



International ambidexterity and firm performance in small emerging economies

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ABSTRACT

Conventional IB theories stress the importance and implications of a firm's exploitative strategy. However, the unprecedented competitive nature of contemporary business necessitates firm "ambidexterity" – the simultaneous execution of exploitation and exploration activities. Using balanced panel data of 207 Taiwanese firms spanning six years, this research examines the effects of international ambidexterity on firm performance. Findings reveal that ambidexterity promotes a firm's performance. For firms from small emerging economies, international ambidexterity is highly vulnerable to environmental complexity and sensitive to previous international experience and the firm's capability to conduct international business. These factors significantly moderate firm performance.

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1. Introduction

International business (IB) theories conventionally view internationalization as the exploitation of a firm's competitive advantages in overseas markets (Caves, 1971; Hymer, 1976). The Uppsala theory suggests that an expanding firm's choice of market entry location is sequentially arranged according to "perceived proximity" to the home environment – greater environmental differences and cultural distances can reduce the efficiency of an internationalizing firm's competitive advantages (Zahra, 2005). Numerous studies argue that a firm's internationalization is not only driven by its exploitation of existing advantages, but also its desire to explore and capture resources in overseas markets that strengthen corporate global competitiveness and long-term performance (e.g., Almeida, 1996; Chen & Chen, 1998; Hsu & Chen, 2009; Makino, Lau, & Yeh, 2002; Shan & Song, 1997). Indeed, the unprecedented competitive environment multinational enterprises compete in nowadays necessitates an "ambidextrous" organizational structure that allows for the simultaneous tasks of exploitation and exploration (March, 1991; Raisch & Birkinshaw, 2008). Aside from organizational structure, contemporary multinational enterprises also show a significant tendency towards "international ambidexterity" in their strategic decisions. In such

cases, firms strive to integrate exploitative and explorative strategies during the internationalization process and thus acquire an enhanced position to survive and compete against global rivals (Barkema & Drogendijk, 2007; Han & Celly, 2008; Luo & Rui, 2009; Prange & Verdier, 2011; Tseng, 2007).

Given the importance of ambidexterity to contemporary multinational enterprises, this study aims to verify ambidexterity's performance effect, particularly in the context of emerging economies. Enterprises from emerging markets have been increasingly active in international business. Considerable research examining the uniqueness of these firms and their strategies of internationalization has been conducted (e.g., Cuervo-Cazurra & Genc, 2008; Luo & Tung, 2007; Rui & Yip, 2008). Luo and Rui (2009) explicitly link international ambidexterity with firms from emerging economies and their need to build and leverage ambidexterity during the internationalization process in order to offset late-mover disadvantages. Their argument was based on the case study of four Chinese companies, and may be inapplicable to firms from other emerging economies. For example, the particular political and social institutions in China and its immense but restricted domestic market enable and facilitate the international ambidexterity of local companies. In contrast, other emerging economies may be small and lack favorable institutions that can support firm internationalization (e.g., through market protectionism and conservatism, direct and indirect governmental aids and so forth), thereby constraining the capability of local firms to accomplish the requirements of international ambidexterity. In order to explore this issue further, our study focuses on Taiwanese multinational enterprises to ascertain international ambidexterity's effects on performance in

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the context of a small-scale emerging economy where local firms get limited support from home institutions and the domestic market.

Little is known about the performance implications of international ambidexterity (see: Luo & Rui, 2009; Raisch & Birkinshaw, 2008), but our current empirical examination intends to shed some light on this research topic. Based on the ambidexterity perspective of international business (Luo & Rui, 2009; Prange & Verdier, 2011), we expect a positive relationship of international ambidexterity and firm performance. However, for those firms originating from small-scale emerging economies, the positive relationship should be particularly vulnerable to certain environmental contingences and sensitive to specific firm attributes. For example, extensive internationalization can dramatically complicate the environmental factors faced by firms from small-scale economies. Dealing with increased complexity can lead to exhaustion of resources, thus impeding international ambidexterity. On the other hand, overseas experience stimulates the cultivation of knowledge and helps the firm acquire expertise needed to compete in large-scale and heterogeneous markets. International experience should enhance the firm's capability to implement international ambidexterity and intensify positive effects on performance. In general, this current research provides empirical evidence to support these arguments. The findings not only help to clarify the effect of international ambidexterity in practice but also enrich our understanding of the uniqueness of firms from emerging economies in international business. We believe that this is a topic of significant importance, yet has been under-researched.

The remainder of this paper is organized as follows. In the next section, the current literature and theoretical background are discussed, allowing the formulation of four hypotheses. Following this section is a description of the methodology and data used in this empirical study. Next, a presentation of the results is given. A discussion of the empirical findings and implications for future research concludes this paper.

