



The influence of leadership on strategic flexibility and business performance: The mediating role of talent management

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3 ABSTRACT:
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6 performance taking into consideration the mediating role of talent management in these
7 relationships.
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9 The proposed framework is tested by CFA and finally SEM, using the survey data from 462 Greek
10 firms. The mediation effect of talent management was tested by the Sobel test.
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12 The results show that leadership drives firms to strategic flexibility and business performance, but
13 the introduction of talent management fully mediates these relationships. Strategic flexibility also
14 affects business performance positively.
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16 This study explores a formal style of leadership; many leadership styles remain unexplored. The field
17 of talent management is in urgent need of more empirical research to explain its importance and
18 how it is handled in the 21st century.
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21 This study proves that managers should invest more in talent management; outstanding talent can
22 be leveraged to implement the best operational practices while managers' motivation for talent
23 management contributes to a deeper anchoring of strategic flexibility and performance efforts in
24 firms.
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26 CUST_SOCIAL_IMPLICATIONS_(LIMIT_100_WORDS) :No data available.
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28 The current state of knowledge of both theory and practise for critical organizational factors such as
29 strategic flexibility and talent management, will be extended.
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16 **Abstract**

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19 **Purpose** – The aim of this paper is to determine whether leadership affects strategic flexibility
20 and business performance taking into consideration the mediating role of talent management in
21 these relationships.
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24 **Design/methodology/approach** – The proposed framework is tested by CFA and finally SEM,
25 using the survey data from 462 Greek firms. The mediation effect of talent management was
26 tested by the Sobel test.
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29 **Findings** – The results show that leadership drives firms to strategic flexibility and business
30 performance, but the introduction of talent management fully mediates these relationships.
31 Strategic flexibility also affects business performance positively.
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34 **Research limitations/implications** – This study explores a formal style of leadership; many
35 leadership styles remain unexplored. The field of talent management is in urgent need of more
36 empirical research to explain its importance and how it is handled in the 21st-century.
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39 **Practical implications** – This study proves that managers should invest more in talent
40 management; outstanding talent can be leveraged to implement the best operational practices
41 while managers' motivation for talent management contributes to a deeper anchoring of
42 strategic flexibility and performance efforts in firms.
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45 **Originality/value** – The current state of knowledge of both theory and practise for critical
46 organizational factors such as strategic flexibility and talent management, will be extended.
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49 **Keywords:** Leadership, Strategic flexibility, Talent management, Business performance

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51 **Paper type** Research paper.
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1. Introduction

Strategic flexibility is considered to be the ability of firms to adapt and make necessary changes in their organizational structure in a quick and precise way in order to be successful in today's rapidly changing dynamic and competitive world (Herhausen et al., 2021; Zahra et al., 2008). It ensures a better fit between the firm's internal processes, network coordination and external demands (Furr et al., 2012). Antecedents to strategic flexibility have been theoretically approached but limited empirical evidence exist in this field. Moreover, little consensus exists regarding its conceptualisation (Combe et al., 2012).

Leadership has a role to play in organizational flexibility as it can facilitate the organization adaptation to the competitive environment creating the ground for performance enhancement (Anning-Dorson, 2021). For instance, many authors support the view that leadership can positively influence strategic flexibility and business outcomes (Wang et al., 2015; Roh et al., 2015; Fernandez-Perez and Gutierrez, 2013; Escrig-Tena et al., 2011). In contrast, other authors have realized that leadership is responsible for negative consequences for firms and employees as well (Kanwal et al., 2019; Burke, 2017; Krasikova et al., 2013). Nevertheless, there is a paucity of empirical works on the role of leadership, independently or in combination with talent management, in enhancing business performance and strategic flexibility and it has been noted as an area that needs future research (Anning-Dorson, 2021; Katsaros et al., 2020; Brozovic, 2018; Combe et al., 2012). This gap is extremely important because appropriate leadership sets the direction of an organization (O'Reilly et al., 2010), affects extensively the strategic actions (Katsaros et al., 2020) and plays an essential role in enforcing the commitment to adopting organizational flexibility (AlNuaimiet et al., 2022). Anning-Dorson (2021) suggests that firms should pay more attention to how they can use their leadership as an internal enabler to enhance their flexibility capability in order for them to meet demands of their respective markets and enhance overall firm performance. In the same line, Fachrunnisa et al. (2020) point out that the role of leadership and strategic flexibility should be further examined. Recently, Nowak (2021) explains that future studies are needed to identify specific leadership traits that could influence a firm's strategic directions regarding flexibility.

Many researchers also point out the need for a deeper investigation regarding the effect of specific variables that mediate the leadership - strategic flexibility – business performance relationship, creating further bridges in organizational and leadership theory (Brozovic, 2018; Combe et al., 2012; Sanchez, 1997). One such very important mediating variable may be human resources (Escrig-Tena et al., 2011; Johnson et al., 2003). Nowadays there is a growing interest

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3 in talent management and its potential to offer organizational power (Naulleau, 2019). Talent
4 management allows employees to discover and bring new knowledge and experience into
5 organizations making them more resilient in the face of environmental dynamism, more
6 flexible, and thus better able to adapt to changes and increase performance (Gómez-Gras and
7 Verdú-Jover, 2005). Talent management is an area of growing importance for a wide range of
8 organizations and has emerged as a key human resource challenge facing firms in a variety of
9 sectors (Scullion et al., 2016). Nevertheless, research about the impact of talent management
10 on strategic flexibility remains under-investigated (Pantouvakis and Vlachos, 2020). Herhausen
11 et al. (2021) point out that the examination of different enablers of strategic flexibility such as
12 leadership and employees' attributes has been neglected, thus, future studies should take a more
13 multi-level approach. From the above it is apparent that the question of how to introduce talent
14 management into the equation on leadership, strategic flexibility and performance to create
15 value remains unanswered and provides management scholars with another research
16 opportunity.

