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How SMEs Leverage Adaptability, Risk-Taking, and Action Into Positive Performance— A Moderated Mediation Model

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This research investigates the relationship between adaptability and small-and-medium enterprises (SME) performance, and the mediating role of action orientation. We highlight the importance of risk-taking on the relationship between adaptability and action orientation. Our study integrates research on dynamic capabilities and SME culture and how they translate into financial performance. We develop a moderated-mediation model of adaptability, linking perceptions of action to organizational performance. We argue these relationships are moderated by risk-taking. Our findings suggest: (a) there is a positive relationship between organizational adaptability and action; (b) action is positively related to organizational performance; (c) the indirect effect of organizational adaptability on organizational performance (via action) is stronger when employees work in a more risk-oriented environment.

Introduction

Most companies operate in competitive landscapes characterized by dynamic, turbulent, and uncertain work environments (Schmidt et al., 2017) due to advances in technology, intense competition, innovation, globalization, and environmental shifts (Botha et al., 2014). These challenges hinder the competitive advantages and survivability of firms (Kuratko & Hoskinson, 2018), and wreak havoc on organizations' ability to respond (Sharma et al., 2020). Given the unpredictability of the environment and the necessity of fast responses to opportunities and threats, success requires more than just readiness for change; it requires constant adaptability (Uhl-Bien & Arena, 2017). To survive these shifts, organizations must embrace adaptability (Krukowski et al., 2021) by reinventing their institutional strategies, structures, and cultures in the context of volatile and turbulent environments (Obal et al., 2020; Siggelkow, 2001; Zaccaro & Banks, 2004). For organizations to be successful, leaders need to "position and enable organizations and people for adaptability in the face of increasingly dynamic and demanding environments" (Uhl-Bien & Arena, 2018, p. 89).

Unfortunately, some organizations cannot successfully keep their resources and activities aligned with changing environments (Helfat & Winter, 2011; Reed, 2021). And much of the literature focuses on large firms, rather than on small-to-medium sized enterprises (SMEs) and their ability to link strategic behaviors to performance (Parnell, 2013). Understanding ways in which organizations can systematically rearrange firm resources, assets, and activities for new opportunities (Teece, 2007; Teece et al., 1997) can support ways in which firms can be adaptable and set themselves up for financial success. For instance, dynamic capabilities such as organizational routines and effective decision-making are linked to adaptability, but often undermine the impact of employee collective action in the organization (Adler & Obstfeld, 2007; Felin et al., 2015). As such, we examine how individuals' actions can aggregate to firm-level performance by examining collective adaptability and action orientation.

Adaptability empowers people within organizations to handle change and uncertainty in response to the shifting environmental landscape (Rosing et al., 2011), unlike leading change, which is enabled from a top-down leadership perspective reliant upon inculcating vision and inspiration to followers (Margolis & Ziegert, 2016; Zaccaro & Banks, 2004). Adaptability is achieved when leaders "position organizations and the people within them to be adaptive in the face of complex changes" (Uhl-Bien & Arena, 2018, p. 89). If an adaptability culture is supported by leaders, then employees will be more willing to act on and make risky de-

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cisions in the face of uncertainty (McMullen & Shepherd, 2006).

But there is limited research examining the actions of employees, organizational adaptability, and subsequent performance (Annosi et al., 2020; Costanza et al., 2016). As such, we examine organizational-level adaptability to explore how adaptability impacts the overall effectiveness of SMEs. For one, SMEs comprise much of the business landscape and are much more vulnerable than larger enterprises to competitive pressures (Ayyagari et al., 2007; Hernández-Linares et al., 2021; Wang & Shi, 2011). By using a meso-level theory, we examine how adaptability acts as a capability embedded in the organization to facilitate action and risk and to impact the overall bottom line (Raisch & Birkinshaw, 2008).

The purpose of this study is threefold. First, this study draws on the dynamic capability literature to gain insight into the implications for adaptability in SMEs and the relationship between action orientation and risk-taking (Amis et al., 2002; Iborra et al., 2022; Sackmann, 2011). Second, this study examines risk-taking and its moderating effects on adaptability and action orientation. When SMEs accept and encourage adaptability, it increases the likelihood that their employees will create new knowledge through risk-taking. This provides new insights into the discussion about how SMEs can exploit their capabilities and improve performance (Altinay et al., 2016). Finally, adaptability may not generate significant impact on organizational outcomes without employee initiative or action, or employees' ability to shift between contexts (Gibson & Birkinshaw, 2004). Therefore, we argue that employee action mediates the organizational adaptability and performance relationship, which is especially important in SMEs, as they face higher levels of vulnerability in rapidly changing environments.

