms adapt and co-evolve over time in spontaneous ways (Dooley, 1997). Holland (1995) defines CAS as a system composed of interacting agents, which undergo constant change, both autonomously and in interaction with their environment. He explains that heterogeneous agents exhibit various agent behaviors that can be defined in terms of simple rules where they adapt and evolve through their interactions and by changing their rules through learning as experience accumulates. Therefore, the behavior of CAS is typically unpredictable, but yet exhibits various forms of order and regulation.

4.1.2. Contingency Management Theory

The contingency theory of leadership was proposed by the Austrian psychologist Fred Edward Fiedler in his landmark 1964 article, A Contingency Model of Leadership Effectiveness. The contingency theory emphasizes the importance of both the leader's personality and the situation in which that leader operates (Fiedler, 1967).

There are some criticisms of the Fiedler Contingency Model. One of the biggest is lack of flexibility. Fiedler believed that because our natural leadership style is fixed, the most effective way to handle situations is to change the leader. He didnot allow for flexibility in leaders (Hersey & Blanchard, 1974).

The argument of contingency approach to management is based on the idea that there is no one best way to manage and that to be effective, planning, organizing, leading, and controlling must be tailored to the particular circumstances faced by an organization. Organizations are open systems that need careful management to satisfy and balance internal needs and to adapt to environmental circumstances (Tannenbaum & Schmidt, 1973).

The relevancy of contingency theory is that it is beneficial to organizations because of the potential for learning from specific situations and using these lessons to influence future management of the same or similar situations (Gelei, Losonci, & Matyusz, 2015). Contingency theory may also produce more well-rounded leaders who are able to develop their skills in multiple areas (Hossain & Saleh, 2016).

4.2. Empirical Literature Review

An externally focused organization typically emphasizes external forces, market share, and customer experiences. Aziz and Yassin (2016) conducted a study on examining the marketing practices and the marketing orientation-business performance relationship among SMEs in agri-food sector in Malaysia. The study also investigated the role of the external environment in the market orientation-performance linkage. From an analysis of a survey data of 102 agri-food organizations, three dimensions namely customer-competitor orientation, inter-functional coordination and information dissemination extracted from factor analysis result of market orientation. The study revealed that customer-competitor orientation and information dissemination were positively related to business performance. The study also found that external environment factors like intensity competitive and market-technology turbulence had a significant relationship with business performance.

Schlegelmilch and Ram (2015) carried out an empirical study on an investigation of the relationship between pertinent organizational and environmental variables, and company performance. Based on a survey of nearly 400 companies operating in the United States (U.S), significant relationships emerged between Strategic Market Orientation and three organizational variables, namely strategic priorities, inter-departmental coordination and ownership nationality. The study also found that the environmental variables, namely intensity of competition and rate of technological change significantly influenced the companies' adaptive capability.

Kangethe (2016) in his study explored the level of impact of customer quality focus practices and operational performance in the improvement of services among Kenyan government owned entities (GOEs). The study was a descriptive survey design and the population of interest was all commercial government owned entities in Kenya. All the thirty four (34) commercial government owned entities in Kenya were conducted. Two kinds of data were used in this study, namely primary and secondary data. Primary data was collected directly from the respondents in all commercial government owned entities in Kenya. Data collected, was tabulated and analyzed for purpose of clarity, using SPSS software. The study findings showed that customer quality focus had influenced the operations of commercial government owned entities in Kenya to the extent of adapting a culture that enhances employee's attitude towards quality, enabling the organization to focus on core competences of business and improving services.

Chao-Chin and Shyh-Ming (2020) explored the external and internal organiational capabilities. In this study, authors adopt a holistic model to examine how different capabilities actually account for organizational performance. The study also considered how intellectual capital mediates the relationships between organizational capabilities and performance. The authors conducted a questionnaire survey involving 167 managers in the Taiwan Transportation Vehicle.