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18 Attempting to fill the above research gaps, this paper provides a novel perspective that
19 helps to better understand the interactions among leadership, talent management, business
20 performance and strategic flexibility. It is the first that highlights a new leadership model, a
21 talent management-centered leadership model in order to create an overall supportive
22 environment for increased performance and strategy flexibility. Thus, the current theoretical
23 and practical knowledge in terms of the critical organizational factors will be extended in four
24 significant ways. First, by critically reviewing and identifying the influence of leadership on
25 firms' strategic flexibility and performance, the upper echelons theory is extended. Moreover,
26 practitioners can benefit from the present study as it brings together experiences, values,
27 personalities and other human aspects of leaders, in an attempt to better understand their effects
28 on strategic flexibility and business performance. This approach to leadership and strategic
29 flexibility is novel, and constitutes a precursor to the study of the entrepreneurial process
30 (Fernandez-Perez et al., 2016). Second, it provides theoretical justification for and empirical
31 evidence of the mediating role of talent management on these relationships considering a wider
32 perspective of talent management dimensions (talent attracting, talent development and talent
33 retention) as those are described in literature (De Boeck et al., 2018; Thunnissen, 2016; Collings
34 and Mellahi, 2009). From a practical perspective, firms will better understand the mechanism
35 of how talent management enhances performance and flexibility as talents should be considered
36 as operant resources, acting upon assets, systems, and technologies. Specifically, this paper
37 suggests that talent management must be understood in the context of the firm's strategic
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3 **capabilities. Third,** it reveals the leadership and talent management relationship. Despite the
4 fact that the purpose of leadership is to support followers to enable them to achieve work
5 excellence, the extent to which it can also **promote talent management will also be clear. Fourth,**
6 it provides evidence on the positive relationship between strategic flexibility and business
7 performance (Wadstrom, 2019; Xiu et al., 2017). **Thus, this paper complements previous**
8 **research drawing from the leadership and management theory literature and helps managers**
9 **better understand how firm strategic flexibility and performance can be improved by adopting**
10 **talent management effectively.**

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17 The rest of the paper is organized as follows. In the next section, the theoretical
18 background and research hypotheses are presented. In section 3 the methodology used is
19 highlighted, including research design, sample data analyses and measurement scales. Section
20 4 presents the results of hypothesis testing. The paper concludes with a discussion – conclusion
21 section of the main findings, theoretical and practical implications as well as suggestions for
22 future research.

29 **2. Theoretical background and research hypotheses**

30 *2.1 Leadership, talent management, and strategic flexibility*

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33 The concept of strategic flexibility has been used by scholars across the management,
34 strategy, innovation, entrepreneurship, marketing and operations disciplines (Brozovic, 2018).
35 Sanchez (1997) has defined strategic flexibility as a set of abilities that enable firms to respond
36 to environmental changes, while Herhausen et al. (2021) point out that strategic flexibility is a
37 firm's ability to reorganize its internal resources and respond immediately to new developments
38 emerging in the market. To achieve strategic flexibility, several mechanisms have been
39 suggested. Some authors found that certain practices of management, such as leadership,
40 contribute to strategic flexibility (Roh et al., 2015; Wang et al., 2015; Fernandez-Perez et al.,
41 2013; Escrig-Tena et al., 2011). Leadership behavior can influence firms that tend to experience
42 more unpredictable, unstable, and uncertain conditions (Seo et al., 2020), to adapt strategic
43 flexibility in order to overcome smoothly the above conditions (Wang et al., 2015). However,
44 there is no clear evidence showing a particular optimal leadership style; hence, it may be
45 concluded that no single leadership style is the best for all managerial situations (Vecchio, 2002;
46 Mullins, 1999). Firms seek to adopt a leadership style that enables employees to work
47 seamlessly for the smooth attainment of the organization's vision and core mandate, while
48 remaining relevant in the ever-changing market dynamics (Onyango, 2015).
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3 Hess and Flatten (2019) and Xiu et al. (2017) support the view that leadership endorses
4 appropriate operational practices and policies in supporting, developing and maintaining
5 strategic flexibility. This is supported by the upper echelons theory. The upper echelons theory
6 suggests that the specific characteristics and leadership attributes of the executives' impact
7 organisations' strategic choices and results (Hambrick, 2007). Leaders should be able to
8 implement change-oriented strategies, motivate employees to achieve goals and explore new
9 opportunities to make their organisations adaptable to uncertain environments (Jansen et al.,
10 2009). Leaders usually understand better the fit between strategic options and the business
11 environment, they compile and interpret information, set strategic choices and express upper
12 echelon concepts; thus, they are key to achieving higher levels of strategic flexibility in their
13 firms (Fernandez- Perez et al., 2013). According to Volberda (1996), strategic flexibility results
14 from the combination of a wide variety of leadership capabilities and provides the ability to
15 activate them rapidly in the face of environmental change. Thus, we propose:

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27 *H1: There is a positive relationship between leadership and firms' strategic flexibility*

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29 In addition, leadership is the key factor leading to effective talent management. Leaders
30 can influence organizational culture, activities and mechanisms including talent management
31 practices (Schiemann, 2009). Talent management is considered a firm's dynamic capability that
32 includes recruitment, developing and retaining practises for talents in order to achieve
33 organizational goals and execute the best business strategies (Benitez-Amado et al., 2015).
34 Talented employees are distinguished from other employees by the capital they possess, which
35 enables them to make a difference and add value to their organizations. For the purposes of this
36 research, we refer to talent management as top management's deliberate and organized efforts
37 to optimally attract, develop, and retain competent and committed employees who exert
38 significant influence on the overall sustainable performance of the organization (Thunnissen,
39 2016). The relationship between leadership and talent management in any firm is considered as
40 positive (Irtaimeh and Khaddam, 2017). Organizations with qualified leaders care about the
41 talent of their employees, employee satisfaction and employee retention (Al Hammadi and
42 Noor, 2020). According to Sadeli (2012) leadership driven talent management practices engage
43 highly qualified employees which, in turn ensures organizational success and performance. One
44 of the main responsibilities of leaders of organizations is to continuously upgrade employees'
45 knowledge and develop talents (Cappelli, 2008). Tomšič et al. (2015) stressed that leadership
46 is the foundation for ensuring that talent management is developed, sustained, and deployed
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3 successfully. A leader must determine which competencies and skills are especially important
4 to the company's success, identify those employees that possess them, and manage their
5 development. The findings of Joyce and Slocum (2012) indicate that leaders are the key assets
6 of organizations, and their work to build and sustain talent is critical. Schuler et al. (2011) also
7 point out that successful development and institutionalization of talent management is possible
8 with the commitment, leadership and involvement of the top management of firms. Leadership
9 helps talent management by providing training, motives and support to employees at every level
10 in an organization. Moreover, leaders inspire talent team members to achieve the common goal,
11 create a clear vision for people working in the firm and finally drive employees towards this
12 (Hammadi and Noor, 2020). Therefore, we posit that leadership is the key factor leading to
13 effective talent management, and we hypothesise:
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23 *H2: There is a positive relationship between leadership and talent management*