Theory Development and Hypotheses

System Dynamics and Adaptability

Organizations are interrelated systems with highly interdependent elements shaped by the environment (Csaszar, 2013; Kühl, 2017; Schneider et al., 2017). Prominent elements of an organization's system (e.g., structure, strategy, leadership, and culture) guide employees' actions toward achieving organizational objectives and effectiveness (Ghoshal & Bartlett, 1994; Hartnell et al., 2019). These system elements need to be aligned for proper functioning and organizational effectiveness. However, when companies experience shocks from the environment, they are not always quick to react, which creates misalignment. For organizations to survive, they must adapt to their environments (Stam & van de Ven, 2021; Verhoef et al., 2021). Resolving tradeoffs between the need for adaptability versus the need for alignment is a challenging balancing act for companies (Gibson & Birkinshaw, 2004). To resolve this conflict, the concept of *structural* ambidexterity was introduced as a way for organizations to balance adaptability and alignment by emphasizing dual structures (Duncan, 1976). Dual structures allowed organizations to separate business units to address either adaption or alignment (Duncan, 1976). However, given today's hyper-dynamic environments, there is an increasing demand for organizations to continually adapt to be competitive and survive (O'Reilly & Tushman, 2013); it is no longer sufficient to just react to exogenous shocks. Consequently, *contextual* ambidexterity has evolved from structural ambidexterity as "the behavioral capacity to simultaneously demonstrate alignment and adaptability across an entire business unit" (Gibson & Birkinshaw, 2004, p. 209). Contextual ambidexterity encourages individuals to address the dual demands of adaptability and alignment by being more autonomous (Mu et al., 2020; O'Reilly & Tushman, 2013; Tushman & O'Reilly, 1996). This premise highlights how dynamic capabilities encourage individuals to use their own judgement when making decisions and taking action (Ghoshal & Bartlett, 1994; Gibson & Birkinshaw, 2004; Mu et al., 2020). But context alone does not dictate action. Dynamic capabilities that are embedded in the organizational culture will deliver far greater benefits of adaptability within the structural and interactional components of an organization. Since adaptability is a multifaceted construct that considers the structural, social, human, and intellectual capital in the firm (Hollenbeck & Jamieson, 2015; Uhl-Bien & Arena, 2018), we believe it is reflected the behaviors and subsequent actions of an organization's employees.

Organizational Adaptability and Action Orientation

Adaptability is the ability to quickly reconfigure internal business activities in response to the changing environment despite uncertainty (Denison & Mishra, 1995; Gibson & Birkinshaw, 2004). This includes modifications to business functions, processes, and strategies to better align with the changing surroundings (Abdul Rashid et al., 2004). Organizational adaptability enables organizations to avoid complacency by reinforcing employee behaviors that preference flexibility, action, and taking risks when necessary (McMullen & Shepherd, 2006; Uhl-Bien & Arena, 2018). For instance, creativity is a norm that promotes adaptability, which then informs the actions employees take that lead to higher innovations and change (Chandler et al., 2000; Hargadon & Sutton, 1997). These characteristics are often associated with activities that are *economically valuable* by allowing organizations to stay relevant among their competitors and build cultures that foster adaptability (Chandler et al., 2000). For organizations to gain a shared sense of adaptability, there needs to be a level of social acceptance aligned with organizational activities related to adaptability (Chatman et al., 1998; De Dreu & West, 2001), such as norms of risk-taking and flexibility (Bueschgens et al., 2010). For instance, Goffee and Jones (1998) argued that consistent norms generate behaviors linked to organizational goal completion and quick adaptation to environmental change. In another study, Abdul Rashid et al. (2004) examined types of organizational cultures that were more successful. They found that 98 percent of respondents were receptive to change in instances where the organizational culture supported adaptability. Creating an organizational culture that supports adaptability results in organizations with the capacity to endure changes in the exogenous environment (Fey & Denison, 2003).

Therefore, when adaptability is supported by an organization, employees will be empowered to take risks, make decisions, and implement action in response to changing environments (Chandler et al., 2000; Hargadon & Sutton, 1997; Khazanchi et al., 2007). For that reason, we define organizational adaptability as the collective values, beliefs, and norms about adaptability that influence the willingness of employees to alter their behaviors to respond to the changing demands of the environment (Weiner et al., 2008). This includes the ability of an organization to adapt to exogenous change (Moon et al., 2012) and promote perceptions that management supports employee actions and behaviors that align with adaptability (Baer & Frese, 2003; Caldwell & O'Reilly, 2003; Chandler et al., 2000).

Adaptability capabilities emphasize organizational actions that reflect the changing circumstances in the environment, not merely through thoughts of innovation, but through acting upon those ideas to make change (Benner & Tushman, 2002; Caldwell & O'Reilly, 2003). Understanding how adaptability is embedded into an organization and how it relates to employees' actions is critical for a firm when responding to shifts in the external environment. Subsequently, the dynamic nature of supportive ambidextrous cultures influences employees' call to action and effective decision making (Chatman et al., 2014; Jones et al., 2005; Ramella, 2017).

The aggregation of these collective behaviors, defined as action orientation, results in task completion aligned with desired goals (Diefendorff et al., 2000; Jaramillo & Spector, 2004). As such, these recurrent and collective behaviors exhibited in employees' actions are indicators of supportive environments (Feldman & Orlikowski, 2011; Wilderom et al., 2012). Therefore, the willingness and ability of employees to take action are elements of a supportive context and are reflected in contextual ambidexterity, where the organization supports putting ideas into action at the individual level (Caldwell & O'Reilly, 2003). According to Ghoshal and Bartlett (1994), employee actions are not created by context alone, but by supportive surroundings. Consequently, action is facilitated by strong organizational adaptability.

