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Antecedents of Organizational Slack

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Organizational slack has been widely discussed, but only in its role as an antecedent of performance, political behavior, bankruptcy, and other phenomena. A model that describes the antecedents of organizational slack is presented here. It contains three sets of predictors: environmental contingencies, organizational characteristics, and the values and beliefs of dominant coalition. Hypotheses detailing how each set of predictors leads to the development of different levels and types of slack resources are presented.

Even though the ability of organizations to adapt to their environments is a basic assumption of strategic theory (e.g., Barnard, 1938; Drucker, 1954; Pfeffer & Salancik, 1978), the degree to which organizations have this ability has been questioned. Hannan and Freeman (1977) suggested that inertia in organizations makes major changes difficult, if not impossible. (Later, they softened their argument and suggested a set of conditions that would account for the variability found in various organizations' abilities to make major changes.) Their argument was met with substantial criticism. One specific criticism came from McKelvey and Aldrich (1983) who said:

"We do not advocate becoming paralyzed by natural selection, all the while hoping for favorable selection. Organizations have more ability to adapt than organisms. . . . They have more ability to alter their niche space than organisms; and they have the possibility of gaining a vision capable of steering them away from failure enhancing mistakes." (p. 125)

Perrow (1986) argued that this more evolutionary position of McKelvey and Aldrich allows us to address the forces of environmental selection while still understanding specific organizational competencies. We argue that one specific set of organizational competencies that allows for organizational evolution is management of slack resources. Slack resources give the firm leeway in managing changes in response to a changing environment.

Hannan and Freeman (1984) suggested that the less that a given organizational change affects the core of the organization, the less likely that inertial forces will prevent this change. Thompson (1967) recognized this need to protect the core and suggested that organizations do so by keeping slack resources and other buffering mechanisms in place to absorb environmental
variation. These systems can absorb variation (both inside and outside the core) and reduce the need for core structural change. Therefore, organizations with slack resources are less likely to need to make changes in their core.

This paper presents a model that describes the conditions under which slack resources develop. In general, researchers have treated slack as if it were an exogenous variable (e.g., Bourgeois & Singh, 1983; Singh, 1986), without considering the source of the slack resources. This paper describes three sets of elements that will predict the amount and type of slack held by a firm: (a) elements in the firm’s environment, (b) characteristics of the organization itself, and (c) values and beliefs of the dominant coalition.

**Defining Organizational Slack**

Bourgeois (1981) discussed several of the definitions and measures of organizational slack that have appeared in the literature (e.g., Cohen, March, & Olson, 1972; Cyert & March, 1963; Litschert & Bonham, 1978). Bourgeois defined slack (paraphrasing March) as:

that cushion of actual or potential resources which allows an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy as well as to initiate changes in strategy with respect to the external environment. (p. 30)

In general, we adopt this definition in this paper; however, two major differences must be addressed. First, in order for resources to be considered slack, they must be visible to the manager and employable in the future. Excess resources that are waste or the results of sloppy inventory sometimes can be made into slack, but they are not slack until their purpose has been changed.

Second, resources vary in how they can be used to protect the firm from either internal or external pressures. Different types of slack resources give managers greater or lesser degrees of discretion and flexibility in their approach to reducing internal or external pressures. The range of this dimension is from the most discretionary resources (e.g., cash) to the least discretionary (extra, dedicated machine capacity).

More discretionary slack resources either can be used in a wide variety of situations or can give managers a number of options. Less discretionary resources can be used only as protection in a few specific situations, such as increased demand or capacity failure. The anchors of this dimension also resemble the Bourgeois and Singh (1983) ideas of potential (high discretion) and absorbed (low discretion) slack.

For the purposes of this paper, we take the liberty of turning the dimension into a classification system composed of high and low discretion slack. Although we believe the dimension to be continuous, resources in the two classes (although not interchangeable) often are employed together. Therefore, high discretion slack is defined as including cash, cash equivalents, credit lines, raw materials inventory, low skilled labor, and highly flexible machine capacity. Low discretion slack ranges from processed inventory (work in process to finished goods) to skilled labor and low flexibility machine capacity. Specific market conditions and organizational choices will dictate the specific mixture of slack resources. We argue that when firms have slack, the total level of these resources is made up of some specific sum of both high and low discretion slack, and, except for a few forces that predict this total slack, the levels of high and low discretion slack are dictated by different pressures as described below, and they are expected to covary negatively. The situation-specific uses of low discretion slack are not likely to be found at the same time when flexibility and high discretion slack are needed. Evidence is found in Sharfman (1985), in which levels of slack capacity (low discretion) and slack cash (high discretion) were negatively correlated. The addition of visibility and discretion helps make the Bourgeois definition complete.