Denison and Mishra (2009) in their study developed a model of organizational culture and effectiveness based on four traits of organizational cultures; involvement, consistency, adaptability, and mission. The traits were examined through two linked studies; a qualitative case study of five firms were used to identify the traits and the nature of their linkage to effectiveness; and a quantitative study offered an exploratory analysis of CEO perceptions of the four traits and their relation to subjective and objective measures of effectiveness in a sample of 764 organizations. The study results revealed that the internal focus culture may create a good working atmosphere, but organization may miss important external information, but most importantly the study found that the external focus culture may help organization to seize opportunities and avoid external threats, but organization may lack the corresponding internal systems and mechanisms for cooperation. The study summed that an effective adaptive organization should contain internal focus and integration, external focus and differentiation, flexibility and discretion, Stability and control.

4.3. Proposed Theoretical Model

Theoretical model is imperative in helping to reveal the relationship between independent variables, moderating variables, mediating variables and dependent variable. In the case of this independent study, a theoretical model was proposed that illustrated the relationship between Adaptive Capabilityand Organizational Performance. This relationship is demonstrated in Figure5.1.

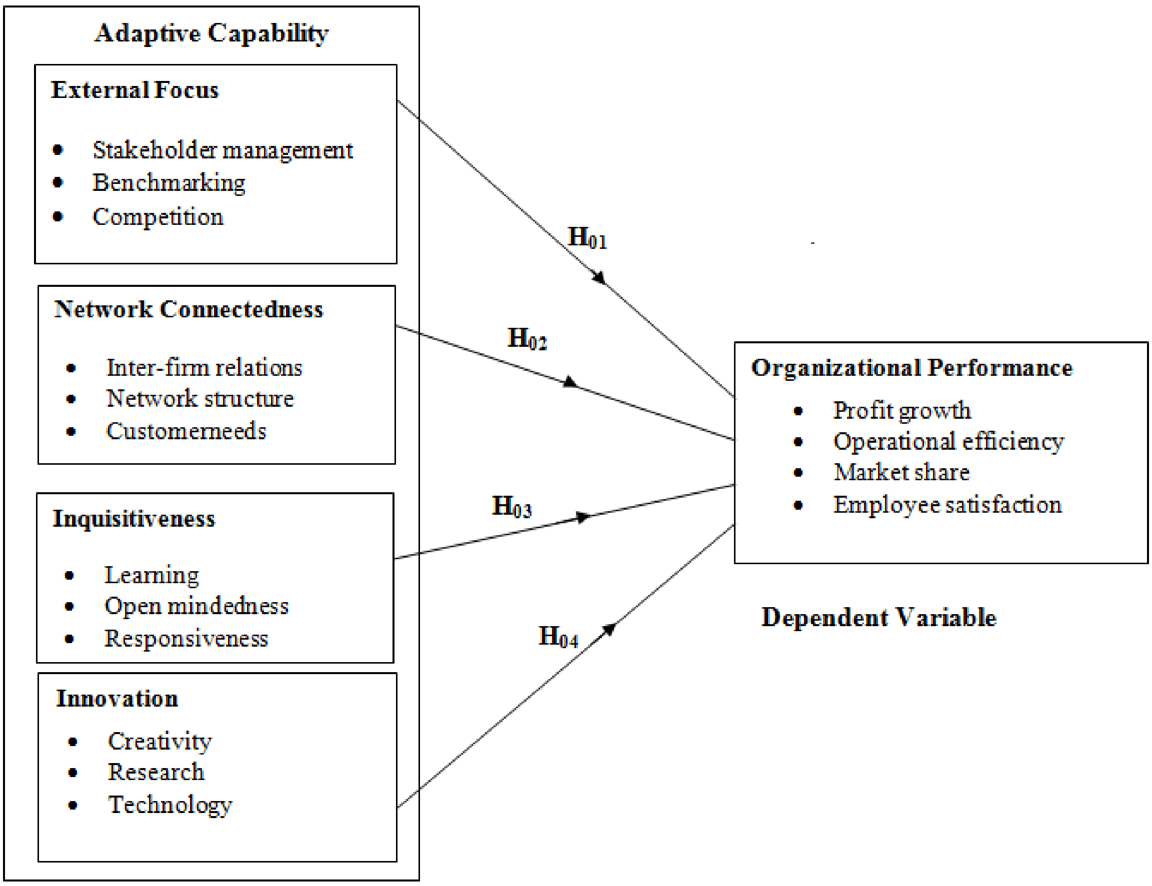

Figure1. *Proposed Theoretical Model*

Source: *Author (2021)*

The proposed model shows adaptive capabilityis the independent variable and organizational performance is the dependent variable. In the study, the parameters that measure adaptive capability are external focus, network connectedness, inquisitiveness and innovation.External focusis a very critical construct under adaptive capability. An organization with external focus is aware of interdependence with surrounding environment and locates resources and capacities from outside of organization.The organization also elicits ideas as well as information from outside the organization and constructs strategic partnerships.Network connectednessis an important parameter because it facilitates organizations to develop linkages necessary for attaining their mission. The organization again understandsits potential to build systematic change through strategic alliances and joint efforts with other companies. It assists organizations to push themselves to be connected and engagedand thus oppose impulses to become isolated and inward-looking.They nurture and maintain a wide mixture of extra-organizational contacts with individuals, companies as well as communities to guarantee a rich flow of information.

Inquisitiveness as a construct of adaptive capabilityis a key disposition that some team members use to assemble and integrate knowledge when solving problems. Inquisitiveness may work as an efficiency driver that, when present, economizes on the knowledge needed by team members to solve problems. Innovation embraces new services in addition to programs as well as modest enhancements to accessible processes, policies, procedures, systems as well as structures.Innovation is an imperative dimension of adaptive capability since it suggests the generative process of creating something new or different and for the reason that it entails the vital complementary ability of challenging accepted wisdom. Companies need to persistently embrace innovation and thus demonstrate an openness to new ideas, diversity of opinion, and experimentation.The theoretical model illustrates that organizational performance, as a dependent variable is determined byprofit growth, operational efficiency, market share and employee satisfaction.