> *Hypothesis 1:* Organizational adaptability is positively related to action orientation.

Action Orientation and Firm Performance

The implementation of strategy and organizational goals represents the collective actions and behaviors that lead to organizational outcomes (Hartnell et al., 2019). Through supportive ambidextrous contexts, individuals work under their own volition, determining when and where to focus their energy and time (Gibson & Birkinshaw, 2004). Thus, supportive ambidextrous environments are seen throughout all employees' behaviors in the organization and displayed by the motivation and willingness of employees to act without seeking permission (Gibson & Birkinshaw, 2004). This allows employees to adapt when needed, taking initiative and action related to the strategic objectives of the organization without losing alignment. For instance, O'Reilly and Tushman (2013) argued that organizational ambidexterity emphasizes the need for organizations to explore actions in new markets and norms that represent adaptability, such as flexibility, which reinforces the implementation of new ideas. These actions are related to higher levels of firm performance (Abdul Rashid et al., 2004; Stanley et al., 2005).

Organizations that have high levels of action orientation will ultimately have more successful practices and competitive advantages (Giorgi et al., 2015; Small et al., 2010) because they will have implemented strategies that relate to organizational outcomes (Dobni & Luffman, 2000) that lead to stronger financial performance.

> *Hypothesis 2:* Action orientation is positively related to financial performance.

Moderating Role of Risk Taking

Risk is a multidimensional construct that bridges concepts such as risk tolerance, risk propensity, and other risk-taking behaviors/actions. It is often studied in conjunction with firm performance and organization effectiveness (e.g., Chandler et al., 2000; Lumpkin & Dess, 1996; Miller & Friesen, 1983; Walls & Dyer, 1996). Specifically, risk-taking is defined as the amount of risk that an organization can withstand and that managers will accept and encourage, despite the uncertainty of the outcomes (Rau et al., 2015; Walls & Dyer, 1996). Organizations that are more risk tolerant have managers who encourage employees to take actions without the threat of punishment and have the proclivity to pursue risky projects, ideas, innovation, and creativity (Lumpkin & Dess, 1996). Adaptability supports and enables risk-taking (Kilmann, 1985) and the more managers encourage their employees to take risk, the stronger the risk-taking culture of the organization.

Organizations whose cultures encourage norms of adaptability encourage risk-taking, reward innovation, and tolerate mistakes (Chatman et al., 2014; Lyon et al., 2000; Miller & Friesen, 1983). For instance, if performance is low, managers may encourage risk-taking to boost it (Greve, 2003; Walls & Dyer, 1996). In dynamic environments, these characteristics are positively associated with firm performance (Chatman et al., 2014). Risk-taking could help organizations with strong adaptability norms to encourage divergent behavior and increase organizational learning, innovation, and creativity (Chatman et al., 2014; O'Reilly & Tushman, 2013) by promoting dynamic capability.

Organizations that emphasize risk-taking have a stronger proclivity to take actions that explore new opportunities and seek behaviors that encourage growth, despite possible failures (Cieslik et al., 2010; Dess et al., 2003). Therefore, organizations need to create environments where the prevalent dynamic capabilities are those of adaptability, promoting risk-taking, flexibility, and action (Kilduff & Dougherty, 2000; McKinley & Scherer, 2000). The employees of organizations with adaptability capabilities will be more likely to take action (Ployhart & Turner, 2014; Xenikou & Simosi, 2006), and that relationship will be strengthened when risk-taking is high.

Work environments that encourage employees to take risks create a sense of value for each person's part of the work process and will foster cultures where employees feel comfortable and safe to make decisions and take actions (Edmondson, 1999). We believe organizations that promote cultures of risk-taking and adaptability will reduce employees' uncertainties about their actions.

> *Hypothesis 3:* The relationship between adaptability and action orientation is moderated by risk taking.

Organizational Adaptability and Financial Performance: A Case for Mediation

For adaptability capabilities to impact organization performance, they must encourage employees to take actions to implement new ideas, innovations, and strategies in relation to changes in the external environment (Khazanchi et al., 2007). Similarly, Hargadon and Sutton (1997) emphasized that a culture needs to support execution; to reduce uncertainties, employees need to act proactively (Parker, 1998) and know when the context requires switching work roles to address adaptability (Gibson & Birkinshaw, 2004). These conditions create a culture of action (Baer & Frese, 2003).

There is support for the idea that adaptability, enhanced by taking action, will lead to higher levels of financial performance (Cameron & Quinn, 2011; Chatman et al., 2014). Adaptability transforms the demands of the business environment to action (Denison & Mishra, 1995), and action only translates into organizational effectiveness when actors are willing to exploit opportunities and adapt. For instance, Grimm et al. (2006) proposed that the relationship between resources and performance is mediated by action. And resources only hold value and satisfy customer needs when transformed into output through the action of employees (Peteraf & Bergen, 2003). When actions leverage resources, performance increases, but action is needed for performance to be initiated (Ndofor et al., 2011). Therefore, we presume that organizations with more adaptability will have a set of strategies that encourage exploitation and action, and therefore higher performance (Weber & Dacin, 2011). Based on the above, we contend that organizational adaptability indirectly affects financial performance through action orientation and that risk-taking serves as a condition that can exacerbate or mitigate this relationship.