2. Theoretical background

2.1. Exploitation and exploration

The exploitation and exploration framework has been highlighted in a wide range of management literatures. According to conventional interpretations, exploitation and exploration can cause conflict in an organization because of fundamentally divergent goals and dissimilar operating processes and contexts (March, 1991; McGill, Slocum, & Lei, 1992). Exploitation is often associated with activities such as “refinement, efficiency, selection, and implementation,” whereas exploration usually refers to notions such as “search, variation, experimentation and discovery” (March, 1991, p. 71). More specifically, exploitation tends to promote the firm's strategic utilization and addition of value to existing assets. Exploration represents a process that a firm uses to broaden and deepen its total stock of resources reserved for corporate long-term success (Levinthal & March, 1993, p. 105).

From the resource perspective, the success of exploration is determined by a firm's capability to seek, acquire and attract “external” resources. In contrast, successful exploitation requires an efficient and effective process to increase and extend the usage of existing assets “internal” to the firm. Keeping with these distinctions, exploitation and exploration demand different organizational structures to facilitate their respective tasks (Ireland & Webb, 2007). Specifically, organizational structures characterized by centralized authority help to define a clear locus of control and also allow the firm to make rapid responses to current market changes that will assist in the firm's exploitation

activities. On the one hand, decentralized authority may yield a large number of occasions for knowledge to be meaningfully acquired and processed (Siggelkow & Levinthal, 2003), enabling the firm to examine a relatively large number of potential opportunities and thus to identify the best opportunities from the explorative process. An entrepreneurial organizational culture can facilitate exploration by valuing innovation, experimentation and tolerating uncertainty and failure. On the other hand, exploitation can be easier in an organization with a conservative culture as it seeks to defend its existing territory and realize explicit, consistent and predictable goals.

2.2. Ambidexterity perspective

The need for distinct organizational structures, cultures and goals has resulted in traditional management theories focusing on either exploitation or exploration to develop organizational strategy (Denison, Hooijberg, & Quin, 1995; Ghemawat, Ricart, & Joan, 1993). Strategy studies propose the use of ambidexterity that considers exploitation and exploration as two distinct but complementary perspectives (Benner & Tushman, 2003; Gupta, Smith, & Shalley, 2006; He & Wong, 2004; March, 1991). According to this reasoning, firms that overemphasize exploitation reduce learning of new capabilities and may result in organizational myopia (Radner, 1975), causing the firms' core capabilities to become “core rigidities” (Leonard-Barton, 1992) or “competency traps” (Levitt & March, 1988). To remedy this disadvantage and complement the deficiencies of existing capabilities, Rosenkopf and Nerkar (2001) suggest that firms should go beyond “local search” to engage in high degrees of exploration. However, firms that overemphasize exploration can reduce the speed at which existing capabilities are improved and refined (March, 1991). Moreover, exploration in a new field is risky and prone to failure. A failed exploration can disrupt successful routines in a firm's existing domains of competency without any benefit to compensate for the loss in existing business (Mitchell & Singh, 1993). By putting these two activities together, the ambidexterity perspective proposes that there is a synergistic effect between exploitation and exploration and their integration and balance are prerequisites to ensure the firm's long-term survival and success (Ireland & Webb, 2007; Levinthal & March, 1993).

According to the ambidexterity perspective, exploitation and exploration are by no means independent of each other. Companies should therefore engage in exploitation to ensure the organization's current viability and simultaneously devote energy to exploration to ensure the firm's future viability (Levinthal & March, 1993; March, 1991). To facilitate ambidexterity, organizational structures should be adjusted in such a way as to cultivate an optimum balance between these two activities (Ancona, Goodman, Lawrence, & Tushman, 2001; Floyd & Lane, 2000). Such ambidextrous implications are in fact implicit in extant strategy and organization literatures. For example, Eisenhardt and Martin (2000) suggest that the cultivation of a firm's dynamic capabilities requires an effective blend of exploitation and exploration. In addition, Burgelman (2002) identifies two internal strategic decision types (i.e., a variation-reducing induced process and a variation-increasing autonomous process) and suggests that most companies actually rely on both these processes simultaneously to cope with the multi-dimensional challenges in their decision-making. Similarly, organization literature proposes that firms should elaborate an ambidextrous structure to pursue two disparate organizational goals at the same time (Duncan, 1976; Tushman & O'Reilly, 1996), such as exploiting the firm's current capabilities, while exploring fundamentally new capabilities (Gibson & Birkinshaw, 2004). These arguments support the implications of the ambidexterity perspective in a

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