Entrepreneurship and new ventures finance

The space of slack interaction

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1. Slack dilemma
2. The reciprocal interactions between several kinds of slack
3. The space of slack interaction
Slack dilemma

Three definitions of slack

Slack “as pool of resources in an organization that is in excess of the minimum necessary to produce a given level of organizational output” (Nohria, Gulati, 1997).

Slack “A cushion of actual or potential resources which allows an organization to adapt to internal pressures for change in policy, as well as to initiate changes in strategy with respect to external environment” (Bourgeois, 1981)

Slack “As resource intentionally kept by a firm beyond those needed by an organization to meet its known commitments” (Sharfman et al., 1998, Sharfman and Dean, 1997)
Financial slack;
- Relational slack;
- Human resource slack;
- Knowledge slack;
- Operative slack;
- ...

Potential strategic reserve in long run
Potential innovation driver

Dilemma: is slack good or bad?
The phenomenon of slack can’t be evaluated in absolute terms as negative or positive, but it must be evaluated in relative terms.

Moreover, with particular reference to innovative firm processes, scholars have put little attention to investigate the reciprocal interactions between heterogeneous slack resources.
The increasing importance of intangible slack doesn’t mean that tangible slack doesn’t affect the feasibility of innovation processes:

A wrong level of tangible slack can reduce the possibility to exploit intangible slack as an innovation driver.
How do tangible and intangible slacks interact to each other?

How does the interaction between tangible and intangible slacks influence risk-return profile of innovative firms?

Heuristic model: “THE SPACE OF SLACK INTERACTION”
The model takes into consideration two kinds of slack:

**OPERATIVE SLACK**

It derives from the excesses in productive capacity. It is typically due to over sizing of plants, machinery and work force.

**KNOWLEDGE SLACK**

It derives from the patrimony of knowledge found internally in economic organization that can assume diverse paths.
Assumptions

- Economic and industrial performances depend on how knowledge slack is combined with operative slack.

- “Non neutral” alignment leads to different effects depending on the “nature” of the innovative approach taken.
“The space of slack interaction”: General logic

Slack composition

- **Operative Slack**
- **Knowledge Slack**

Exploitation in innovation process

- Misalignment between slack composition and innovation kind
- Alignment between slack composition and innovation kind

Intrinsic risk-return profile of innovation

The internal structure improves risk-return relationship

The internal structure worsens risk-return relationship
The space of slack interaction

- **North-West**:
  - Radical
  - Misalignment between operative and knowledge slack
  - Innovation

- **North-East**:
  - Radical
  - Alignment between operative and knowledge slack

- **South-West**:
  - Absence of innovation with operative inefficiency

- **South-East**:
  - Absence of innovation with operative efficiency

- **High**
  - Operative slack
  - Low

High knowledge slack:
- Innovation
- Incremental
- Radical
North-west region regards the hypothesis that a high knowledge slack is accompanied by an even more consistent operative slack.

For example, it could be the case of a company that, on one side, invests a relevant quota in R&D activities, and, on the other hand, operates with an excess of base capacity linked to slack of plants.

The combination of north-west quadrant can generate misalignment and, vice versa, alignment between tangible and intangible resources.
North West Misalignment

In the case of disruptive/creative innovation, the excess of operative resources loses economic value, the moment that the transformation of knowledge slack in a radical innovation process exercising a destructive force on the level technological assets, organizational routines and/or market references.

Sub-optimal effect of slacks’ portfolio on risk-return relationship

The need to disinvest existing asset implies a lower return to parity of risk
In the hypothesis of conservative/reinforcing innovations, north-west region shows a situation of alignment between operative and knowledge slack. In this specific case, on one hand the innovative process is realized in substantial steadiness of the productive/commercial structure, and on the other hand, can allow the recuperation of economic efficiency, where there are product and/or process improvements capable of annulling operative redundancies.

The innovation process entails exploitation of existing resources, meaning a higher return to parity of risk.
In general, such a combination regards organizations that efficiently explore new knowledge and at the same time they are capable of maintaining a high level of technical and operative efficiency.

A paradigmatic case of positioning on north-east region emerges as an effect on the efficiency linked to lean production models that use a type of management that has a high level of intangible slack and a strong propensity to cut back on tangible slack.
The organizational slack analysis to find a compromise between financial and entrepreneurial view of innovation

North East Misalignment

In the case of conservative/reinforcing innovations the scarcity of operative slack is not in line with opportunity for economic and productive growth realizable in operative structures.

Incremental innovations

Sub-optimal risk-return relationship

The low level of slack operating entails an incremental cost due to the need to increase production capacity. This condition could imply the firm’s incapacity to exploit opportunities of gradual growth. For example this has happened to the fashion industry in Italy.
North East Alignment

Radical innovations

A low level of operative slack is coherent with creative innovations, the moment they are linked to structural transformations corresponding to a contained loss of economic value of industrial assets.

Optimal effect of slacks’ portfolio on risk-return relationship

It’s not necessary to invest in new operative assets or disinvest in existing activities.
The space of slack interaction

South West

Inefficiency caused by oversizing of tangible resources

Undersizing risk of the intangible resources.
Efficiency caused by a proper level of tangible resources

Undersizing risk of the intangible resources.
## Key Points

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