Even though the revised Bourgeois definition helps us on a theoretical level, we need to be more specific before we can operationalize the concept. One more specific issue, the difference between slack and other buffering mechanisms, must be addressed.
Slack and Buffers

The difference between slack and other buffers is the nature of the activity employed. Thompson (1967) described different activities whose purposes were smoothing or absorbing environmental fluctuations, such as slack resources, preventive maintenance, smoothing demand, project or product scheduling, and forecasting. Our position diverges from Thompson because we believe that slack is different from other buffers for three reasons. First, slack resources are physical entities such as cash, people, nonobsolescent inventory, machine capacity, and so forth. Other buffers, such as preventive maintenance, future contracts, sales smoothing, and so forth, are more intangible systems and procedures.

Second, even though slack and other buffers protect the firm from environmental fluctuations, slack also protects the firm from internal fluctuations. Cyert and March (1963) considered the organization as a coalition of individuals, some of whom were organized into subcoalitions, one of which dominated the activities of the firm. They defined the term slack as that surplus of income over the costs of production that is stored, in any number of forms, in the organization for some future use. Thus, slack’s role was defined as “payments to the members of the coalition in excess of what is required to maintain the organization” (p. 36). Slack, then, performs a set of roles quite different from other buffers.

Third, Sharfman (1987) argued that firms employ slack and buffers under different conditions. Although many firms will use both as protective measures, the firm chooses based on its specific needs. As an example, firms will use buffers in conditions of high resource dependency, in which the dependency is clear and from one or a few sources (e.g., predictable sales patterns will lead to the smoothing behavior Thompson described). In situations in which there are conflicting external demands, organizations are better off if they can put specific slack resources in place (cf. Pfeffer & Salancik, 1978, p. 275). If a firm has demands for pollution controls and adopts new technologies, it may be better for it to increase retained earnings (building slack cash) versus addressing these contingencies through boundary activities.

There is a fourth reason to study slack separately from other buffers. The reason is that our position is at odds with the neoclassical economics view of slack. Cyert and March (1963) argued:

In conventional economic theory slack is zero (at least at equilibrium). In treatments of managerial economics, attention is ordinarily focused on only one part of slack—payments to owners—and it assumed that other slack is maintained at zero. Neither view is an especially accurate portrayal of the firm. (p. 37)

In the neoclassical view, slack only appears when the firm is not in equilibrium, and it should be minimized for the sake of efficiency. Our position, like Bourgeois’ (1981), is that efficiency is not necessarily always the goal. In a short-run sense, the efficient firm will be the most profitable. In the longer term, slack will be necessary for survival and, hence, for long-run effectiveness (profit maximization) of the firm. There is, however, a notion of efficiency in this argument. We suggest that there is an optimal level of slack for any given firm. If the firm exceeds that level, performance will go down (Bourgeois, 1981; Sharfman, 1985). Because we argue that slack is necessary in a way that is at odds with neoclassical economics, it deserves special attention.

Antecedents of Organizational Slack

As mentioned previously, three general sets of conditions (environmental conditions, characteristics of the organization, and values and beliefs of the dominant coalition) lead to the development of organizational slack. From these conditions we propose three models. The first predicts the overall level of slack in a firm, the second predicts the level of high discretion slack, and the third model predicts the level of low discretion slack. Figures 1A–1C show in detail the model we propose. Each of these sets of conditions is described in further detail next.
Figure 1A. Predictors of the firm's overall level of slack.

Both of these are a function of the "actual" structure of opportunities and threats in the environment.

Figure 1B. Predictors of the firm's level of high discretion slack.
Environmental Characteristics

Thompson (1967) argued that the primary use of slack is to protect the firm from its environment. In this paper we identify three specific environmental forces that help shape a firm's level of slack. These three forces are the interaction of the rate and magnitude of general environmental change, the availability of resources in a market, and the structure of that market.