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26 As more organizations adopt a multi-modal operating model, they need to quickly find
27 a new mix of employees to fill in the gaps in their capability. By hiring and developing talented
28 employees, the organization becomes flexible in using resources, and thus stronger and better
29 prepared to face changes and risks. Consequently, the roles of employees will change in terms
30 of content and work processes, and these changes will require significant transformations in the
31 jobs and skill profiles of employees (Karacay, 2018). Rapid and extensive automation of
32 business processes together with the emergence of novel business models imposes new skill
33 requirements on the workforce that lead to firms' strategic flexibility. Training and
34 development are especially vital human resource functions for implementing a top leader's
35 strategic change plan (Speculand, 2006). The major benefits of talent development include
36 successful achievement of business strategy, and competitive advantage and revenue as it
37 supports employee competencies and workforce planning (Pruis, 2011). Boudreau and Ramstad
38 (2005) identified talents through organizational effectiveness, and revealed that developing a
39 pivot talent pool could contribute to the strategic flexibility success of an organization. Talent
40 development will directly affect the organization's processes and will have a direct effect on
41 the flexibility of the enterprise. Based on the above, we hypothesise:
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54 *H3: There is a positive relationship between talent management and strategic flexibility*

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57 According to the previous proposed relationships and hypotheses, an indirect positive
58 effect of leadership on strategic flexibility is suggested through talent management. Leadership
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3 is visible and so talent management will act as a conduit for leadership - strategic flexibility
4 relationship. Thus, we propose that talent management will mediate the relationship between
5 leadership and strategic flexibility.
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9 *H4: Talent management mediates the relationship between leadership and firms'*
10 *strategic flexibility.*
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12 13 2.2 *Strategic flexibility, talent management, and business performance* 14

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16 Leadership is also a behavior that is inspiring and motivates subordinates to be creative,
17 it helps team members to find their way towards the common goal in order to increase business
18 performance (Giritli and Oraz, 2004). Business performance refers to the ability of a company
19 to achieve high profits, a large market share, good financial results, and survival at a pre-
20 determined time using a relevant action strategy. In literature, leadership has been considered
21 as a basic business behavior factor and has one of the most dynamic effects on the interaction
22 of people within an organization. It is broadly accepted that effective leadership can lead an
23 organization to achieve high performance through the motivation of people and the allocation
24 of resources (Manders et al., 2016). Kanwal et al. (2019) state that the capable leader inspires
25 followers to reach their potential in order to enhance effectiveness and make employees meet
26 their requirements in the process of achieving organizational goals. Leaders set high goals for
27 employees while being supportive, delegative, participative, and dedicated. They encourage
28 employees to develop capabilities to assist in accomplishing the goals and objectives of the
29 organization (Gillespie and Mann, 2004). Kotter (2006) noted that leadership inspires and
30 motivates employees, directs the organization to achieve its results, brings about positive
31 changes, and increases self-awareness in order to maximize organizational performance.
32 Moreover, leaders allocate and control the organizational resources and give a clear vision of
33 the organization's future (Schaubroeck et al., 2017). Leaders also have a positive influence on
34 organizational policy and strategy, while their capabilities play a decisive role in the extent to
35 which the companies' resources are available for research and development activities (Jia et al.,
36 2021). The study of Kafetzopoulos and Gotzamani (2019) reveals that leadership positively and
37 significantly influences the employees, policy and strategy, innovation performance
38 partnerships and resources of companies. Moreover, it is indirectly related to the development
39 of processes and services. These leadership effects lead us to hypothesize:
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58 *H5: There is a positive relationship between leadership and business performance*
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3 A significant body of articles have investigated the relationship between talent
4 management investments and business performance. The findings have been replicated across
5 industries, within an industry and at different organizational levels of analysis (Lewis and
6 Heckman, 2006). Usually, talent management efforts were focused on filling high-level jobs
7 assumed to have an important effect on business performance. Many scholars in the field of
8 human resources management assert that talent management practices aim to achieve firms
9 related goals (Collings and Mellahi, 2009). They generally agree that talent teams are developed
10 over time and the development of these teams is important for firm's effectiveness (Zhang et
11 al., 2019). Thunnissen et al. (2016) have already studied the goals of talent management
12 practices at firm level, such as increasing profitability, workforce flexibility and business
13 performance. Generally, researchers assume that positive attitudes and behaviors among the
14 organization's most qualified and high performing employees drive increased business
15 performance. In other words, employee reactions to talent management (i.e., changes in their
16 behaviors, cognitions, and attitudes) are assumed to be a fundamental mediating mechanism in
17 the relationship between talent management and organizational-level outcomes, such as
18 increased innovation and financial performance (De Boeck et al., 2018; Collings and Mellahi,
19 2009). Cappelli (2008) mentions that talent management basically supports the organization's
20 overall performance, "which in business essentially amounts to making money". Many other
21 scholars also point out that talent management contributes to the firm's overall objective (e.g.,
22 Collings and Mellahi, 2009; Cappelli, 2008), and therefore stress the importance of its strategic
23 fit with activities and practices (e.g., Stahl et al., 2012; Schuler et al., 2011). Considering the
24 above, we propose the following hypothesis:

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42 *H6: There is a positive relationship between talent management and business*
43 *performance*
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46 Based on the previous proposed hypotheses, we suggest an indirect positive effect
47 between leadership and business performance through talent management. Also in this case,
48 talent management will act as a conduit for leadership - business performance relationship.
49 Thus, we propose that talent management will mediate the relationship between leadership and
50 business performance.
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56 *H7: Talent management mediates the relationship between leadership and business*
57 *performance*
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3 Strategic flexibility represents an inherent flexibility in a firm's resources that enables
4 organizations to make the necessary internal changes responding to new external developments
5 (Herhausen et al., 2021; Brozovic, 2018). The review of literature on strategic flexibility
6 outcomes shows that when the level of strategic flexibility of a firm is high, then its performance
7 level is also high (Brozovic, 2018; Das and Elango, 1995). Given that the business environment
8 is uncertain due to rapidly changing technological innovation and globalization, strategic
9 flexibility promotes the achievement of competitive advantage especially when firms operate
10 in a dynamic environment (Zahra et al., 2008) and it is considered as the organization's key
11 factor in achieving excellence in the twenty-first century. Many studies conclude that
12 companies with high strategic flexibility can perceive threats and discover or predict
13 opportunities in a timely fashion (Cingöz and Akdoğan, 2013). They have to seize the
14 opportunities to make product development decisions in order to achieve business performance
15 (Nadkarni and Herrmann, 2010). Strategic flexibility should be applied holistically in order to
16 overcome organizational inactivity (Zhou and Wu, 2010), allocate the resources needed and
17 encourage creativity and innovation attributes in organizations as they help in searching for
18 fresh business opportunities (Li et al., 2010). Strategic flexibility can transform an organization
19 in order to increase its effectiveness, plans, communications, strategies and processes, and
20 furthermore to adapt product offering and other aspects of marketing mix that enhance business
21 performance. Thus, strategic flexibility is regarded as a key element in the firm's efficiency and
22 performance (Wadstrom, 2019; Xiu et al., 2017). Harrigan (2001) states that flexible
23 organizations will obtain better outcomes because they are better prepared to face uncertainty.
24 He proposes strategic flexibility as the ability of organizations to reposition themselves in the
25 market, to change their plans or dismantle their current strategies. Therefore:
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44 *H8: There is a positive relationship between strategic flexibility and business*
45 *performance*
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48 Based on the above research hypotheses and supportive theory, a model of relations was
49 formed (Figure 1) allowing the role of leadership and talent management on strategic flexibility
50 and business performance to be determined. All relationships between constructs were checked
51 using prior empirical findings.
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2. Methodology

3.1 *Research design and sample characteristics*

The literature on leadership, talent management, strategic flexibility and business performance was reviewed to identify established measures and items. Then a structured questionnaire was developed which was evaluated by academicians and experts in the field. The questionnaire was translated using forward-backward protocols and tested again. Prior to distribution, it was pilot - tested on 11 firms through interviews with firms' managers to ensure the content validity of the questionnaire.

The data collection was based on a random sampling procedure. A sample of 2,150 private Greek firms employing more than 10 employees was randomly selected from the list of companies that were recorded in the data base of ICAP (the largest business information and consulting firm in Greece). The data base provided names and contact details of the companies. The questionnaire was sent via e-mails to organization's leader who is well informed about the strategy and management of the firm. The data were collected over a period of 3 months between the end of 2020 and February 2021. A total of 480 companies responded, thus, the response rate is 22.3 percent which is acceptable compared to the response rates of similar research studies. After removing the unusable questionnaires, 462 fully completed questionnaires were available for the analysis. A comparison of the responses was also performed, for example between early and late respondents (t-test), and among respondents of different firms sizes and sectors (ANOVA). No significant differences were found, indicating that there is no a concern for non-response bias. The firms represented a range of sectors: manufacturing 25%; services 39% and trade 36%. The gender of most respondents was male (295 male and 167 female). The education level of the respondents was: high school 21.9%; university 53.7% and Msc/PhD 24.4%, while the number of years of their organizational experience was 5< 30.5%; 5-10 24.9% and 10> 44.6%. The distribution of the firms according to the number of their employees is as follows: 69% with 11-49 employees, 17% with 50-250, 7% with 251-500 and finally 7% with more than 500 employees.

3.2. *Measures*

All measurement instruments used in this study are based on established and validated measures previously tested and verified in the relevant literature. All constructs were measured on a 7-point Likert scale to record responses for all scales, ranging from (1) totally disagree to (7) totally agree. More specifically, leadership was measured based on the scale used by

Pantouvakis and Vlachos (2020) and Tomšič et al. (2015). We have adopted this measurement scale in order to characterize a leader who is communicative, committed to the firm's goals and strategy, provides flexibility in accomplishing tasks according to the demand of the environment, empowers individuals and groups and has the skills to direct subordinates to be efficient and effective of their work. For the construct of strategic flexibility, six items were adopted from previous research of Miroshnychenko et al. (2021) and Liu et al. (2013) measuring the proactive and reactive ability of a firm to meet environmental dynamism. The items used to measure talent management were taken from the relevant conceptual work of Son et al. (2020), El Dahshan et al. (2018), Farooq (2016) and Alkerdawy (2016). Finally, the scale used to measure business performance was adopted from Iqbal et al. (2020); Iqbal et al. (2018); Khan and Quaddus (2015). Similar to previous research (e.g. Song and Gu, 2020), we controlled for the gender, work tenure, education level and firm sector of the respondents due to their potential influence on strategic flexibility and for potential alternative explanations (Pantouvakis and Vlachos, 2020).