> *Hypothesis 4:* The indirect association between adaptability and firm behavior via action orientation is moderated by perceptions of risk taking, such that the indirect relationship becomes stronger as perceptions of risk taking are greater (moderated mediation).

Method

Sample

Most of the previous research examining cultural attributes as a source of competitive advantage and their subsequent impact on firm-level performance has used cross-sectional samples, as assessing firm-level performance requires data from multiple firms (Christensen & Gordon, 1999). Taking this into consideration, we surveyed multiple employees from a cross-sectional sample, using Harrigan's (1983) approach to data collection, wherein careful selection criteria were established to maximize effect size. Given the prevalence of subcultures in organizations, we needed to employ strict parameters for firm selection in our sample. Specifically, to minimize the possibility of subcultures, firms were only considered if they met all the following criteria: (a) independent businesses that were not owned by a parent company; (b) single-product firms; (c) SMEs; and (d) firms with one geographic location.

To collect these data, we contacted the vice president of human resource management, who sent surveys to employees with encouragement to complete them. Surveying only one respondent (usually the VP of HR or the CEO) does not capture the scope of shared values, norms, and beliefs that define organizational culture. We included multiple respondents from each organization to capture shared values and to overcome the issues and lack of representation that arise from surveying only one person per organization. Our sample included a total of 819 respondents from 22 organizations across 18 industries. Industries included manufacturing, wholesalers, printing, and several service firms (i.e., insurance, temporary help services, engineering). The sample had an average of 38 respondents per company with an average organization size of 188 employees, yielding an average response rate across all companies of 27.2 percent.

Measures

Action Orientation. Action orientation is the ability to regulate cognitions and behaviors to complete specific business-related goals (Jaramillo & Spector, 2004). Action orientation was measured using a five-item scale developed by Weinzimmer et al. (2011). Example items include "Our company takes action rather than overanalyzing a situation" and "Plans are implemented in a timely manner." Respondents were asked to rate the degree to which they perceived action would be taken at their organization on a five-point Likert scale where (1) = *strongly disagree* and (5) = *strongly agree*. Cronbach's alpha was $\alpha = 0.87$, suggesting good reliability.

Organizational Adaptability. We measured organizational adaptability using a subset of Cunningham et al.'s (2002) readiness for change scale, by adapting the six-item scale to address adaptability. Example items include "Our Company is open to adaptability" and "Our Company adapts quickly to change." Respondents were asked to rate the degree to which they perceived adaptability at their organization on a five-point Likert scale, from (1) = *strongly disagree* to (5) = *strongly agree*. Cronbach's alpha was $\alpha = 0.80$, suggesting adequate reliability.

Risk-Taking. We measured perceptions of risk-taking using a five-item scale validated by Weinzimmer and Esken (2017), for which example items include "Managers are generally accepting of mistakes" and "Employees are allowed to take risks." Respondents were asked to rate the degree to which their perceived risks would be tolerated at their organization on a five-point Likert scale from (1) = *strongly disagree* to (5) = *strongly agree*. Cronbach's alpha was $\alpha = 0.90$, suggesting good reliability.

Organizational Performance. A substantial amount of research considers the relationship between utilization of resources such as strategies and culture, with dynamic measures of financial performance (Short et al., 2006). Therefore, we examined revenue growth from company financial statements as a metric for organizational performance. Revenue growth is a commonly used metric in culture-financial performance literature linking performance and culture (Calori & Sarnin, 1991; Christensen & Gordon, 1999; Deshpandé et al., 1993; Fey & Denison, 2003; Wiklund & Shepherd, 2003). Specifically, through a validation study that empirically demonstrated the impact of various organizational attributes on organization-level performance, Chandler and Hanks (1993) concluded that the use of revenue data is a reliable measure.

Also, assessing revenue growth over a 5-year period takes into consideration the fact that the benefits of adaptability capabilities may not be immediately realized. Five-year periods were chosen as this is a common timeframe found in the strategic management literature. For instance, studies that include variables such as risk-taking, creativity, and innovation do not see short-term financial implications, as it takes time for the benefits of those variables to be realized. Therefore, examining the revenue growth that comes from these behaviors is a better indicator of the performance implications as these behaviors are realized into strategy (Denison & Spreitzer, 1991).

Control Variables. Research investigating the link between sources of competitive advantage (e.g., cultural attributes) and performance must account for industry effects (Dess et al., 1990). Previous research has empirically demonstrated that industry characteristics are important in assessing the impact of culture on firm-level performance and are commonly used as control variables when assessing firm-level performance across industries (Christensen & Gordon, 1999). Therefore, three contextual control variables were identified based on previous research, namely munificence, dynamism, and concentration (Khan & Mir, 2019). Environmental munificence and dynamism used data from six-digit NAICS codes. Munificence was measured using the standardized regression coefficient (B') of industry sales data over time, and dynamism was measured as the standard error of the regression coefficient ($\sigma_{\beta 1k}$) for the munificence measure (see Weinzimmer et al., 1998). Based on the work of Dess and Beard (1984), industry concentration was measured using a four-firm concentration ratio.

