

ORGANIZATIONAL AMBIDEXTERITY: CROSSING THE GREAT DIVIDE OF EXPLORATION AND EXPLOITATION IN SMALL FIRMS

P.M.B. Jayathilake

Faculty of Management Studies, Rajarata University of Sri Lanka,
Mihintale, Sri Lanka.
bandulapmb@yahoo.com

Key words: Ambidexterity, Exploitation, Exploration, Small firms

Introduction

The concept of organizational ambidexterity has gained momentum in research on business firms. Ambidexterity signifies a firm's capacity to perform conflicting activities simultaneously (Lubatkin et al. 2006). Recent research criticizes the early idea that tradeoffs between exploitation and exploration as insurmountable and proposes that ambidextrous firms are capable of engage in underlined processes at simultaneously (Jansen et al. 2009; Lubatkin et al. 2006). Although increasing attention toward the concept of ambidexterity in recent years contribute to the refinement and extension of the concept, a review of the extant literature reveals that important research issues are remained unexplored (Jansen et al. 2009; Lubatkin et al. 2006; Gulati and Puranam, 2009). In fact, research suggests multiple paths to ambidexterity. Theory of ambidexterity proposes dual structure and strategies, differentiating efforts to focus on each exploitation and exploration (Guptha et al. 2006). Contextual ambidexterity incumbent emphasizes behavioral and

social means of integrating exploitation and exploration (Gibson and Birkinshaw, 2004). Moreover, some studies provide evidence for a positive association between organizational ambidexterity and firm performance (Gibson and Birkinshaw, 2004; He and Wong, 2004; Lubatkin et al. 2006) while very recent studies have examined moderate effect of environmental and organizational factors on the relationship between ambidexterity and its antecedents and performance outcome (Jansen et al. 2006; Kyriakopoulos and Moorman, 2004). Informal networks and leadership have also been investigated as an antecedent of ambidexterity (Gibson and Birkinshaw, 2004; Gulati and Purahan, 2009). In response, this paper examines necessity of ambidexterity for small firms. Specially, a holistic and an alternative framework is devised to reach ambidexterity under the pressure of limited resources and complex market conditions.

Methods and Materials

Today's environmental rapidity and dynamism stresses the firms to address

long-term targets rather than short-term success to assurance the future sustainability. Ambidextrous provides better landscape for firms to realize the current profit and productivity issues while addressing the adaptability issues in the changing environment (Jansen et al. 2009). To investigate exploitation and exploration tensions and their management process, empirical survey was directed to manufacture the 120 SMEs in Sri Lanka. Special attention was given for designing empirically validated constructs for exploration and exploitation. Exploration (EPR) is defined as a firm's ability to seek novel ideas by thinking outside the box to discover new value addition innovation for the firm. Building on recent literature (He and Wong, 2004; Lubatkin et al. 2006), new technologies for innovative products and services, novel ways to satisfy customers and identify new markets and customer groups are recognized as vital processes of exploration. Similarly, exploitation (EPT) is aimed at existing resources and capabilities of effectively managing firm's to improve quality and reduction of costs. All together, a 19 items inventory on a five point Likert type scale was constructed. Exploratory factor analysis on principal

axis VARIMAX rotation parceled items for each construct into two dimensions. Resulted dimensions were respectively named as creativity focused exploration (CFE) and market focused exploration (MFE) as well as internal focused exploitation (IFE) and external focused exploitation (EFE). Reliability test revealed well fitted Cronbach alpha values for both constructs (0.89 & 0.924). The confirmatory factors analysis performed reports AVE (Average Variance Extracted) well over general threshold of 0.5 (0.773 and 0.506). Moreover AVEs exceed the inter-construct square correlation (0.495) which reveals no evidence to suspect the problem of discriminant validity as well. Firm performance (PER) was measured through a ten item inventory which is grouped into three dimensions namely, industry competitiveness (IC), market performance (MF) and financial performance (FP). Finally, association between exploration and exploitation process and their impact on the firm performance were modeled through SEM (Structural Equation Modeling) in AMOS using the two step approach proposed by Anderson and Gerbing (1988).

