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## CEOs' ambivalent interpretations, organizational market capabilities, and corporate entrepreneurship as responses to strategic issues

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### ABSTRACT

We apply the heuristic-systematic model, an information processing perspective, to examine how CEOs' ambivalent interpretations of strategic issues affect corporate entrepreneurship (CE). Ambivalent interpretations indicate that CEOs label strategic issues as both positive and negative. Based on a two-wave survey of 170 firms in mainland China during global economic crisis that began in 2008, we find that firms' market capabilities moderate the relationship between ambivalence and CE. Although organizations with strong market capabilities tend to adopt CE activities to cope with ambivalent environmental changes, those with weak market capabilities actually reduce their CE activities in a highly ambivalent environment.

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### 1. Introduction

Recent empirical evidence (e.g., Gilbert, 2006; Plambeck & Weber, 2009, 2010; Tang et al., 2010; Wan & Yiu, 2009) has suggested that the competing frames of threat and opportunity can co-exist in strategic issue interpretation, and that the co-existence can influence information processing, decision making, and organizational actions. These studies have shifted the attention of the dominant threat-opportunity framework in strategic issue analyses from the clear-cut 'threat' or 'opportunity' interpretations of the environment to the phenomenon of ambivalence, namely 'the coexistence of conflicting negative and positive thoughts and feelings' (Priester & Petty, 2001: 19). Conventional categorizations such as 'threat' and 'opportunity' assume that executives see issues in either positive or negative terms independently, and that such cognitive shortcuts save executives' effort and cognitive resources in evaluating strategic issues (Dutton & Ottensmeyer, 1987). However, CEOs who are perceived to have unambiguous 'threat' or 'opportunity' interpretations may actually view issues as both 'threat' and 'opportunity' and take actions accordingly, while the traditional threat-opportunity framework may conclude that the actions are caused by either threat or opportunity, thereby identifying the wrong stimulus to organizational responses. For example, a recent article in *The Economist* argues that the emerging

economies in Asia should "be as much an opportunity as a threat" for Britain's financial industry (The Economist, 2012), indicating that ambivalent interpretations are indeed an organizational phenomenon.

Ambivalent interpretations of strategic issues can trigger a variety of organizational actions. Plambeck and Weber (2009) argue that executives with ambivalence view the unusualness of the phenomenon which cannot be addressed with existing action routines and schemas; thus, organizations need to devote more cognitive effort and activate distant search to look for responses which match ambivalent issues. The ambivalence of the perceived unusualness of the phenomenon implies that novel combinations of existing solutions or new solutions are more likely to provide satisfying actions, and CEOs' ambivalent interpretations of strategic issues may thus lead to actions which involve greater risk. In likelihood the first large sample study of ambivalence in strategy, Plambeck and Weber (2009) found that CEOs with more ambivalent interpretations of a strategic issue are more likely to take actions, and that such actions tend to be of a larger scope, more novelty, and more risk.

The above linkages between ambivalent interpretations and organizational novel actions as theorized by Plambeck and Weber (2009) rely on the implicit assumption that effortful distant search provides organizations with a repertoire of novel solutions. However, this assumption may be problematic, as organizations differ in their capabilities to search for new information and process such information to deal with environmental changes. The information-processing approach to organizational design

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(e.g., Dollinger, 1984; Egelhoff, 1991; Tushman & Nadler, 1978) maintains that organizational characteristics such as rules, programs, vertical information systems, and lateral relations, represent the information-processing capacities in the gathering of data and the transformation of data into information, and that organizations differ in their design features and information-processing capacities. The differentiated information-processing capacities suggest that organizations may vary in their abilities to cope with information requirements brought by environmental ambivalence. Although ambivalent interpretations of environmental issues tend to trigger distant search, the effectiveness of the search and the resulting pursuit of novel actions rely on whether organizations possess the appropriate information-processing capacities to identify new approaches. Thus, we argue the importance of not only examining ambivalence on corporate entrepreneurship but also including relevant capabilities such as information-processing type capacities. Ambivalent executives will be equipped with important mechanisms of influence in order to act upon the ambivalent disposition, and our studies provide a more fine-grained approach that delves more fully into important processes that occur between ambivalence and corporate entrepreneurship.

In the present paper, we attempt to remediate the above concern by exploring the moderating effect of organizational market capabilities on the relationship between CEOs' ambivalent interpretations of strategic issues in a macro crisis and corporate entrepreneurship responses to cope with the crisis (CE thereafter). Rapid and dramatic environmental changes brought by a global economic crisis often create misfit between existing strategies and the external environment (Meyer, Brooks, & Goes, 1990; Wan & Yiu, 2009), thereby demanding innovative actions such as CE. On the other hand, organizational market capabilities represent internal information-processing capacities which decide whether appropriate CE activities can be identified and pursued.

