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Dynamic Client Portfolios as Sources of Ambidexterity: Exploration and Exploitation Within and Across Client Relationships

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This paper explains how dynamic client portfolios can be a source of ambidexterity (i.e., exploration and exploitation) for knowledge-intensive firms (KIFs). Drawing from a unique qualitative dataset of firms in the global reinsurance market, we show how different types of client relationships underpin a dynamic client portfolio and become a source of ambidexterity for a KIF. We develop a process model to show how KIFs attain knowledge by segmenting their client portfolios, use that knowledge to explore and exploit within and across their client relationships, and dynamically adjust their client portfolios over time. Our study contributes to the literature on external sources of ambidexterity and dynamic management of client knowledge within KIFs.

Introduction

Since March's (1991) seminal work, the concept of organizational ambidexterity — the concurrent pursuit of exploitation, "the development of things already known", and exploration, the development of new knowledge (Lavie et al., 2010; Levinthal and March, 1993, 105)—has captured the imagination of organizational scholars. Ambidexterity is considered critical for organizational success and yet also difficult to achieve within a single organization (Andriopoulos and Lewis, 2010; He and Wong, 2004; Raisch and Birkinshaw, 2008). In response to this recognized difficulty in achieving ambidexterity internally, interest in the role of external relationships in enabling ambidexterity has burgeoned recently, primarily with a focus on strategic alliances (e.g., Koza and Lewin, 1998; Lavie and Rosenkopf, 2006; Raisch and Birkinshaw, 2008; Rothaermel and Deeds, 2004). Yet, we still have much to learn about other external sources of ambidexterity, foremost among them client relationships. Initial studies highlight clients as sources of knowledge (Im and Rai, 2008), but tell us little about how knowledge is attained and used within and across client relationships to enable ambidexterity over time.

By contrast, the literature on knowledge-intensive firms (KIFs) has developed some understanding of how firms can use client relationships for their own knowledge development (Bettencourt et al., 2002; Fosstenløkken et al., 2003; Skjølsvik et al., 2007).[1] Such KIFs critically rely on their ability to create, preserve and replenish a stock of valuable knowledge that they apply in their knowledge-based services (Alvesson, 1995; Moore and Birkinshaw, 1998; Starbuck, 1992; Von Nordenflycht, 2010). KIFs thus offer a useful context in which to study the potential of client relationships to fuel exploration and exploitation. Client knowledge can be a source of both exploration and exploitation within KIFs (He and Wong, 2004; Lavie et al., 2010; Levinthal and March, 1993); either refining existing knowledge, such as improving an existing solution, or enabling the pursuit of new knowledge, such as new markets or products representing a new skill or market expertise (Lavie et al., 2010). We draw on illuminating concepts from this literature and apply them to an extensive qualitative study covering twenty-two reinsurance KIFs.

By explaining client portfolios as a dynamic source of ambidexterity, we contribute to both the literatures on ambidexterity and KIFs. Specifically, we develop four empirically grounded relationship types, labeled *Nurturing*, *Investigating*, *Holding* and *Watching,* which collectively form a client portfolio that enables ambidexterity for a KIF. We then extend this typology into a process framework of how KIFs attain knowledge through their client portfolio, use it to engage in exploitation or exploration, and use the knowledge gained to evolve their client relationships over time. This framework makes three

[1] To maintain the authenticity of our data we use the term "clients", which was consistently used by the KIF managers we studied. This is consistent with other KIF studies (Alvesson, 2004; Skjølsvik et al., 2007), but we recognize that not all KIFs have clients — some have customers.