Aldrich (1979, p. 35) suggested that the population ecology model is "indifferent to the ultimate source of variation" in an environment. Rather, the theory is concerned with the pressures that the changes put on the firm. Specifically, the dimensions of interest are the rate of change in the environment (slow/fast) and the magnitude of those changes (small/large) (Brittain & Freeman, 1980). Figure 2 provides examples of each of these types of changes. Because this argument has been well established by the ecologists, it will be accepted and utilized in our discussion.

The second environmental contingency to be discussed in this paper is the availability of resources to a given market. We believe that firms will have different forms of slack, dependent on the amount and types of resources in their environment.

The last environmental contingency in our argument is the structure of the specific market of interest to the firm. Here we look at the effect that the basic nature of the output has on the retention of slack and the point at which the industry is in its cycle. Each of these contingencies and its relationship to slack is described below.

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**Figure 1C. Predictors of the level of low discretion slack.**

Only in terms of the Bourgeois and Singh (1983) Recoverable Slack.

**Figure 2. Examples of environmental changes classified by their speed and extent.**
Rate and Extent of Environmental Change. Slack resources are put into place in organizations to absorb variation in the environment so that the organization does not need to change elements closer to its core. When slack is present, organizations can absorb small to moderate changes. Even if changes are large, if they are either slow or predictable, slack resources usually can be committed at levels sufficient enough to absorb them; for example, changes in the telecommunication industry after the breakup of AT&T were easily predicted. A difficulty occurs when the environment changes either faster than the firm can respond or in a magnitude beyond the capability of its resources. The difficulty increases greatly when these phenomena occur simultaneously, for example, when Braniff, People Express, and other airlines had increasing difficulty coping with competition in a deregulated environment.

How, then, can the firm use slack resources to absorb differing rates and amounts of change? In order to understand the choices that firms make, we must go back to the dimension of discretion. Changes of different rates and amplitudes require different levels of discretion. In environments in which change occurs slowly and, especially, when that change comes in small amounts, organizations can afford to be very specialized (Brittain & Freeman, 1980). In these environments, firms are forced by competitive pressures to be very selective about their choices of slack. Because efficient production is the key to successful specialization, ensuring high levels of efficiency is the most important goal for the slack resources that are present. This insurance can take the form of low discretion slack, such as inventory and excess capacity. Alternatively, if the environment is changing rapidly and the changes are large (e.g., the biotechnology industry), inventory and capacity make the firm less responsive instead of increasing its ability to absorb variation. Although the speed of the changes and their magnitude will have direct effects on the level of high discretion slack, it is their interaction that has the most profound impact. This type of firm needs a great deal of discretion, and it will need cash and readily accessible slack, such as lines of credit. This argument leads to our first hypothesis:

Hypothesis 1: The faster that changes come, and the larger those changes are, the more high discretion slack the firm will need.

Availability of Resources. Numerous attempts have been made to understand environments in terms of resources in a way that would be useful for organizational research (e.g., Aldrich, 1979; Lawrence & Lorsch, 1967; Pfeffer & Salancik, 1978; Yuchtman & Seashore, 1967). A common theme in all of these attempts is the level of resources in a given environment/industry/market. Aldrich (1979) and Dess and Beard (1984) described this level of resources with the term munificence. In trying to empirically establish this dimension, Dess and Beard operationalized the ideas in terms of market growth.

We argue that in a growing market, there are higher absolute levels of resources. Given this higher level of resources, we can assume that in a munificent market, higher than normal economic profits are being made. This assumption is made in light of the Dess and Beard (1984) definition of munificence primarily in terms of market growth. When high levels of returns can be made, a market will attract new entrants. In turn, new entrants cause increased competition for resources, until equilibrium is reached and inefficient firms are forced out of the market. Even though munificent markets have higher absolute levels of resources, they do put competitive pressure on firms because of the increasing number of competitors for those resources. Further, the competition may not be for resources in general, but rather for specific resources that are needed by a firm. As a result, the firm will stockpile extra resources in the forms of inventory and excess capacity. If the firm keeps only high discretion slack resources (e.g., cash and credit), the specific resources it needs (e.g., inventory and machinery) might not be available when needed, even at any price. Hypothesis 2 establishes the relationship between market munificence and slack.
Hypothesis 2: The more munificent a market, the more likely the firm is to hold low discretion slack resources.