3.3 Data analyses

The statistical analysis was performed by the use of the SPSS 24 (Statistical Package for Social Sciences). First, exploratory factor analysis (EFA) was applied in order to derive a preliminary factorial structure of the measures. More specifically, EFA (principal component factor extraction method and Orthogonal Varimax rotation) was used to reduce the initial set of all variables to a more manageable set of scales (Hair et al., 2006). The mean score of each of the constructs was computed and the correlation matrix for the variables was produced in order to examine the relationships among them. The correlation coefficients (r) were all above 0.3 and below the cut-off of 0.90 at $p < 0.001$, indicating the interdependence of all factors; hence, collinearity and multicollinearity do not represent data problems in this research (Hair et al., 2006). The measures were tested with a reliability analysis, and Cronbach's alpha for all factors were above 0.8. Table 1 displays descriptive statistics and correlation coefficient between the study variables. In order to determine whether all latent factors show acceptable fit for the empirical data, the statistical analysis software AMOS 6.0 (Analysis of MOment Structures) was used and the confirmatory factor analysis (CFA) was applied. CFA was used to refine the resulting scales in EFA and to determine construct validity, i.e. to determine whether the number of factors and the loadings of the measured variables (i.e. indicators) on them conform to what was expected on the basis of pre-established theory.

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3 The results of CFA provided a good fit for the data (with $\chi^2/df=2.891$; CFI=0.928;
4 RMSEA=0.064; NFI=0.895; GFI=0.856; TLI=0.919 and RMR=0.069). The average variance
5 extracted (AVE) values for all the constructs were above the 0.50 threshold, all items loaded
6 onto their respective factors exhibiting loadings higher than 0.5 and the signs were all positive,
7 proving adequate convergent validity (see Table 2) (Hair et al., 2006). The results also show
8 that each construct had an acceptable level of composite reliability (> 0.850) and the review of
9 literature as well as the results from the pilot study provided the content validity of the
10 instrument. Discriminant validity is analyzed by comparing the AVE with the shared variance
11 (i.e. square of the correlation) between any pair of latent constructs. In each case, the AVE was
12 greater than the Corr^2 confirming the discriminant validity (Hair et al., 2006) (see Table 2).
13 Thus, the results provided strong evidence that all of the study constructs were reasonably
14 reliable and valid.

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16 Finally, the model and the study's hypotheses were tested using structural equation
17 modelling (SEM). Structural theory is often used as a means to examine relationships between
18 constructs (Hair et al., 2006). SEM allows for the introduction of latent variables that can only
19 be measured through observable indicators. Moreover, SEM takes into account the existence of
20 measurement error, and offers the possibility of simultaneously estimating all the relationships
21 proposed in the theoretical model (Bou-Llusar et al., 2009). This specific methodology was
22 selected as the most appropriate and rigorous in this study, in order to test the research
23 hypotheses and the related relationships. The same approach (EFA – CFA – SEM) has been
24 widely used in literature to test similar relationships (Kafetzopoulos and Gotzamani, 2014;
25 Psomas and Kafetzopoulos, 2014).

43 4. Results

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45 The SEM technique used the model illustrated in Figure 1 as the base one. Both direct
46 and indirect relationships were hypothesized in the model formulated. The results of the overall
47 fit statistics for the structural model demonstrate an acceptable fit (with $\chi^2/df=2.294$;
48 CFI=0.951; RMSEA=0.053; NFI=0.917; GFI=0.889; TLI=0.945 and RMR=0.073).
49 Furthermore, the estimated path coefficients, directions, p-values and squares multiple
50 correlations (R^2) were examined in order to assess support for the hypotheses. Figure 2
51 illustrates the final structural model and the results.

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53 The analytical results reveal no significant direct effect of leadership on either strategic
54 flexibility (0.065) or on business performance (-0.030) at $p<0.1$. These results indicate that the
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3 two hypothesized relationships are not in line with expectations. Nevertheless, a significant and
4 strong direct relationship exists between leadership and talent management (0.914). This means
5 that the more a leader is focused on leadership, the more talent management practices are
6 adopted at the firm level. In addition, business performance is affected directly by talent
7 management (0.619) and strategic flexibility (0.233) at $p < 0.001$. These findings suggest that
8 the two firms' capabilities lead to increased business performance, on growth and profitability.
9 Our findings also show a strong direct relationship between talent management and strategic
10 flexibility (0.566) at $p < 0.001$. The above results support H2, H3, H6, H8 and reject H1 and H5
11 hypotheses.
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20 **Take figure 2 about here**

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22 In accordance with Song and Gu (2020), the path model specifying the indirect effects of
23 leadership on strategic flexibility and business performance through talent management ($X \rightarrow$
24 $M \rightarrow Y$) was tested. Figure 2 illustrates that talent management fully mediates the relationship
25 between leadership and strategy flexibility and also leadership and business performance. The
26 above indirect effects are stronger than the direct effects. Investigating mediation closely, we
27 followed Kafetzopoulos et al. (2019) characterization of mediation effects. Full mediation
28 arises when an independent variable (in our case leadership) no longer affects a dependent
29 variable (in our case strategic flexibility and business performance) after another variable has
30 been controlled. Partial mediation arises when the relationship between an independent variable
31 and a dependent variable is reduced in absolute size but is still different from zero when the
32 mediator is introduced. In our study, using the method suggested by Kumar and Bhatia (2021),
33 we tested the proposed model including only the direct relationships between leadership -
34 strategic flexibility, leadership - business performance and strategic flexibility - business
35 performance without the mediator variable of talent management. The results reveal that
36 leadership, without the mediator variable, has a significant direct effect on strategic flexibility
37 (0.581; $p < 0.001$) and on business performance (0.485; $p < 0.001$). However, when the talent
38 management factor as a mediator variable is introduced, the investigated direct paths are not
39 found to be statistically significant (0.065 and 0.030 accordingly at $p < 0.1$) and are lower
40 compared to the estimated indirect effects. The mediation effect of talent management was
41 further tested by the Sobel test (Eide et al., 2020). The results (Table 3) confirm that talent
42 management fully mediates the relationships between leadership - strategic flexibility and
43 leadership - business performance, thus, H4 and H7 are supported. Moreover, according to the
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3 results, the control variables such as the gender ($\beta=-0.042$, $p>0.1$), education level ($\beta=0.092$,
4 $p>0.1$), work tenure ($\beta=-0.055$, $p>0.1$) and sector ($\beta=0.004$, $p>0.1$) of the respondents do not
5 influence the firm's strategic flexibility.
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10 **5. Discussion – conclusions**

