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Organizational Ambidexterity: Managing Exploitation-Exploration Tensions in Small Firms

P.M.B. Jayathilake

Faculty of Management Studies, Rajarata University of Sri Lanka,
Mihintale, Sri Lanka.

Abstract: The concept of organizational ambidexterity has gained momentum research in business firms. This study aims to explore necessity of ambidexterity. The main objective of this study is to investigate why small firms should be ambidextrous and how they can reach ambidexterity under the pressure of limited resources and competitive forces. Result of the study reveals that small firms are competent of effectively engage both in pursuing exploration and exploitation. The study stresses the importance of finding a balance between these two processes in small firms to reap competitive advantage from the markets which are characterized with hyper competition and dynamism. Theoretical and practical implications are also discussed in this paper.

Keywords: organizational ambidexterity, opportunity exploration, opportunity exploitation, small firms

INTRODUCTION

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 based have also been investigated as an antecedent of ambidexterity ([Gibson and Bikinshaw, 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

In 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 realization of 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 120 manufacturing 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 effectively managing firm's existing resources and capabilities to improving 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 (See Table 1 & Table 2). 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).

Table 1 VARIMAX-Rotated factor matrix - Exploration

Item (Question no.)	VARIMAX- Rotated Loadings		Communality
	CFE	MFE	
EPR1	0.862		0.846
EPR2	0.832		0.802
EPR3	0.819		0.814
EPR4	0.732		0.819
EPR5	0.719		0.745
EPR6		0.841	0.818
EPR7		0.814	0.792
EPR8		0.767	0.781
EPR9		0.717	0.824
Eigen value	3.96	3.13	7.14

Table 2 VARIMAX-Rotated factor matrix – Exploitation

Item (Question no.)	VARIMAX- Rotated Loadings Factor		Communality
	1	2	
EPT1	0.847		0.849
EPT2	0.838		0.745
EPT3	0.763		0.668
EPT4	0.732		0.645
EPT5	0.709		0.673
EPT6	0.578		0.816
EPT7		0.816	0.829
EPT8		0.784	0.764
EPT9		0.712	0.745
EPT10		0.612	0.641
Eigen value	4.46	2.92	7.38

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) reveals no evidence to suspect of 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 with using the two step approach proposed by Anderson and Gerbing (1988).

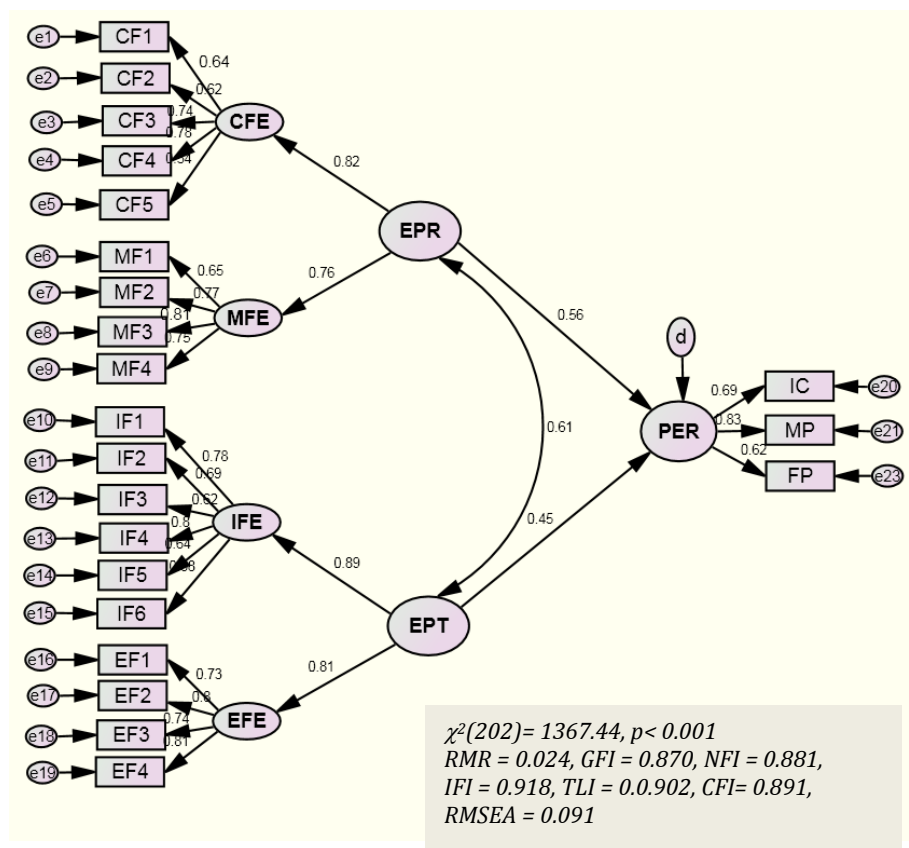


Figure 1- Structural model

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 3 suggest that exploration and exploitation process have 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 exploitation and exploration 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 3- 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 effectively engage both in 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 facilitates in the pave the path for crating the firms' wealth. Finally, 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.

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