Industry Structure

Two of the dimensions that influence an industry's structure have already been discussed. Here we analyze two actual elements of that structure: (a) the nature of the industry’s output and (b) the stage in the industry's life cycle within which most of the industry’s firms can be found.

Basic Nature of the Output. In this category, we discuss the most basic industry choice, that is, whether the firm is providing a product, a service, or both. In this discussion, the propositions are derived by definition. As an example, mixed service organizations such as law and accounting firms (Chase & Aquilano, 1985) need to be very flexible in their response to changing demand. Specifically, they have low needs for slack as physical inventory, but high needs in terms of human and (to a lesser extent) machine capacity (e.g., computers and typewriters). Although labor market conditions and training concerns are obvious limiting factors, excess personnel often can be added and deleted much easier than a fixed plant or equipment. These firms also need cash reserves to facilitate adding personnel when demand varies.

Pure service organizations (e.g., retail stores and restaurants) that provide a service and a tangible product (food, clothing, etc.) need physical inventory, slack labor capacity, and some additional machine capacity, but little slack cash because sales usually can generate a sufficient cash flow. These firms absorb demand variations via activities such as increasing production, adding personnel, or decreasing inventory through offering sales incentives.

Manufacturing firms vary in their needs for slack along the technology dimension (see below), but in general they hold slack in physical inventory and, to a lesser extent, machine capacity. In manufacturing firms, production efficiency is essential. To ensure production efficiency a company must have both the inventory and the machines with which to produce products. Given these variations in the basic nature of an industry's outputs, the following general hypothesis is derived:

Hypothesis 3: The more that a firm is providing a service, the more high discretion slack resources it will need. The more that a firm is providing products, the more likely it will need low discretion slack resources.

Stage in the Industry Life Cycle. As firms in an industry go through the industry life cycle (cf. Porter, 1980), their needs for slack resources change. Firms in the emergent and growth stages experience rapid changes (see previous sections) and generally downward pressure on profits. As such, they are likely to want slack resources that give them the highest levels of flexibility while incurring the lowest opportunity costs (e.g., cash and credit lines). Further, as firms mature, they are more likely to need to become efficient producers and will protect that efficiency with the specific resources that they require (i.e., inventory and machine capacity). In this phase, being able to meet specific resource requirements can, in large measure, outweigh the opportunity and holding costs found with low discretion slack resources. Finally, as industries enter the decline phase, firms must be prepared to again maximize flexibility while minimizing opportunity costs, in order to enhance their chances for survival. However, if firms are failing and do not hold slack, they are likely to fail even faster, causing even lower levels of slack. (This argument assumes rational behavior, not the flailing about that Hambrick and D'Avendi, 1986, describe during corporate failure.) Therefore, the following hypothesis is presented:

Hypothesis 4: As firms move from emergence/growth into the maturity stage, they are more likely to hold low discretion slack resources. Firms entering the decline phase (and not failing) will employ high discretion slack.

Organizational Characteristics

The previous sections have been written consistent with the literature (cf. Bourgeois, 1981; Thompson, 1967) that suggests slack is held as a direct response to environmental contingencies.
In the next sections, we argue that characteristics of the firm such as size, performance, age, technology, and internal stability help explain the variance in the amounts and types of slack resources held.

Organizational Size. Freeman, Carroll, and Hannan (1983) indicated that there is a size-age dependence function in organizational death (i.e., large organizations live longer). One can argue that they live longer because the larger the organization, the more opportunities and resources it has to develop links, buffers, and necessary slack. Also, larger firms typically have a greater physical and financial capacity to hold excess resources. Thus,

Hypothesis 5: The larger the firm, the higher the absolute level of all slack resources.

Performance. It follows from the previous argument that larger organizations can perform better because they hold more slack. However, the literature on size and performance provides mixed results. Smyth, Boyes, and Peseau (1975) found that a diversity in the measures of size leads to different results. As examples of the disparity, a variety of writers (e.g., Baumol, 1967; Crumm, 1933; Hall & Weiss, 1967; Steckler, 1963; Steindl, 1945) found strong positive correlations between firm size and profitability. There is an equally large body of evidence against this finding (e.g., Haines, 1971; Marshall, 1961; Robinson, 1934; Summers, 1932). Despite this mixed evidence on size and performance, better performance could still lead to (the ability to acquire) higher levels of slack. However, in the situation in which environmental forces do not necessitate high levels of slack, low levels would be found irrespective of size. In fact, in very predictable markets (e.g., soft drink bottling) keeping high levels of slack derived from high performance in T<sub>1</sub> would probably reduce performance in T<sub>2</sub>. Unnecessary slack cash can be invested, so the firm is likely to do so. Further "cash rich" firms are likely to be takeover targets; therefore, firms are unlikely to keep more slack cash than necessary. Thus, the prediction about relationship between slack and performance is argued in terms of an interaction with previously mentioned environmental variables.

