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Drivers of innovation ambidexterity in small- to medium-sized firms

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KEYWORDS

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Summary Balancing explorative and exploitative innovation ambidextrously has emerged as one of the foremost questions in management research. While a firm's ability to jointly pursue both exploitative and explorative innovation has been conceived as having positive performance effects, scholarly efforts to resolve the ambidexterity question have left a disproportionate gap in our understanding of how innovation ambidexterity can be achieved, particularly so in small-to-medium-sized firms (SMEs). The state of the debate is such that SMEs must largely rely on prescriptions tested with large firms to inform their ambidexterity initiatives. This study focuses on the characteristics of top managers and features of organizational structure and context in facilitating the appearance of ambidexterity in SMEs, and the mediation effect of innovation ambidexterity between structural, contextual, and leadership characteristics on SME performance. Results indicated that SMEs could achieve a close balance of explorative and exploitative innovations (BD) through shaping right international organizational structures and adopting appropriate leadership styles. Further, BD mediates the relationship between the structural, contextual, and leadership characteristics on SME performance. SMEs could benefit from BD with relatively resources available.

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Introduction

The best firms are increasingly believed to be those who can simultaneously balance explorative innovation with exploitative innovation in an ambidextrous fashion (He & Wong, 2004; Morgan & Berthon, 2008; Raisch & Birkinshaw, 2008; Raisch, Birkinshaw, Probst, & Tushman, 2009). However, to

be ambidextrous, firms must reconcile the inherent tensions that exist between acts of exploration and exploitation (March, 1991). These tensions are brought about by conflicting task demands (Raisch & Birkinshaw, 2008) and competing firm design requirements (March, 1991; Tushman & O'Reilly, 1996). Although these problems were initially thought of as insurmountable trade-offs forcing firms to choose either explorative or exploitative innovation pathways (Raisch & Birkinshaw, 2008), scholars have recently put forward a series of business solutions to resolve the ambidexterity

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problem. One solution in particular is that firms can shape an appropriate organizational context supportive of both innovation types (Gibson & Birkinshaw, 2004).

Structural, contextual and leadership solutions to create ambidexterity between both types of innovation have been proposed (see Raisch & Birkinshaw, 2008, for a detailed review). Structural solutions advocate the spatial separation of explorative and exploitative innovations into separate business units to be coordinated by integration mechanisms (Jansen, Van Den Bosch, & Volberda, 2006; Raisch & Birkinshaw, 2008; Tushman & O'Reilly, 1996). This is based on the assumption at the origin of ambidexterity theory about the absolute incompatibility of explorative and exploitative activities (March, 1991). However, recent studies have proposed that both innovations can occur within single firms so long as the organizational context is properly specified.

Gibson and Birkinshaw (2004) suggest that contextual ambidexterity between both innovations can be created by identifying and implementing conditions complementary to both, reducing the risk in turn that one innovation type will self-replicate systems and processes destructive to the other (e.g., Hughes, Hughes, & Morgan, 2007; March, 1991). Proponents of the structural separation view have accepted that achieving ambidexterity is not simply a matter of the spatial separation of conflicting innovation activities. For example, O'Reilly and Tushman (2007), and Tushman and O'Reilly (1996) highlight over-arching vision and values, flexibility and culture as conditions supportive of ambidexterity. It is on this basis that Gibson and Birkinshaw (2004) put forward organizational context as a route to contextual ambidexterity, validating a set of internal firm conditions such as cooperation, autonomy and rewards in the process.

Studies into structural ambidexterity and contextual ambidexterity have also proposed that leadership may be a critical factor in enabling innovation ambidexterity. For example, O'Reilly and Tushman (2007), Birkinshaw and Gibson (2004), Gibson and Birkinshaw (2004), and Tushman and O'Reilly (1996) all suggest that supportive leaders, flexible managers and an aligned top management team are important antecedents underpinning any form of ambidexterity. In turn, recent studies have extended the leadership theme present in Tushman and O'Reilly's (1996) original thesis to suggest that leaders are essential in the ambidextrous coordination of explorative and exploitative innovation activities (for example, Lubatkin, Simsek, Ling, & Veiga, 2006; Mom, Van Den Bosch, & Volberda, 2007).