5. Conclusion

The study has explored the relationship between adaptive capabilityand organizational performance. The study in chapter five proposed a theoretical model that showed the relationship and interlink between adaptive capability and organizational performance. By utilizing theoretical literature as well as empirical literature, the study assessed the characteristics of adaptive capability including its parameters to understand how they affect organizational performance. The guiding principles and theories in this study were based oncomplex adaptive systems theory and contingency management theory.

The study has proposed a suitable theoretical model that shows the relationship between adaptive capability and organizational performance. Adaptive capability is the independent variable and organizational performance is the dependent variable. Review of extant literature revealed that all parameters of adaptive capability (external focus, network connectedness, inquisitiveness and innovation) are critical in determining organizational performance. The propositions of the study besides enriching the empirical and theoretical literature on adaptive capability and organizational performance, also serve to guide scholars in the field of strategic management on prospective studies with potential to impact organizational outcomes and market performance in diverse industries and sectors.

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AUTHORS' BIOGRAPHY

Mr. Leonard Warui Mwangi, is a PhD student specializing in Strategic Management at Kenyatta University, School of Business. He holds a Master of Business Administration (Strategic Management Option) from Kenyatta University and Bachelor of Special Education (First Class Honours) from Kenyatta University. His key areas of interest in research include Adaptive capability, Business resilience and Organizational Performance

Dr. Godfrey M. Kinyua, is a Lecturer in the Department of Business Administration, School of Business of Kenyatta University. He holds a Doctor of Philosophy in Business Administration from Kenyatta University, Master of Business Administration from the University of Nairobi and Bachelor of Education from Egerton University. His key area of interest in research includes knowledge management, competitive intelligence, strategic alignment, business resilience and green innovation

Dr. Anne Wambui Muchemi, holds a Doctor of Philosophy in Strategic Management from University of Nairobi, Master of Business Administration (Strategic Management Option) from the University of Nairobi and Bachelor of Education (First Class Honours) from Kenyatta University. Dr. Anne has many years of teaching experience at the University Level both within and without Africa in Management and Leadership related areas. She has over 10 years of experience in management of Institutions within and outside Kenya which has helped equipped her with requisite skills and experience in supporting organizations. She has many years of Consultancy experience where she offers advice and expertise to organizations to help them build their competencies to improve their business performance in terms of operations, profitability, management, human resource management and strategy. She has published various articles in peer reviewed journals and participated in conferences within and outside the Country

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