Hypothesis 6A: Under ceritus parabus conditions firms performing better will have higher levels of slack resources.

Hypothesis 6B: In very calm environments, higher performing firms will have lower levels of slack.

Organizational Age. Building on the liability of newness concept proposed by Stinchcombe (1965), Freeman et al. (1983) investigated the relationship between organizational age and organizational death rates. They found that as an organization aged, the probability that it would "die" (change form) decreased in a curvilinear manner. Wholey and Brittain (1984) interpreted this research by saying that younger firms had a more difficult time establishing their legitimacy, obtaining capital, and developing a customer base. They further suggest that as an organization gets older, its survival skills increase. Included in these survival skills is the judicious acquisition of slack resources. Older organizations often have had the opportunity to experiment with different levels and types of slack resources, and if we assume that some learning has taken place, the firm will select the set of slack resources that is necessary for its survival. Also, older organizations are more likely either to be in or to be approaching the maturity stage. If we allow that mature firms behave like mature industries, older firms are more likely to have identified the specific resources they need, rather than relying on more discretionary, less specific slack. Because older organizations will better understand their own needs, the next hypothesis is offered:

Hypothesis 7: The older the organization, the higher the level of low discretion slack resources.

Technology. Perrow (1967) presents a schema to describe organizational technology that is composed of two primary dimensions. The first of these dimensions is the extent to which the process encounters exceptional cases. The second dimension is the degree to which the system en-
counters problems that can be solved through analytical processes. The interaction of these dimensions can be thought of as a dimension of predictability. Specifically, a technology would be called highly predictable if the firm encounters few exceptions, and those exceptions can be addressed in an analytic or programmed way (e.g., sheet steel mills or oil refineries). Alternatively, if the firm encounters high levels of exceptions that cannot be addressed analytically (e.g., a biotechnology or computer software firm), the level of predictability of the technology is very low. Thus, if a firm employs a technology that is very predictable, it will “know” the kinds of slack that it will need under various conditions. In general, this type of firm will opt for specific, low discretion slack, such as inventory or capacity. Alternatively, if the firm has a low level of predictability in its technology (e.g., biotechnology), then it will opt for high discretion slack like cash.

Also, as we noted, the age of a firm may contribute directly to the predictability of the production process: older firms that have more predictable processes because of their experience. However, this relationship would seem to be true more within, than between, technological classifications. For example, a young batch processing organization may be more stable than an old custom builder. Thus, the following hypothesis is presented:

**Hypothesis 8:** The more predictable the production process, the more likely the firm is to employ low discretion slack.

**Internal Stability.** As noted earlier, Cyert and March (1963) stated that slack is the “disparity between the resources available to the organization and the payments required to maintain the coalition” (p. 36). Cyert and March’s concept of slack tends to have an internal focus rather than an external one as proposed by Thompson (1967). The relationship of slack to internal processes has been investigated by a variety of writers. Hambrick and Snow (1977) and Litschert and Bonham (1978) investigated the relationship of slack to strategy formulation. Bourgeois and Singh (1983) examined slack and political behavior among top management teams, and Singh (1986) investigated slack and strategic risk taking. Further, Cyert and March (1963) also proposed that when the organization is stable or at equilibrium, there is no need for slack resources. However, because the coalition and its resources usually are constantly changing (March, 1962), for both political and other reasons, firms often need slack resources to maintain the coalition. As long as there is sufficient slack, internal stability can be maintained. However, because the firm rarely stays at equilibrium and slack resources are used up, the firm may face a constant cycle of stability and the need for more slack. Because coalition objectives often are quite varied, these slack resources must be flexible enough to meet a variety of needs. Hypothesis 9 describes the relationship between slack resources and internal stability.