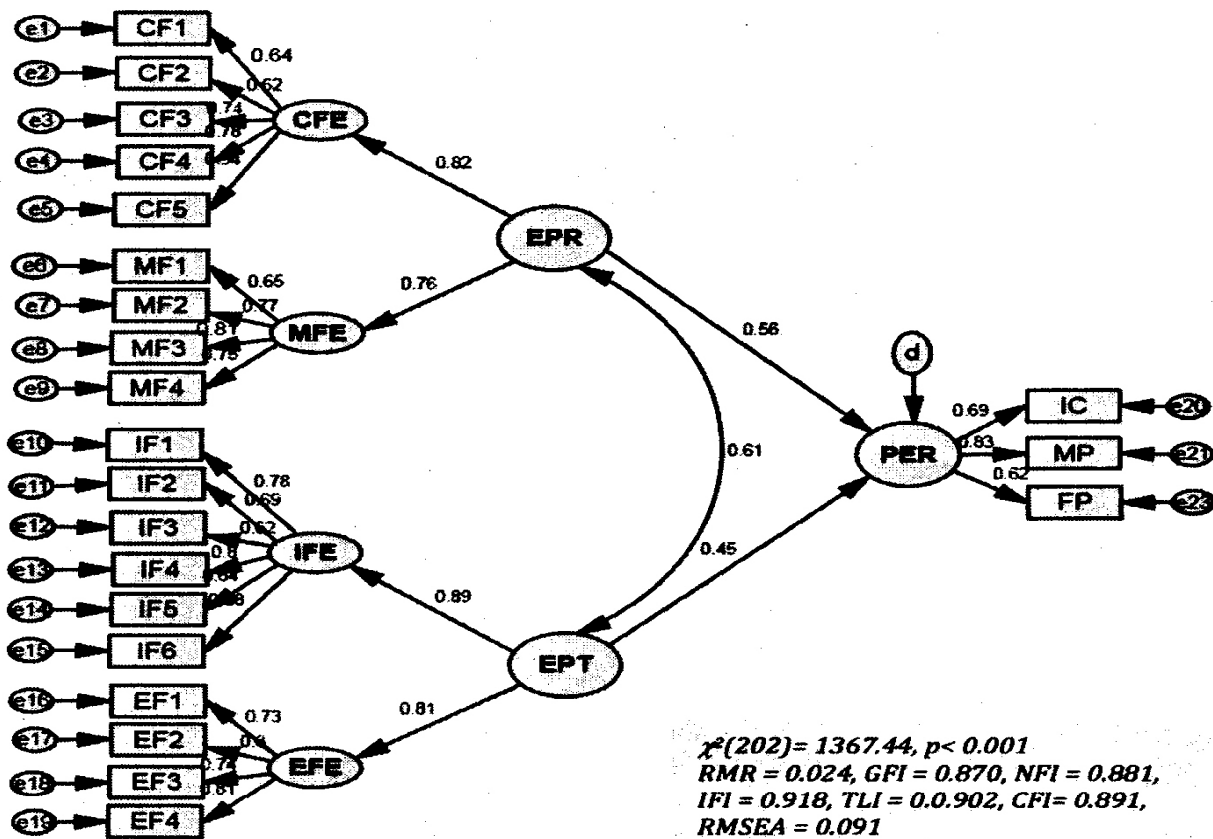


Figure 1- Structural model

Results

Figure 1 presents the structural model. Model fit indices including χ^2 value of 1367.44 which is significant at 0.001, absolute and incremental fit indices (RMR = 0.024, GFI = 0.870, NFI = 0.881, IFI = 0.918, TLI = 0.902, CFI= 0.891, RMSEA = 0.091) which are in consistency with the general cutoff criterion evident a better fit of the model.

Results in Table 1 suggest that exploration and exploitation process as a significant positive impact on firm performance. In fact, both regression weight from EPR and EPT to PER (0.45 & 0.56) are substantial and

statistically significant at 0.01. Inter-correlation ($r = 0.56, p < 0.01$) further reveals that exploration and exploitation processes work simultaneously. Factor loading for CFE and MFC from exploration and for EFE and IFE from EPT suggest that each dimension is significantly loaded from their respective latent constructs. Moreover, each and every item for four dimensions of two constructs is significantly loaded by taking values well over the general cutoff of 0.5. Thus, the proposed conceptualization is statistically and empirically validated from these results.

Table 1- Results for the structural model

Path	SRW	SE	CR	p
Exploration (EPR) ---> Performance (PER)	0.451	0.100	4.510	***
Exploitation (EPT) ---> Performance (PER)	0.564	0.122	4.623	***
Exploration (EPR) ---> Creativity focused exploration (CFE)	0.823	0.070	11.757	***
Exploration (EPR) ---> Market focused exploration (MFE)	0.721	0.065	11.092	***
Exploitation (EPT) ---> Internal focused exploitation (IFE)	0.887	0.071	12.493	***
Exploitation (EPT) ---> External focused exploitation (EFE)	0.811	0.068	11.926	***

*** : p < 0.001

Conclusion

The result offers an alternative framework for examining how ambidextrous small firms manage exploitation and exploration tensions. Present study is evident, however, exploration is rather dominance over search for exploitation, and small firms are capable of engage effectively in both pursuing exploration and exploitation. The result stresses the importance of finding a balance between these two processes to reap desired outcomes from the markets which are characterized with hyper competition and dynamism. The study further encourages small firms to advance their exploration and exploitation actions simultaneously, not only because it sustains their livelihood over generation, but because it also paves the path for crating the firms' wealth. Finally, the researcher strongly believes that theoretical and methodological insights of the present study are valued to the small firm literature where this stream of studies is still in its infancy.

References

- Gibson, C. B. & Birkinshaw, J., (2004), 'The antecedents, consequences, and mediating role of organizational ambidexterity', *Academy of Management Journal*, vol. 47, pp. 209-226.
- Gulati, R. & Puranam, P., (2009), 'Renewal through reorganization: The value of inconsistencies between formal and informal organization', *Organizational Science*, vol. 20, no. 2, pp. 422-440.
- Jansen, J. J., Tempelaar, P. M., van den Bosch, F. A. & Volberda, H., (2009), 'Structural differentiation and ambidexterity: The mediating role of integration mechanisms', *Organizational Science*, vol. 20, no. 4, pp. 797-811.
- Kyriakopoulos, K. & Moorman, C., (2004), 'Tradeoffs in marketing exploitation and exploration strategies: The overlooked role of market orientation', *International Journal of Research in Marketing*, vol. 21, no. 3, pp. 219-240.
- Lubatkin, M. H., Simsek, Z., Ling, Y. & Veiga, J. F., (2006), 'Ambidexterity and performance in small- to medium-sized firms: The pivotal role of top management team behavioral integration', *Journal of Management*, vol. 32, no. 5, pp. 646-672.