



Regulatory focus as a psychological micro-foundation of leaders' exploration and exploitation activities

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ARTICLE INFO

Article history:

Received 26 October 2013

Received in revised form 25 April 2015

Accepted 13 June 2015

Available online 8 July 2015

Handling Editor: John Antonakis

Keywords:

Exploration

Exploitation

Leadership

Regulatory focus

ABSTRACT

In recent years, there has been strong interest in leaders' exploration and exploitation activities, especially because of their positive effects on performance. Most prior research in this area has focused on the organizational antecedents of leaders' exploration and exploitation activities, with less consideration given to the psychological precursors. This paper draws upon insights from the behavioral strategy literature to inform our theoretical perspective on leaders' exploration–exploitation activities. In particular, by conceptually linking leaders' regulatory focus and exploration–exploitation, we provide a theoretical framework to explain these activities from a psychological viewpoint. Moreover, we employ two moderator variables to better understand the different properties and boundaries of this framework. All in all, this paper has a number of implications for strategic leadership theory and practice.

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Introduction

The exploration–exploitation construct can be used to explain and predict leaders' performance levels (e.g., Mom, Fourné, & Jansen, *in press*; Schultz, Schreyoegg, & von Reitzenstein, 2013). Furthermore, one needs to understand the individual leader's exploration and exploitation activities to better understand their emergence at higher levels of analysis. In this context, 'leader' refers to any individual undertaking a formal or informal leadership role within an organization. Exploration and exploitation activities are important also because some other key constructs, such as ambidexterity, are often characterized in terms of exploration and exploitation (Simsek, Heavey, Veiga, & Souder, 2009, p. 865). These reasons have recently driven researchers to go back to the micro-foundations of the concept at the level of the individual, and made the antecedents of leaders' exploration and exploitation activities an essential area of focus (e.g., Jansen, Vera, & Crossan, 2009; Laureiro-Martínez, Brusoni, & Zollo, 2010; Mom, Van den Bosch, & Volberda, 2007, 2009; Rosing, Frese, & Bausch, 2011; Schultz et al., 2013).

Numerous calls have been made for more research in this area (e.g., Gupta, Smith, & Shalley, 2006, p. 703; Jansen, George, van den Bosch, & Volberda, 2008, p. 1002; Lavie, Stettner, & Tushman, 2010, p. 143; Raisch & Birkinshaw, 2008, p. 397). For instance, Gupta et al. (2006, p. 703) note that "Studies that examine exploration and exploitation at a micro level are relatively scarce," and pose interesting questions for future research to address. Likewise, Lavie et al. (2010, p. 143) state that "Also important is the study of exploration and exploitation at the individual and team levels of analysis (Gibson & Birkinshaw, 2004; Jansen et al., 2008; Lubatkin, Simsek, Ling, & Veiga, 2006; Smith & Tushman, 2005)". Following such calls in the literature, a number of papers have been published,

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especially in the foremost leadership journals, examining the various roles of leaders within exploration and exploitation processes (e.g., Jansen et al., 2009; Nemanich & Vera, 2009; Rosing et al., 2011; Yukl, 2009). Of the studies to date that have examined the antecedents of leaders' exploration and exploitation, most have concentrated on the organizational antecedents, and have placed insufficient attention on the psychological antecedents. Given this current gap in the literature, there is value in constructing a psychological/behavioral framework as a complement to organizational and economic theories (Levinthal, 2011; Powell, Lovallo, & Fox, 2011).