**Hypothesis 9:** The more unstable the internal environment of the organization, the more likely the firm will hold high discretion slack resources.

### Values and Beliefs of the Dominant Coalition

In the previous sections, the primarily rational model of slack is, by necessity, incomplete. There is a rather large body of literature (e.g., Cohen, March, & Olson, 1972) that suggests that management, in general, and managerial decision making, in specific, are not completely rational processes. Therefore, the choice of slack resources in the firm will not always follow the rational processes described previously.

In order to incorporate nonrationality in the use of slack, we introduce two specific sets of values and beliefs of the dominant coalition—the collective propensities toward political behavior and toward risk. We emphasize collective propensities for two reasons. As mentioned previously, Cyert and March (1963) argued that the organization is a coalition within which subcoalitions dominate. These dominant coalitions set the organization’s goals, which Simon (1964) argued are the constraint sets that frame all deci-
sion making. Even if the dominant coalition is shifting, allowing for new interests and, even, new coalitions (Scott, 1987), it still sets the overall organizational agenda. Because using slack is a specific decision that has an impact on the entire coalition, the collective choices of the dominant coalition will dictate its use.

Second, Selznick (1948) argued organizations are collectivities that can take on lives of their own, separate from the lives of their members. One current argument for this life-of-its-own phenomenon in organizations is the development of an organizational culture. Schein (1985) argued that as organizations develop, the values and beliefs of the members coalesce into a culture that frames much of the organization’s activities. We argue that the organization’s culture is more than simply the sum of the values and beliefs of the members: Rather, the collective values and beliefs are institutionalized into this cultural structure in a manner similar to those that Selznick and others have described. We see evidence that collective propensities exceed those of the members in both the literature on risk attitude (cf. Kogan & Wallach, 1967) and in the developments of “configurations of power” (p. 308) in organizations (Mintzberg, 1983). In both cases, the choices made in terms of risk and power evolve in a manner unique to the collective, and they are not specific to individuals. Collective propensities of the dominant coalition (in terms of both risk and political behavior) shape the ways in which slack is used.

Slack and Political Behavior. Of these two sets of issues, political behavior and slack resources have been the most discussed and researched. In fact, one of slack’s earliest descriptions (Cyert & March, 1963) was in terms of its utility in managing political problems among the organization’s coalitions. Also, the impact that slack has on political behavior among top management teams was investigated by Bourgeois and Singh (1983). To be consistent with the literature, we have adopted the Bourgeois and Singh (1983) concept of political behavior. These authors measured political behavior in terms of two Likert-style items. The first asked about the degree to which top managers found themselves engaging in conflict over policy proposals. The second one assessed the extent to which managers engaged in coalition-building behavior during policy decisions. The authors proposed a model developed from the view of Moch and Pondy (1977), which proposes that the introduction of slack resources actually will decrease the need for political behavior. As slack is introduced, unattached resources increase, making less competition for existing ones.

Bourgeois and Singh (1983) found that recoverable (low discretion) slack (excess costs, overhead, etc.) had a “strong negative relationship” with political behaviors, whereas potential (high discretion) slack had a “strong positive relationship” (p. 46) with political behavior. The authors suggested that these results occurred because recoverable slack is already stored in the firm as buffers (i.e., these resources have already been allocated). Potential slack represents resources that have not yet entered the firm and, as such, may generate political behavior to gain control of them when they do enter the organization.

Although Bourgeois and Singh (1983) shed some light on the correlation between slack levels and issues in political behavior, they do not help to clarify how organizational values about politicality may lead to slack formation. With caution, we suggest a change in the direction of causation between slack and political behavior. Cyert and March (1963) suggested that slack aids the firm by keeping its coalitions together. As aspiration levels increase, so must the levels of slack resources that are necessary to keep the coalition together. Because aspiration levels are influenced not only by individuals’ characteristics but also by available opportunities (Kanter, 1977), in organizations in which political behavior is important and resources are being claimed, aspirations for more resources may increase. Therefore, an organization that includes conflicting managers who have increasing aspirations would regularly need higher levels of slack.
resources. Therefore, we present the following hypothesis:

**Hypothesis 10A:** The higher the level of political behavior in the firm, the higher the level of slack necessary.

A second argument is based on the idea that in organizations with high levels of political behavior, resources (including slack) are claimed as they enter the organization. Given the necessity that slack resources be discretionary as defined previously, if resources are claimed, they no longer are slack because they no longer are discretionary. Claimed resources correspond to Bourgeois and Singh’s (1983) notion of recoverable (low discretion) slack. Therefore, in political organizations there would be low levels of available (higher discretion) slack (as previously defined). However, resources might be found as recoverable slack and not in a more discretionary form. The following hypothesis states this prediction:

**Hypothesis 10B:** The higher the level of political behavior in the firm, the lower the level of high discretion slack resources and the higher the level of recoverable/law discretion.