We draw upon the heuristic-systematic model (HSM) (Bohner, Moskowitz, & Chaiken, 1995; Chaiken, Liberman, & Eagly, 1989) to conceptualize how the relationships between CEO's ambivalent interpretations and CE vary with organizational market capabilities. HSM is an established perspective in social psychology, and scholars (e.g., Jonas, Diehl, & Bromer, 1997; Nordgren, van Harreveld, & van der Pligt, 2006; Rudolph & Popp, 2007) have applied the HSM to investigate how ambivalence influences information processing and behavioral intentions. Compared with current conceptualizations of ambivalence in the organization and strategy fields (e.g., Gilbert, 2006; Plambeck & Weber, 2009) which fail to incorporate the intrinsic conflict between the two sides of ambivalence, HSM explicitly theorizes how conflicting attitudes and interpretations motivate individuals to engage in information searches in order to identify actions which match individuals' ambivalent interpretations, thereby examining the integrative impact of the two sides of ambivalence.

Based on a sample of 170 firms in mainland China during the recent global economic crisis, we find that although organizations with strong market capabilities tend to adopt CE activities to cope with ambivalent environmental changes, those with weak market capabilities actually reduce their CE activities in a highly ambivalent environment.

Our paper makes several contributions to the emerging research on ambivalence in strategy. First, our findings refine earlier empirical results (e.g., Plambeck & Weber, 2009) by suggesting that ambivalence requires appropriate internal information-processing capacities in order to more fully appreciate the effects ambivalence can have on CE. We thus identify market capabilities as a key moderator and boundary condition that influences the linkage between ambivalence and organizational actions. Although Plambeck and Weber (2009) find that

ambivalence promotes organizational actions with greater risk and novelty, our results demonstrate that the lack of required internal capacities may stifle, in some circumstances, potential entrepreneurial activities and push organizations to rely on existing routines. Second, given that the first large sample study of ambivalence in strategy was published in 2009 (Plambeck & Weber, 2009), our study not only adds to the quite limited number of empirical studies of ambivalence in the strategy/organization field, but also offers a theoretical framework that incorporates the processes involved with ambivalence in strategic decision making.

## 2. Theoretical background and hypotheses

### 2.1. Strategic issue diagnosis and the relevance of ambivalence

A long-time focus within the strategy field has been on how top executives interpret changes in the organizational environment (e.g., Chattopadhyay, Glick, & Huber, 2001; Gilbert, 2006; Julian & Ofori-Dankwa, 2008). Strategic issues refer to events that have a potential impact on the organization's strategy and performance (Dutton & Duncan, 1987; Schneider & De Meyer, 1991). The strategic issue diagnosis literature (e.g., Chattopadhyay et al., 2001; Dutton & Duncan, 1987; Gilbert, 2006) proposes that executives tend to use particular labels (e.g., 'positive', 'negative') to describe strategic issues. A dominant framework in the strategic issue diagnosis literature is the threat-opportunity framework (Julian & Ofori-Dankwa, 2008), which proposes that executives tend to categorize strategic issues as either 'threat' or 'opportunity', and such categorizations incur different decision-making processes and organizational actions. The 'opportunity' label refers to 'a positive situation in which gain is likely and over which one has a fair amount of control,' while the 'threat' label implies 'a negative situation in which loss is likely and over which one has relatively little control' (Dutton & Jackson, 1987: 80). Such interpretations have been found to affect various organizational actions (e.g., Chattopadhyay et al., 2001; Sharma, 2000; Thomas, Clark, & Gioia, 1993).

A major presumption of the threat-opportunity framework is that executives label issues as either threat or opportunity, while some recent studies in organization/strategy (e.g., Gilbert, 2006; Plambeck & Weber, 2009, 2010; Tang et al., 2010; Wan & Yiu, 2009) have provided empirical evidence for the simultaneous existence of threat and opportunity, i.e. ambivalent interpretations. For example, the competing frames of threat and opportunity co-exist in a newspaper organization (Gilbert, 2006); and some firms view the EU enlargement in 2004 ambivalently (Plambeck & Weber, 2009).

The concept of ambivalence, namely the 'coexistence of positive and negative evaluation of the particular object' (Jonas, Diehl, & Bromer, 1997: 190), has stemmed from social psychologists' observations of people's attitudes of objects (e.g., things, ideas, and people), which are often measured uni-dimensionally with bipolar measures (Larsen, 2007). A major problem with the uni-dimensional measures is that responses in the middle of bipolar measures can be interpreted as either the absence of positive or negative attitudes (i.e., being indifferent), or the presence of both attitudes (i.e., being ambivalent) (Scott, 1968). This bipolar problem (Kaplan, 1972; Priester & Petty, 1996; Thompson, Zanna, & Griffin, 1995) has led to the distinction between ambivalence and indifference (Kaplan, 1972; Thompson et al., 1995), which distinction advocates that positive and negative evaluations should be two independent, separate dimensions rather than a bipolar continuum. For example, people can feel both good and bad about ice cream because of the good taste on the positive side and vast amounts of sugar and fat on the negative side. The stronger the positive and negative reactions are, the more ambivalent people

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