So far, structural, contextual and leadership solutions are all presented as solutions to the ambidexterity problem (Raisch & Birkinshaw, 2008). However, given points raised by Tushman and O'Reilly (1996) and several authors since, it appears increasingly apparent that these pathways overlap. As such, our understanding of how ambidexterity is achieved is incomplete until we consider how these conditions come together (Raisch & Birkinshaw, 2008; Raisch et al., 2009). Raisch and Birkinshaw (2008) in their review of the 'state of the art' propose that organizational ambidexterity theory needs development by viewing these paths and their associated variables as complementary rather than competing. Yet, so far, no study has brought all three strands together, leaving an important gap in our knowledge of the theory a practice of ambidexterity.

A second important problem in the theory of ambidexterity is that, so far, almost all of the prescriptions put forward by conceptual and empirical works are designed for large, multiunit firms. With few exceptions (e.g., Lubatkin et al., 2006), work on ambidexterity has failed to account for SMEs. SMEs may operate differently and exhibit different operating conditions and characteristics to large, multiunit firms such that generalizing current prescriptions for ambidexterity into innovation strategies for these firms might prove incorrect, inappropriate or dangerous. Prior studies have found that SMEs tend to use different means to pursue innovation ambidexterity compared to larger firms (Cao, Gedajlovic, & Zhang, 2009; Ebben & Johnson, 2005). The reasons for this are grounded in the differences between SMEs and their larger counterparts. Cao et al. (2009) found that resource-constrained firms such as SMEs can benefit from the use of a balanced dimension of innovation ambidexterity (BD) but larger firms are better suited to a combined dimension of innovation ambidexterity (CD) owing to their superior access to internal and external resources. BD refers to "the match in the relative magnitude of explorative and exploitative activities" and CD refers to "increase the combined magnitude of both explorative and exploitative activities" (Cao et al., 2009, p. 782). It is well-established that SMEs differ from larger firms on the basis of available resources such as human capital and financial capital (Cooper, Gimeno-Gascon, & Woo, 1994; Forbes & Milliken, 1999), and on the basis of having limited managerial expertise (Forbes & Milliken, 1999; Pissarides, 1999) to effectively manage changing internal and external environments (Ebben & Johnson, 2005). SMEs also differ from larger firms in terms of their tendency to be less bureaucratic, structured and diversified (Forbes & Milliken, 1999), possessing fewer formal systems and procedures and fewer planning activities (Busenitz & Barney, 1997). Consequently, SMEs face greater challenges in managing tensions, contradictions, and tradeoffs associated with explorative and exploitative innovations than larger firms (Andriopoulos & Lewis, 2009).

Concerns also exist about the lack of slack resources needed to create and benefit from innovation ambidexterity in SMEs. Accordingly, SMEs might seek a balanced dimension of ambidexterity (BD) owing to limited resources available to them (Cao et al., 2009). This is because SMEs can enhance business performance by reducing the performance-damaging effects of over-engagement in exploitation to the detriment of exploration, or vice versa (Cao et al., 2009). Given that SMEs differ from larger firms in terms of organizational structures, leadership styles, reactions to the environments, available resources, and the internal contexts they operate (Chen & Hambrick, 1995; Ebben & Johnson, 2005; Man, Lau, & Chan, 2002), we expect that achieving BD in these firms will likely require a response to Raisch and Birkinshaw's (2008) concern that structural, contextual and leadership conditions should be explored together to understand how SMEs might balance the contradictory nature of exploration and exploitation. More specifically, we expect that structural, contextual and leadership characteristics could be examined together to investigate how innovation ambidexterity in SMEs is likely to emerge.

The objective of this paper then is to resolve this gap in current research into innovation ambidexterity by studying

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