**Slack and Risk Attitude.** We argue that the framework for organizational decision making is the dominant coalition’s collective values and beliefs (cf. Kilman, Saxton, & Serpa, 1985; Schein, 1985). Because of the protective nature of slack, one set of values and beliefs that will have an impact on the decisions to hold these resources is the collective desire for safety, also known as risk attitude. Although there is some evidence that risk attitude is a trait that is relatively constant, there is a larger amount of data to suggest that the situation in which one finds oneself will determine one’s willingness to take risks. The literature on threat/opportunity recognition (e.g., Dutton & Jackson, 1987) suggests that the overall frame that a person/firm has, to an important degree, will influence how he or she/it sees all situations. However, the environmental literature (e.g., Tosi, Aldag, & Storey (1973) suggests that managers are not that good at objectively evaluating the uncertainty and instability (sources of risk) in their environments. Therefore, at the firm level, the coalition makes judgments about the structure of opportunities and threats in its environment. Those judgments are manifest in the group’s choices regarding the risk. These judgments are especially important, Kogan and Wallach (1967) argued, because group decisions often will be more extreme in terms of risk (either direction) than such decisions made by individuals. Singh (1986), in his discussion of slack and risk, cited Kahneman and Tversky’s (1979) work on prospect theory to point out that in situations in which individuals attempt to prevent losses, they are risk seeking, and in attempting to maintain gains they are risk adverse. Thus, the situations in which the coalition finds itself, plus its collective risk attitude, predict the level and type of slack the firm will hold.

Singh (1986), in his study of risk, performance, and slack, found evidence to support the idea that slack is used differently in opportunity situations versus threat situations. In general terms, if one accepts the prospect theory arguments, then in opportunity situations, firms will be more risk adverse, whereas in more threatening domains, firms will be risk seeking. Assuming that slack is used to protect the firm against risk, if the dominant coalition perceives itself to be in opportunity situations, the firm will hold slack; if it perceives itself in threat circumstances, the firm will not keep slack resources. The following hypothesis presents this prediction.

**Hypothesis 11:** When the coalition perceives opportunities, firms will hold more slack. In situations in which the coalition perceives threats, firms will hold less slack.

**Implications of the Model**

The model described above (see Figure 1A–1C for the full model) provides us with three general sets of information. It clarifies a gap in our understanding of organizational responses to their environments. This paper suggests a schema for understanding the conditions under which slack develops, and it explains what specific forces lead to the selection of different kinds
of slack resources. Thompson's (1967) arguments about buffering systems also are clarified. Thompson lumped tangible slack resources and other intangible systems into one category called buffers. We argue that slack resources must be differentiated from other buffers, and that high discretion slack must be seen as different from low discretion slack. We have described a set of conditions in which specific slack resources are the likely organizational response to a given external or internal contingency. Given that slack resources behave independently of other buffer systems, understanding their antecedents is important.

The model also gives the practitioner insights into important variables and relationships. Understanding the propositions in this paper can make the practicing manager's choices of slack resources easier and more appropriate. The manager can use the schema presented in order to analyze the environment and organization characteristics and collective beliefs and to make better choices about slack. Because there are costs involved in having slack resources, and because those costs vary by the type of slack resource and the length that the resource is held, managers are faced with difficult optimization decisions. If our schema can make these decisions easier, or less complex, then the model is quite valuable.

Finally, although not explicitly argued in this paper, the purpose of slack is to allow the firm to forego short-term gains in favor of long-term outcomes. Rather than operating on a pure cost minimization model that would eliminate any short-run "excess" costs, this model implies that in order to maximize performance, the firm must balance the costs of slack and its protective abilities. In order to maximize (long-term) performance, the firm is faced with making a complex set of choices about slack. As markets get more competitive, these choices take on greater and greater importance.

References


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