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12 This study was designed to examine the relationship between leadership and strategic
13 flexibility (H1). According to the study findings, the path estimate of this relationship was not
14 significant, and the effect was very weak. This is an important finding in contrast with the
15 existing literature (Hess and Flatten, 2019; Xiu et al., 2017) which claims that leadership plays
16 a direct important role in the operational practices and policies of a company in order for it to
17 develop strategic flexibility. Moreover, our results show that there is not a positive direct
18 relationship between leadership and business performance (H5). These are also in contrast with
19 the view of many authors who suggest that leaders' decisions in meeting the requirements of
20 processes, and allocating and controlling the organizational resources drive to business
21 performance (Kanwal et al., 2019; Schaubroeck et al., 2017), or the upper echelon's theory
22 which suggest that managers' background affects organizational outcomes and performance
23 levels.
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33 Furthermore, the important role of leadership in the enhancement of talent management
34 (H2) is evident from the present study findings. The role of leaders in implementing a hiring
35 and developing strategy for talented employees and at the same time allocating them the
36 necessary resources is vital for firms' effectiveness. **Leadership should adopt talent
37 management cultivating a work environment climate where talent initiatives are encouraged.
38 So, a strong sense of task orientation will be maintained, and group relationships and trust
39 among members will also be emphasized. By providing the necessary guidance and
40 atmosphere, leadership can assist and encourage talents to adjust to new changes. It can support
41 talents to create value that is worthy, rare, organised, and not be easily imitated by competitors.**
42 These results are consistent with the findings in earlier studies on managers' reactions to talent
43 management (Bos et al., 2020) as leaders should actively adjust or improve their leadership
44 style to achieve talent management effectiveness (King, 2016).
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54 The present research also provides insights into how leadership leads to advanced firm
55 performance and strategic flexibility through the enhancement of talent management (H4 and
56 H7). **This indicates that leadership by recruitment, development and retaining of talents,
57 enhances strategic flexibility and consequently firm performance. Firms can successfully adopt
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3 excellence due to the influence of leadership on talent management practices. Leadership
4 provides significant assistance on talents in understanding the strategic options, competitive
5 reactions and new courses of action, increasing the level of strategic flexibility (Fernandez-
6 Perez et al., 2016). By leading firms' talent effectively, more opportunities can be identified
7 that represent business transformation; this possibility encourages firms to take rapid action in
8 order to gain a commercial advantage, thereby generating strategic flexibility. According to
9 Mashhady et al. (2021) talents are the backbone of organizations and a key asset to business
10 success. Compared to other human resources, talent resources are perceived as strategic because
11 of their ability to impact performance (Collings et al., 2009) and create flexibility for the
12 organization (Festing and Schäfer, 2014). Thus, it is very important for organizations to include
13 practices and systems that are related to strategic variables and contribute to the development
14 of flexibility abilities (Gutierrez-Gutierrez et al., 2018) that lead to business performance. This
15 study also provides an understanding of leadership impact on operations level. In fact, it helps
16 to better understand how people, both leaders at high organizational level and talents at middle
17 organizational level are related in order to generate strategic flexibility and business
18 performance, developing theory on the relationships between firm capabilities and human
19 resources at different levels.
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32 Talent management effects positive, both strategic flexibility (H3) and business
33 performance (H6). The results are in line with recent studies on human resources that indicate
34 the importance of effective talent management to companies' efficiency and effectiveness, and
35 the role of a talented and motivated workforce in achieving growth and better business results
36 (Thunnissen and Gallardo-Gallardo, 2017; Luna-Arocas and Morley, 2015). This is because
37 talented employees can benefit the company by discovering, testing and implementing strategic
38 flexibility practices to improve operations and processes, reduce costs and increase market
39 growth revenue thus improving business performance (H8). In order to achieve higher
40 performance, firms must pay attention to both strategic flexibility and particularly talent
41 management. Flexible firms are becoming more proactive and reactive in their business,
42 implementing different strategies and actions from their competitors which enables them to
43 obtain competitive advantage and consequently improved business performance (Cingöz and
44 Akdoğan, 2013). Strategic flexibility, when applied throughout the business, helps firms to
45 realize the environmental changes that may occur, to allocate the resources needed and bring
46 on creativeness as well as innovative initiatives (Li et al., 2010). Finally, our findings are in line
47 with and extend previous research on business (e.g. Wadstrom, 2019; Brozovic, 2018; Xiu et
48 al., 2017; Zhou and Wu, 2010; Das and Elango, 1995). They suggest that most effects of a
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3 company's performance are produced through development of innovation (Kafetzopoulos et
4 al., 2020), quality (Suárez et al., 2016) or ambidexterity (Sahi et al., 2020) etc. This study inserts
5 a different mechanism of firms' capability that of strategic flexibility, of which there has only
6 been limited investigation thus providing management scholars with another research
7 opportunity.
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10 11 12 *Theoretical implications* 13

14 The present research extends the management literature by empirically investigating the
15 broadness of the leadership mechanisms and demonstrating the link between leadership -
16 strategic flexibility, leadership - talent management and leadership - business performance.
17 Furthermore, it indicates a positive path direction from talent management to both strategic
18 flexibility and business performance. Thus, a new mechanism for achieving strategic flexibility
19 and increased performance has been suggested. The third implication of this research is that it
20 tested the mediating role of talent management between leadership - strategic flexibility and
21 leadership - business performance. In our case, talent management for the first time has been
22 studied in this context while researchers have noticed the need to investigate further these
23 interesting relationships (Pruis, 2011). Finally, the empirical analysis of this paper contributes
24 to the advancement of the theoretical conceptualization of performance capabilities showing
25 that business performance is increased through strategic flexibility, improving our knowledge
26 on the above relationship.
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37 38 *Managerial implications* 39