Aggregation and Data Consensus

Organizations should be examined as systems comprised of the processes, social interactions, and actions among employees (Pettigrew et al., 2001; Whelan-Berry et al., 2003). This study utilized an organizational level of analysis based on the expected relationships between organizational culture and its impact on the overall outcomes of a firm (Hartnell et al., 2019).When there is agreement about values, that will strengthen coordination and behaviors and create stronger alignment of strategic goals, all of which support the context for action (Boyce et al., 2015; Denison & Mishra, 1995). To capture the elements that represent the organization's system, aggregation was used. Aggregation is becoming more common practice, with the ability to capture the construct as a composite score representing the organization (Diefendorff, 2004). Studies have commonly used aggregation from the individual to group levels when discussing culture and collective perceptions when assessing performance. Employees in firms with strong cultures cohere more around values (Pettigrew, 1979) and are more likely to uphold them in the firm, underscoring the interrelation of culture and action (Weber & Dacin, 2011).

To verify data consensus, it was also necessary to assess the agreement of individual employee ratings, as we intentionally surveyed employees from multiple levels within each organization to assess the degree of sharedness. Given that our variables of interest are organization-level, we needed to assess whether employees shared these perceptions within each organization in order to have confidence that individual employees' perceptions are an attribute of the organization that predicts organizational performance. A well-accepted measure of agreement—$r_{WG(J)}$ (LeBreton & Senter, 2008)—was used to justify the aggregation of individual level data in this study, as this measure determines whether there is adequate agreement among ratings for any given organization. By comparing the actual distribution of ratings to appropriate null distributions, we estimated the degree of consensus among groups of employees rating the same organization. In this case, we utilized both a uniform null distribution and a slightly skewed null distribution, the latter being the closest to the distribution of the responses in this data set. For both scales and under both distributions, responses from 20 of the 22 companies exceed or approach the 0.7 threshold for agreement (LeBreton et al., 2005). It should be noted that while $r_{WG(J)}$ is strongly suggestive that our culture measures are shared perceptions, and thus justifiably considered to be cultural phenomena, the aggregation of data to scale means reduces our sample size to 20. We were sensitive to this in our analyses, in some cases accepting a p-value threshold of 0.10. As Cohen et al. (2003) suggested, at times sample size is limited by the nature of the data (in this case, using the organization as the level of analysis). Despite our low sample size, our results are in the predicted direction and statistically significant at $p < .10$ or lower.

Statistical Analysis

Using Mplus 7.4 to perform path analysis, we were able to test the simultaneous effects of our moderator (risk-taking) and our mediator (action orientation). As prescribed by Shieh (2009), we regressed action orientation on the product of the mean-center of our independent variable (organizational adaptability) and risk-taking. To calculate moderated mediation effects, we conducted bootstrapping tests employing the Monte Carlo resampling method using Selig and Preacher (2008) for 10,000 iterations. Subsequently, we obtained 95 percent confidence intervals for the high (+1

Table 1. Means, Standard Deviations, Correlations, Alpha Coefficients

Variable	*Mean*	*SD*	1	2	3	4	5	6	7
1. Revenue Growth	2.07	2.00	-						
2. Munificence	3.42	7.84	.10	-					
3. Dynamism	.02	.07	.03	.11*	-				
4. Industry Concentration	4.12	4.23	.04	.07	.06				
5. Organizational adaptability	3.35	.08	.19**	-.04	-.02	-.04	(.80)		
6. Action Orientation	3.39	.71	.16**	-.09	.02	.03	.74**	(.87)	
7. Risk-taking	3.31	.67	.05	-.04	-.08	.01	.46**	.54**	(.90)

Note: N = 22; * *p* < .05, ** *p* < .01

standard deviation above the mean) and low (-1 standard deviation below the mean) levels of risk-taking.

Descriptive Statistics, Correlations, and Reliabilities

All means, standard deviations, bivariate correlations, and reliabilities in this study are reported in Table 1. Note that there are strong positive correlations between organizational adaptability, action orientation, risk-taking, and financial performance, thereby providing initial evidence that the investigation of the combined effects of these variables may provide additional insights to the literature.

Test of the Measurement Model

First, we conducted a confirmatory factor analysis to test our measurement model using Mplus 7.4. We specified a model with four constructs (organizational adaptability, action orientation, risk-taking, and performance). For organizational adaptability, the four individual items were assigned as latent indicators. For action orientation, the six individual items were assigned as latent indicators. For risk-taking, the five individual variables were assigned as latent indicators. Finally, performance was measured by examining revenue growth. The four-factor model demonstrated adequate fit with the data [$\chi(113)^2$ = 390.62, p < .01, root mean square error of approximation (RMSEA) = .06, comparative fit index (CFI) = .94, and standardized root mean square residual (SRMR) = .04, and all the latent indicators had statistically significant loadings on their intended constructs (p < .001).

