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Organizational ambidexterity, market orientation, and firm performance



Zelong Wei^a, Jie Zhao^{b,*}, Chenlu Zhang^c

^a School of Management, Xi'an Jiaotong University, Xi'an 710049, Shaanxi, China

^b School of Economics and Management, Xidian University, Xi'an 710126, Shaanxi, China

^c School of Economics & Management, Northwest University, Xi'an 710118, Shaanxi, China

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ABSTRACT

Although ambidexterity is crucial for a firm's long-term success, existing literature offers conflicting views regarding the relationship between exploitation and exploration and thus how to allocate resources to leverage ambidexterity for firm performance. This research aims to investigate if the effects of ambidexterity on firm performance are different in firms with proactive or responsive market orientations. Based on the attention-based view and ambidexterity and market orientation literatures, we proposed six hypotheses and examined them with data from 203 Chinese firms. We find that, in a firm with responsive market orientation, exploitation has a positive effect whereas exploration has an inverted U-shaped effect on firm performance. In contrast, in a firm with proactive market orientation, we find that exploitation has an insignificant effect whereas exploration has a positive effect on firm performance. We find that the interaction of exploitation and exploration has a negative effect on firm performance in a firm with responsive market orientation whereas it has a positive effect in a firm with proactive market orientation. By investigating the contingent role of strategic orientation, this research contributes to the debate on whether exploration and exploitation are incompatible or complementary and also enriches contextual ambidexterity literature.

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* Corresponding author. Tel.: +86 13772172695.

E-mail addresses: wzlxjtu@mail.xjtu.edu.cn (Z. Wei), sophiazj2004@aliyun.com (J. Zhao), drizzlezhang0821@163.com (C. Zhang).

Introduction

As organizational ambidexterity is critical for a firm's long-term success, it has attracted intensive research attention. The general agreement established is that achieving organizational ambidexterity by simultaneously pursuing exploration and exploitation is both critical for long-term success and difficult to achieve (March, 1991; Levinthal and March, 1993; Tushman and O'Reilly, 1996; He and Wong, 2004; Cao et al., 2009; Laureiro-Martínez et al., 2014). Various approaches have been proposed to identify the ways to handle the trade-off between exploitation and exploration, among which the resource allocation perspective has been central to ambidexterity literature (March, 1991; Gupta et al., 2006; Atuahene-Gima and Murray, 2007; Cao et al., 2009; Jansen et al., 2012; Wei et al., 2014).

However, existing literature offers conflicting views on the relationship between exploration and exploitation and thus how to allocate resources to leverage ambidexterity. Based on the resource scarcity assumption, one stream of literature suggests that exploitation and exploration are fundamentally incompatible because they compete for scarce organizational resources (March, 1991; Uotila et al., 2009). Therefore, firms should balance the resource allocation to exploration and exploitation. In contrast, the other stream of literature argues that exploitation may complement exploration to promote firm performance by internal resource sharing (Katila and Ahuja, 2002; Birkinshaw and Gibson, 2004; Andriopoulos and Lewis, 2009; Simsek et al., 2009), external resource accessing (Gupta et al., 2006; Atuahene-Gima and Murray, 2007; Cao et al., 2009; Li et al., 2013), or dynamic resource reconfiguring (Wei et al., 2014). Therefore, to promote firm performance, firms should allocate resources to leverage the complementary effects between exploitation and exploration.

In spite of these insights, existing literature fails to investigate the role of strategic orientation behind the resource allocation pattern. According to the attention-based view, strategic orientation refers to organizational business philosophy and value system (Ocasio, 1997, 2011). It guides a firm to balance scarce resource allocation and determines whether exploitation and exploration share or compete for scarce resources (Atuahene-Gima and Ko, 2001; Ocasio, 1997, 2011). The effect of ambidexterity on performance may vary with a firm's strategic orientation (e.g., market orientation), which changes the resource allocation pattern. Ambidexterity literature has called for more research on the contextual factors that facilitate ambidexterity, such as culture, values, vision, incentives, and processes (O'Reilly and Tushman, 2011; Markides, 2013). However, the literature has offered little insight on the contingent role of strategic orientation.

Market orientation, as one of the most salient strategic orientations, describes a firm's "orientation toward the promotion and support for the collection, dissemination and responsiveness to market intelligence to serve customer needs" (Atuahene-Gima and Ko, 2001, p. 55). Market orientation is the strategic philosophy that focuses on identifying and meeting customers' needs to assure better competitive advantage (Narver and Slater, 1990). McCarthy et al. (2010) argue that how firms innovate and change is highly dependent on the conditions of markets. Therefore, market orientation, which determines how firms perceive the demand conditions and react to the market environment (Markides, 2013), may affect the resource allocation to exploration or exploitation (Menguc and Auh, 2008; Tushman and Smith, 2002). Furthermore, scholars have distinguished proactive and responsive market orientations (Atuahene-Gima et al., 2005; Narver et al., 2004; Baker and Sinkula, 2007). Proactive market orientation addresses the latent needs of customers, whereas responsive market orientation addresses the expressed needs of customers (Atuahene-Gima et al., 2005; Narver et al., 2004; Baker and Sinkula, 2007). Responsive and proactive market orientations may guide a firm to allocate resources in different ways to leverage exploitation or exploration for firm performance (Ocasio, 1997, 2011; McCarthy and Gordon, 2011).

Therefore, does the effect of ambidexterity on performance vary with a firm's proactive vs. responsive market orientations? This research seeks to answer this question. Based on the attention-based view, market orientation literature, and the ambidexterity view, we investigate how the effects of exploration, exploitation and their interaction on firm performance in firms with higher levels of proactive market orientation differ from those in firms with higher levels of responsive market orientation.

This research contributes to ambidexterity literature in two ways. First, we extend our understanding of the debate on whether exploration and exploitation are incompatible or

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