40 Our study provides clear practical implications for managers. First, it suggests managers
41 focus on talent management and invest more in this capability, that means recruiting,
42 developing and retaining talents is a valuable business initiative for developing greater
43 proficiency in strategic flexibility and business performance. **Talent management should be
44 positioned as a strategic level decision for managers, and needs to be aligned with a company's
45 overall strategy together with all strategic business processes in order to increase strategic
46 flexibility (Karacay, 2018).** Managers should consider that talent management is determined by
47 a suitable working culture, working conditions and talent training; firms' leadership efforts can
48 be oriented towards this direction. Second, outstanding talent can be leveraged by managers to
49 implement the best operational practices and specified organizational programs (e.g., to
50 increase productivity, efficiency, and delivery and reduce operational cost). Moreover, these
51 programs help the organization to increase revenues, reduce waste and eventually improve
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3 business performance attributes. Third, the findings of this study suggest to managers that it is
4 not the case that strategic flexibility is purely a cost driver, but rather that talent management is
5 significantly related to adopting strategic flexibility. Thus, the managers' personal motivation
6 for talent management can contribute to a deeper anchoring of strategic flexibility and
7 performance efforts in firms. These practical implications are particularly important because
8 firms spend large amounts of money to achieve strategic flexibility, but not all managers and
9 firms are capable of creating value from these investments (Benitez-Amado et al., 2015).
10 Specifically, managers, by promoting effective talent management, enables the creation of
11 strategic flexibility of the organization. In this respect, this study is consistent with Beer and
12 colleagues' view of the role of managers in augmenting or undermining organizational
13 flexibility (Beer and Eisenstat, 2000).
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22 *Limitation and directions for future research*

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25 Despite the contribution of our study, it has several limitations, thus, additional research
26 is needed. First, a formal style of leadership was examined in this paper, which means that many
27 other leadership styles such as entrepreneurial, innovation or ambidextrous that may affect the
28 adoption of talent management and strategic flexibility remained unexplored, and they should
29 be explored in depth. Second, the present study findings are based on a sample of Greek firms,
30 firms from other industrialized or emerging market countries with different cultural and
31 institutional environments are needed to test the theoretical framework formulated and
32 generalize the results. Finally, the field of talent management is in urgent need of more
33 empirical research to develop and test the existing policies and frameworks and further inform
34 academics and organizations of the importance of talent management and how to handle its
35 issues in the 21st-century.
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Table 1. Descriptive statistics

Constructs	1	2	3	4	5	6
1. Leadership	-				-	
2. Strategic flexibility	0.456	-				
3. Talent attracting	0.522	0.435	-			
4. Talent development	0.696	0.617	0.717	-		
5. Talent retention	0.599	0.427	0.551	0.651	-	
6. Business performance	0.550	0.543	0.553	0.617	0.553	-
Mean	5.84	5.51	5.61	5.58	5.85	5.66
S.D	1.12	1.27	1.28	1.27	1.13	1.11
Cronbach's a	0.898	0.927	0.813	0.896	0.846	0.910

Remarks: S.D. = standard deviation; Correlation is significant at the 0.01 level (two-tailed)

Table 2. Measurement model (N=462).

Constructs /Indicators	Loadings	AVE	Composite reliability	(Corr) ²
Leadership		0.569	0.900	0.484
The leadership of this firm.....				
encourages teamwork.	0.670			
clearly defines objectives and strategy for their achievement.	0.854			
takes into account employees' views and suggestions.	0.696			
ensures correct, accurate and understandable information.	0.866			
clearly defines employees' responsibilities.	0.790			
directs employees' activities and oversees their efficiency and effectiveness.	0.749			
implements changes in the enterprise according to the demand of the environment in which it operates.	0.626			
Strategic Flexibility.		0.683	0.941	0.380
If circumstances change, our organization				
can easily change its current plans.	0.812			
is prepared to react in a modified and viable manner.	0.884			
can control a shift in strategy.	0.885			
has the necessary practical knowledge to make shifts in daily routines and practices.	0.802			
can pro-actively develop a new project.	0.771			
can shift projects with a high probability of success.	0.799			
Talent attracting		0.604	0.866	0.514
Our firm.....				
considers talent attracting vital for its success.	0.788			
is always on the lookout for talent people to occupy important positions.	0.774			
selects the right employees based on the multi-skills and experience of the candidates.	0.854			
succeeds in attracting the best talent.	0.685			
Talent development		0.656	0.876	0.514
Our firm.....				
identifies development needs for talented employees.	0.753			
introduces enough opportunities to develop talented employees.	0.838			
keeps with talented employees through suitable workplace conditions.	0.843			
establishes human resource planning to ensure skills utilization.	0.805			
Talent retention		0.588	0.855	0.358
The employees at our firm are satisfied with their work.	0.771			
The salaries and benefits at our firm are fair and competitive.	0.784			
Our firm values my work and contribution.	0.858			
Our firm supports a balanced lifestyle (between my work and personal life).	0.646			
Business performance		0.717	0.930	0.380
Our firm's performance is at an acceptable level in terms of				
sales growth.	0.858			
income stability.	0.873			
return on investment.	0.861			
profitability.	0.795			

Table 3. Analysis results of the structural model and mediation analysis

Model parameters	Path	Standardized estimate	Critical ratio	Sobel test	Support?
Direct effect	H1: Leadership → Strategic flexibility	0.065**	0.386**	-	No
Direct effect	H2: Leadership → Talent Management	0.914*	12.196*	-	Yes
Direct effect	H3: Talent Management → Strategic flexibility	0.566*	3.225*	-	Yes
Indirect effect	H4: Leadership → Talent Management → Strategic flexibility	0.517*	0.547*	2.639*	Yes; Full mediation
Direct effect	H5: Leadership → Business performance	-0.030**	-0.196**	-	No
Direct effect	H6: Talent Management → Business performance	0.619*	3.637*	-	Yes
Indirect effect	H7: Leadership → Talent Management → Business performance	0.565*	0.577*	2.862*	Yes; Full mediation
Direct effect	H8: Strategic flexibility → Business performance	0.233*	4.369*	-	Yes
Direct effect	Gender → Strategic flexibility	-0.042**	-1.408**	-	-
Direct effect	Education level → Strategic flexibility	0.092**	2.329**	-	-
Direct effect	Work tenure → Strategic flexibility	-0.055**	-1.408**	-	-
Direct effect	Sector → Strategic flexibility	0.004**	0.110**	-	-