Test of Hypotheses

We used a single-level path model to simultaneously test our moderated mediation model using Mplus 7.4. Our hypotheses were tested using coefficient estimates employing maximum likelihood with robust standard errors. These paths can be seen in Figure 1.

Coefficient estimates suggest support for our hypothesized relationships. We found a positive and significant relationship between organizational adaptability and action orientation (β = 0.93, p < .01), thus Hypothesis 1 was supported.

Findings also show a positive and significant relationship between action orientation and revenue growth (β = 0.81, p < . 01), providing support for Hypothesis 2.

Our results show a significant interaction effect of risk-taking on organizational adaptability and action orientation (β = 0.69 p < .01). We plotted the interaction effect at high (+1 standard deviation) and low (-1 standard deviation) conditions of risk-taking (c.f., Cohen et al., 2003). Results of our slope tests show significant interaction effects at both the high condition (slope at +1 *SD* = 0.47, p < .01) and low condition (slope at -1 *SD* = 1.32, p < .01) and the relationship between the two was significantly stronger at the low condition (difference between slopes = -.85, p < .01). Thus Hypothesis 3 was supported.

Hypothesis 4 suggests a moderated mediation effect linking organizational adaptability to financial performance through action orientation, with risk-taking serving as a first-stage moderator. Using results from the analytic techniques used to test Hypothesis 3 with 10,000 Monte Carlo simulated replications, results suggest a significant indirect effect of organizational adaptability on financial performance through action orientation when risk-taking is high, as the 95 percent confidence interval does not include zero (indirect effect estimate at +1 *SD* = 0.07, 95 percent CI = [.001, .147]). Additionally, our results suggest a significant indirect effect linking organizational adaptability to financial performance through action orientation when risk-taking is low, as the 95 percent confidence interval does not include zero (indirect effect estimate at -1 *SD* = .20, 95 percent CI = [.041, .299]). The moderated mediation effect for both high and low conditions did not include zero in the 95 percent confidence interval, thus supporting Hypothesis 4.

Discussion

Building cultures that facilitate and support adaptability will bring about more success during uncertain times (Ahn et al., 2004). As companies respond to external demands, endure various structural redesigns, and strategize for future success, organizations can use adaptability as a mechanism to combat constant change and uncertainty (Sørensen, 2002). Achieving change is almost impossible if culture is not taken into consideration when implementing large-system interventions, whether that is to work within the current culture or the ability to adapt the current culture (Gould et al., 2018). Adaptability is not just an idea and

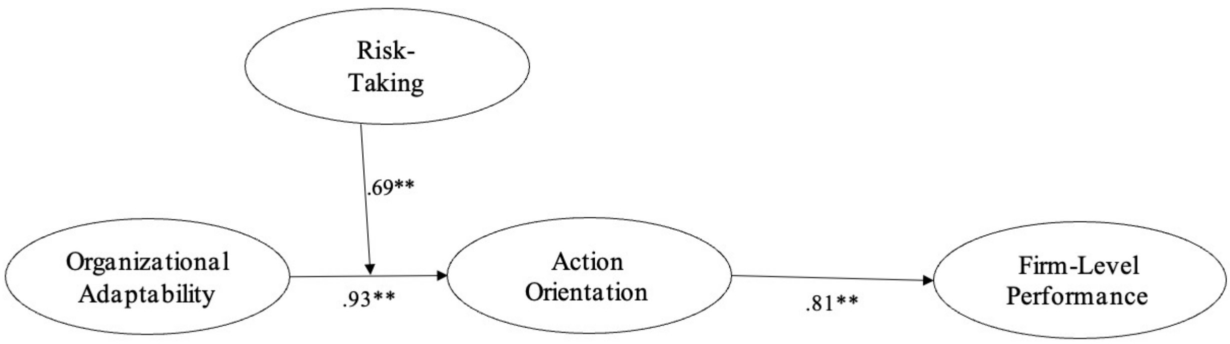

Figure 1. Standardized Path Estimates for Moderated Mediation Model

p < .01 ** (two-tailed)