The contributions of this paper are twofold. The first of these contributions is highlighting regulatory focus as a key driver of leaders' exploration and exploitation activities. Regulatory focus theory has been a prominent theory in the psychology literature during the last two decades, and has recently attracted attention in leading strategic management journals (e.g., Das & Kumar, 2011; McMullen, Shepherd, & Patzelt, 2009; Stam, van Knippenberg, & Wisse, 2010; Wanberg, Zhu, Kanfer, & Zhang, 2012; Weber & Mayer, 2011). In particular, regulatory focus is a theory of goal pursuit that examines avoiding pain (prevention focus) and seeking pleasure (promotion focus) as the two distinct but complementary ends an individual may strive for (e.g., Higgins, 1997, 1998; Shah, Higgins, & Friedman, 1998). Prior studies have shown that regulatory focus explains behaviors such as risk-taking and diverging from norms (e.g., Crowe & Higgins, 1997; Liberman, Idson, Camacho, & Higgins, 1999), but studies have not elucidated the correspondence between these concepts and the essential dimensions by which exploration and exploitation are defined. This paper creates a new link between regulatory focus theory and the organizational literature, the importance of which is repeatedly emphasized in both bodies of literature (e.g., Brockner & Higgins, 2001; McMullen et al., 2009; Wallace, Johnson, & Frazier, 2009). Bringing together these two far apart areas of research with compatible underlying assumptions (Okhuysen & Bonardi, 2011) has three specific benefits for the literature.

First, the majority of current research on exploration–exploitation at the individual level focuses primarily on the organizational antecedents of exploration and exploitation activities (e.g., Mom et al., 2007, 2009), and research on the psychological precursors is impoverished. Without knowledge of the psychological antecedents, we can deduce little about the differences in these individuals' habitual tendencies, which is of crucial importance when selecting individuals for formal leadership roles. By highlighting regulatory focus as a precursor for individuals' exploration and exploitation activities, this paper helps explain and predict the differences in leaders' approaches to these activities. Second, most organizational antecedents can provide insight into the individual's aggregate exploration and exploitation behavior over a period of time (e.g., a year) because the hierarchical structure of a company does not change every day. In contrast, regulatory focus can help explain and predict daily or short-term differences in leaders' exploration and exploitation behaviors because regulatory focus can also be induced temporarily through contextual elements. That is, while one component of the regulatory focus theory can account for chronic tendencies, another can be used to explain temporary changes. Third, in contrast to exploration–exploitation at the individual level, a field that is growing but still underexplored, regulatory focus is a fully-fledged, mature literature in which most of the antecedents and interrelationships are already known. Hence, linking the regulatory focus literature with the literature on exploration–exploitation provides the latter with a well-developed network of conceptual linkages to various psychological constructs, such as the personality antecedents of regulatory focus (e.g., Gorman et al., 2012; Lanaj, Chang, & Johnson, 2012).

The second contribution of this paper is the formulation of a model that can delineate the primary boundaries of the relationship between leaders' regulatory foci and exploration–exploitation activities. We have added two variables moderating the relationship between the regulatory focus and exploration–exploitation concepts. In doing so, we demonstrate that the regulatory focus and exploration–exploitation constructs are conceptually different from each other (the argued link is not tautological), and we provide a theoretical framework upon which future studies can be built. We believe that having such a framework will give future studies a starting point for systematically searching for new variables and relationships, while providing new insights into the existing discussions. The contributions of this paper will be revisited in the discussion section.

Theoretical background

Conceptualization of exploration and exploitation at the individual level

The origins of the concepts of exploration and exploitation lie in the decision and computer sciences (DeGroot, 1970; Holland, 1975). Following March's (1991) preeminent article, exploration and exploitation became integral fields of research within the strategic management literature. March defined exploration as the “things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation” whereas for exploitation he used terms such as “refinement, choice, production, efficiency, selection, implementation, execution” (1991, p. 71). In line with this definition, exploration activities at the individual level include searching for new possibilities, evaluating diverse options, and activities requiring the individual to learn new skills or knowledge (Mom et al., 2009, p. 820). Exploitation activities at the individual level are activities that the individual performs as if they were routine, activities that the individual clearly knows how to conduct, and activities that the individual can properly conduct by using his or her present knowledge (Mom et al., 2009, p. 820). More specific examples to exploration activities include developing different ways to fulfill customers' unmet needs, meeting new people beyond one's network, and engaging in efforts to invent a novel business model. In contrast, the processing of a standard order, strengthening bonds with existing business contacts, and engaging in the daily maintenance activities of a business unit are examples to exploitation activities.

Both exploration and exploitation activities are associated with the performance of the decision-making entity (i.e., organization, business unit, team, or individual) and its chances of economic survival, albeit in different ways. Exploration allows the decision-making entity to adapt to the changing conditions of the environment, thus ensuring long-term gains, whereas exploitation fits the

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