Note: *p<0.001; **p<0.1

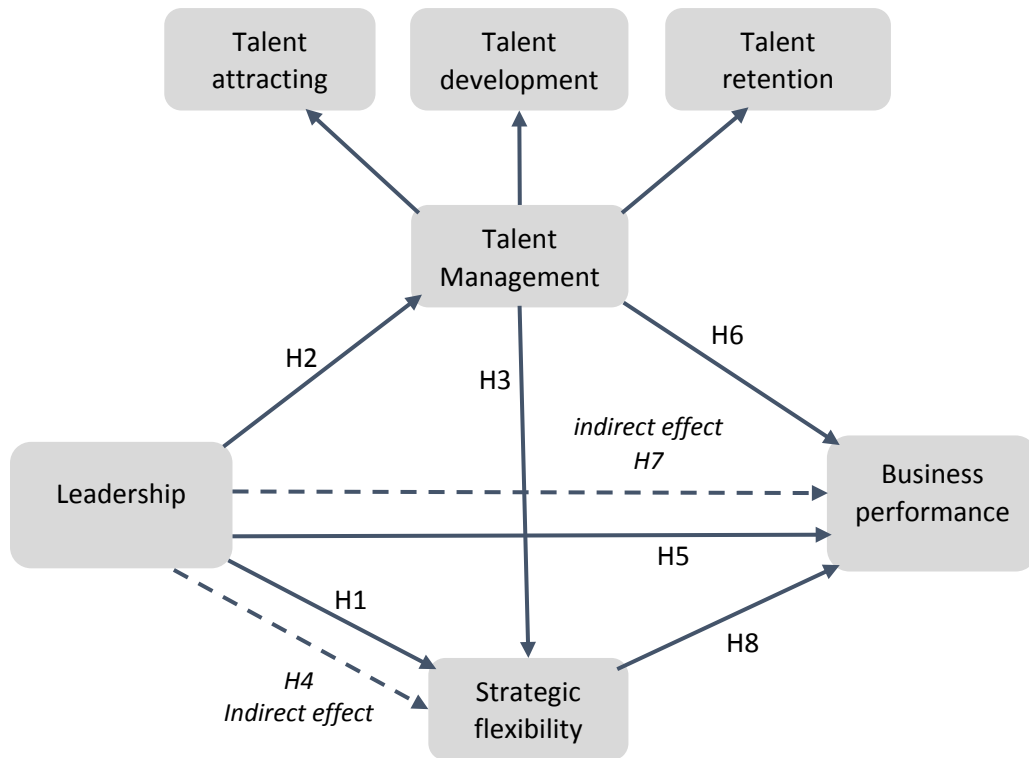


Figure 1. The conceptual model

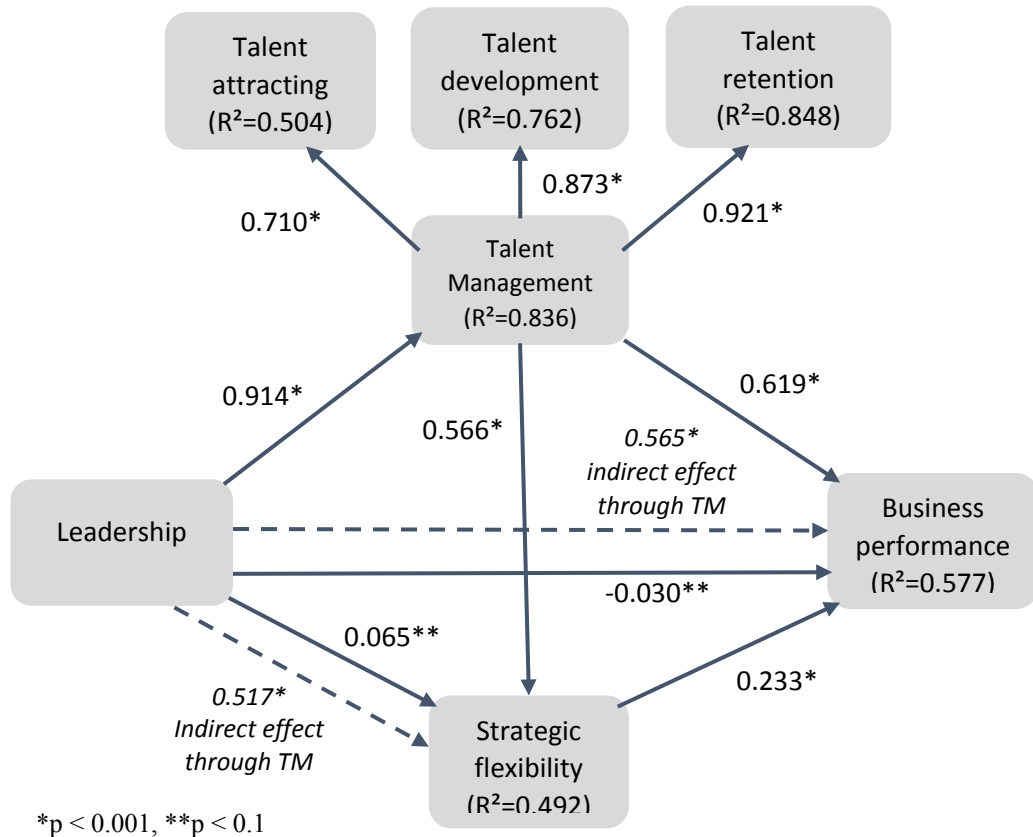


Figure 2. Model results with standardized path coefficients