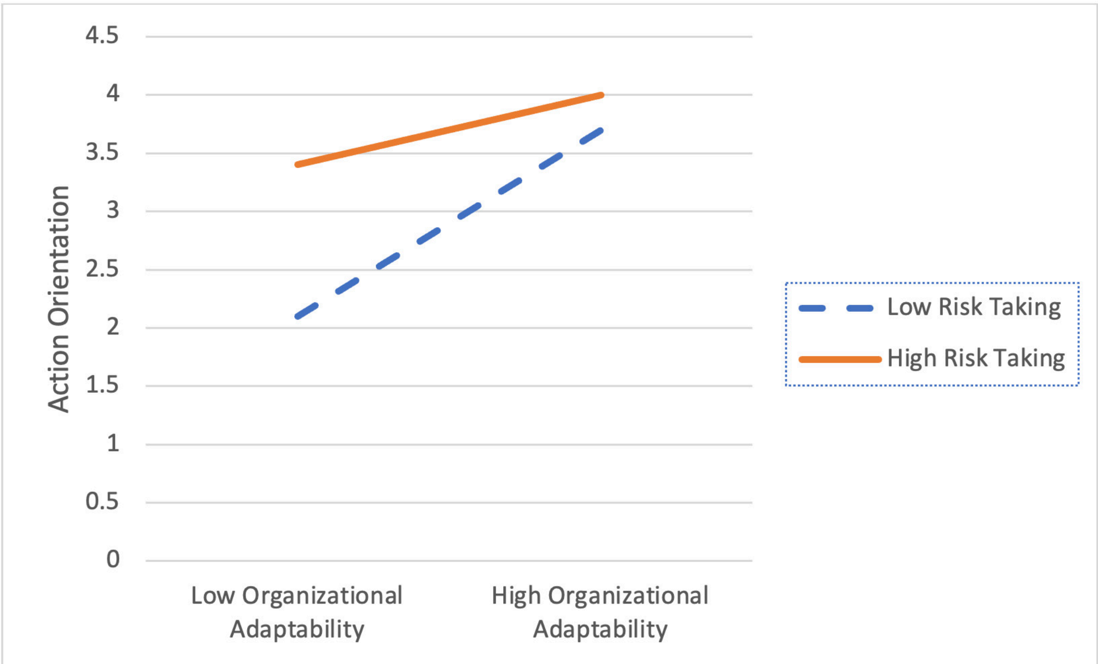

Figure 2. Plot of the Interaction Between Organizational Adaptability and Risk-taking on Action Orientation

new way of thinking about what one should do. It involves facets of embracing change and having the support and necessary resources to respond to complex environments (Uhl-Bien & Arena, 2018). Adaptability should be aligned with culture and action by taking into consideration the system elements in an organization. Understanding and responding to culture is a critical element of success for leaders (Farkas & Wetlaufer, 1996), especially in the face of unpredictability and rapidly changing external environments. Change is an unavoidable reality faced by organizations due to antecedents such as a strong push for globalization, intense competition, and rapidly changing technology and innovation (Amis et al., 2002; Weick & Sutcliffe, 2007). However, change initiatives are often unsuccessful and difficult to manage due to employee resistance to change, which is often linked to a lack of strategies to manage organizational culture (Cameron & Quinn, 2011), making it increasingly important for organizations to prepare for change by matching their internal systems with organizational culture and adapting organizational functioning to the changes created by the external environment (Chemers, 2001).

This study emphasizes the importance of organizational adaptability and its relationship to firm performance, but takes previous research one step further by examining the driver—action orientation—that links adaptability to financial performance (Denison & Mishra, 1995; Kotter & Heskett, 1992). This fills a gap between organizational culture and effectiveness studies that often do not focus on factors that may interact with culture (Kotrba et al., 2012). Organizations that emphasize adaptability have values associated with creating new priorities and initiatives, organizational learning and flexibility, risk-taking, and acceptance of change (Siew & Yu, 2004). These values ensure that organizations have the capacity to adapt through internal changes that are responsive to external market demands (Denison & Mishra, 1995) and customer needs, while learning as an organization (Fey & Denison, 2003). Organizations with adaptability characteristics have employees who are encouraged to take action and risk to meet the demands of the changes around them, which often leads to performance goals (Caldwell & O'Reilly, 2003; Fey & Denison, 2003). Organizations that do not adequately respond to the changing environment and have low adaptability will continue to exhibit action and behaviors that do not align with the progress needed to be successful (Kotrba et al., 2012). Scholars believe that an organizational culture that supports adaptability will enforce learning qualities that provide employees with a set of principles and values to guide them when they face adversity, which helps them cope with change (Cameron & Quinn, 2011; Siew & Yu, 2004). Embedded in an organization's culture are its core competencies and strategic intent, both necessary for adaptability (Cameron & Quinn, 2011; Hamel, 1990; Teece et al., 1997). For adaptability to lead to outcomes, employees must believe and be willing to act—to take actual initiative and implement goals.

Organizations are also more effective in the long run when they support dynamic capabilities that include adaptability, action, and risk-taking (Kotter & Heskett, 1992) and handle the new pace of change (Cameron & Quinn, 2011). Firm outcomes are not impacted only by strategy or adaptability, but also the *implementation* of strategy and action. Since employees will react to change in a variety of ways, research has shown that the closer organizational values align with those of change, the more likely change will be supported and acted upon by employees within the organization (Amis et al., 2002). Therefore, the most successful firms will have the ability to adapt to external changes while supporting internal alignment and the integration of the cultural beliefs (Kotrba et al., 2012) that enforce change, risk-taking, and action. This study finds empirical support that organizational adaptability, as a dynamic capability, positively impacts performance through action orientation as a necessary precursor to drive performance outcomes. This study also supports the positive moderating impact of risk-taking on the relationship between organizational adaptability and action orientation. Scholars support notions that risk-taking leads to behaviors and actions that are aligned with innovation, new product developments, and even interactions with customers (Lumpkin & Dess, 1996). But it is the underlying organizational philosophy that drives behaviors, such as risk-taking, into action (Stevenson & Jarillo, 2007).

Limitations and Future Directions

First, despite a decent sample of organizations in our study, we analyzed data at the organizational level. Using aggregation may limit insightful interpretations from individual-level variability. However, consistent with organizational culture research, aggregation is considered appropriate to capture culture at the organization level (Hartnell et al., 2019). Second, this study examines the perceptions of action orientations. Arguing that all organizations need to be adaptable is an important conclusion of this study, but the pace of change may not be similar for all organizations and industries. Due to the large number of decisions employees and managers make every day, it would be hard to capture meaningful action beyond the perceptions of organizations that support the initiatives and ability to act. Similarly, for organizational adaptability, action orientation is a variable based on values and norms that support employees' initiatives to act in a meaningful way. Lastly, endogeneity could be an issue when examining organizational-level phenomena. However, this research examined action orientation as a mediator to the organizational culture and performance relationship, rather than an independent variable, which is what Chatman and O'Reilly (2016) called for to address endogeneity issues when examining organizational culture.

Finally, future research may include examining organizational adaptability in relation to fast-paced industries versus those that are slower to change. Future studies may also examine risk-taking cultures and the effectiveness of organizations and discover steps to effectively foster these types of cultures in organizations. Since our study did not examine types or intensity of change, future studies can examine the importance that culture plays in determining successful organizational outcomes. It would also be interesting to see whether employees who are resistant to change in organizations with strong cultures are more likely to turn over when there is consensus among employees about organizational adaptability.

Implications for Practice

Most importantly, managers must build and support workforces that foster adaptability. Organizational adaptability creates empowerment through decision-making and action. It is fundamentally action that will link to the strategic initiatives and goals to be realized. In other words, encouraging action allows employees to enact (versus espouse) behaviors that reflect adaptability and risk-taking. Also, managers should recognize that change is an inevitable part of organizational life, though it can prompt feelings of uncertainty and resistance in employees. Managers need to facilitate a strong perception of organizational adaptability, compelling vision, and communication. Fostering cultures of adaptability will lead to smoother change initiatives and less resistance when supported through the values of organizational culture. Encouraging organizations to increase participatory activities of exploration by employees can also help organizations overcome resistance to change (Maxton, 2021).

As such, managers should pay attention to organizational adaptability norms and discover ways to foster and encourage employee learning and meaningful action. Managers also need to show employees they are taking appropriate steps, provide resources to initiate change, and allow for action steps to happen. Without actions, change will not occur. Initiating action can be done by communicating what the values and norms of an organizational adaptability represent and the importance of action to the overall success of the organization's strategic initiative. Managers can also focus on the development of their employees in relation to the mission and the future of the organization. When employees' actions are not in alignment with the organizational adaptability, their behaviors will be out of sync with strategic goals and less likely to impact performance. The quicker the organization can respond to the changing environment, the more likely it will be effective over its competitors.

Finally, managers should support employees to act, encouraging them to initiate change and take risks. By providing resources and clear communication, managers will send positive messages about culture. It is also important to keep in mind that companies should adhere to more risk-tolerant practices during change initiatives, because change and innovation relate to future performance (Bromiley, 1991), and employees will be less hesitant about change if they feel confident that they will not be reprimanded if their actions fail.

Conclusion

Organizations are continuously responding to dynamic and competitive environments, but few firms are well equipped to adapt to the necessary conditions required for success. This study examines the impact of organizational adaptability on firm performance through action orientation and risk-taking by analyzing a moderated-mediation model of adaptability, action, and performance. Using theory from organizational culture and adaptability literature, the moderated-mediation model suggests that organizational adaptability is related to revenue growth when there are perceptions of action orientation driving strategy and behavior. The model also examines how risk-taking moderates this relationship. Findings show that adaptability can lead to strong firm performance when it is supported by the actions of employees that reinforce the firm's strategies and organizational objectives.

Overall, organizational culture is key to facilitating successful performance by emphasizing the strong consistency of values. However, it is also essential that culture is adaptable, reinforcing strategies and mechanisms that help firms and employees learn to cope with changing external environments. Organizations must support employees to act and risk. It is one thing for organizations to think about change and adaptability, but it is another to act on those initiatives. Therefore, for organizational adaptability to be an effective predictor of firm performance, it must support action orientation and risk-taking. Without action orientation, there is no relationship to firm performance. In addition, when risk-taking is high, it further supports the relationship between organizational adaptabilities and action orientation. It is helpful for managers to know that being risk tolerant and encouraging of risk-taking when implementing strategies may lead to strong cultures of adaptability and action orientation, which can lead to financial performance outcomes (Ford et al., 2008). Today, many companies are expanding outside of their comfort zones, looking for new innovations, market attainment, and a larger customer base. These changes are often necessary for today's businesses to remain viable and survive in turbulent environments. Managers that support organizational adaptability and risk-taking will more likely reap the benefits of positive organizational outcomes and financial success.

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