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theoretical contributions, primarily to the ambidexterity literature, but also to existing knowledge on KIFs. First, contrary to existing approaches in the ambidexterity and KIF literatures, our framework highlights interactions between exploration and exploitation within single relationships (in-client), as well as across client relationships within the client portfolio (across-client). This approach reflects how the knowledge value of different relationships — what still needs to be learned, from whom, and for what purpose — changes over time according to the basis of existing knowledge in the firm. Our framework encapsulates this dynamic client portfolio. Second, drawing on and extending the KIF literature, our framework accentuates the role of clients, rather than alliance partners (e.g., Koza and Lewin, 1998; Rothaermel and Deeds, 2004) as sources of ambidexterity. This broadens the potential to understand the role of a more diverse set of external relationships and connects ambidexterity to the conduct of everyday business, rather than separate strategic initiatives. Third, in contrast to the current focus on the performance benefits of external sources of ambidexterity (Im and Rai, 2008; Morgan and Berthon, 2008), our model centers on *how* these benefits are attained. Specifically, we unpack the process and the activities by which KIFs attain knowledge from clients, engage in exploration and exploitation within and across client relationships in their portfolio, and do so dynamically over time.

The paper is structured as follows. First, we review the ambidexterity and KIF literatures on exploitation and exploration in client relationships. Second, we outline the reinsurance research context and our methodology. Third, we present our findings. Fourth, we conceptualize these findings within a dynamic process framework of client relationships. The paper concludes by addressing the implications of our findings and providing a framework for managers of large client portfolios.

Theoretical background

The organizational ambidexterity challenge

The challenge of achieving ambidexterity lies in the balance of exploration and exploitation, activities that are fundamentally at odds in terms of their time horizon, incentivization and operation (March, 1991). The broad search typical of exploration sacrifices short-term refinements and returns in search of flexibility and future value (Siggelkow and Levinthal, 2003; Smith and Tushman, 2005; Tushman and O'Reilly, 1996). Conversely, exploitation pursues immediate stability and reliability, albeit at the risk of conservatism and future obsolescence (Holmqvist, 2004; Leonard-Barton, 1992; Lewin et al., 1999). Hence, organizations face a tension. Incentivizing both sets of behaviors in equal measure is near impossible, as their outcomes differ in terms of their "timing, and their distribution within and beyond the organization," yet both are vital to organizational performance (March, 1991, 71). Given these motivational and operational inconsistencies, investment in one typically drives out the other (Benner and Tushman, 2002; Levinthal and March, 1993). Thus, despite wide agreement "on the need for balance, there is considerably less clarity on how this balance can be achieved" (Gupta et al., 2006, 697) (see also, Andriopoulos and Lewis, 2009; Lavie and Rosenkopf, 2006; O'Reilly and Tushman, 2011). Recognizing the challenges of achieving ambidexterity internally, scholars have developed alternative approaches that involve external partners as enabling of ambidexterity (Ferrary, 2011; Katila and Ahuja, 2002; Raisch and Birkinshaw, 2008).

External relationships as a source of ambidexterity

Recent studies suggest that tensions between exploration and exploitation, as contradictory modes of knowledge, can be mitigated through the use of external relationships (Kauppila, 2010; Lavie et al., 2010; Nosella et al., 2012; Simsek, 2009). Strategic alliances in particular have attracted the majority of attention (Holmqvist, 2004; Koza and Lewin, 1998; Lavie and Rosenkopf, 2006; Tiwana, 2008). In this stream of research, numerous authors clearly differentiate between "exploration" and "exploitation" relationships, which separately fulfill the different learning needs — such as "research" (exploration alliances) and "development" (exploitation alliances)—of an organization (e.g., Beckman et al., 2004; Ferrary, 2011; Grant and Baden-Fuller, 2004; Kauppila, 2010; Lin et al., 2007; Rothaermel and Deeds, 2004; Vassolo et al., 2004). Likewise, many discussions of client relationships sharply delineate the pursuit of new knowledge for and with emerging clients from the pursuit of knowledge for and with existing clients (Cegarra-Navarro and Dewhurst, 2007; O'Reilly and Tushman, 2008), considering orientation towards emerging clients as a form of "generative learning" or exploration (Morgan and Berthon, 2008). Hence, it is only at the aggregate level that clusters of independent exploration and exploitation relationships collectively create the balance and superior performance typical of ambidexterity (Lavie and Rosenkopf, 2006; Lin et al., 2007; Morgan and Berthon, 2008; Rothaermel and Deeds, 2004; Simsek, 2009). However, a few authors offer a different perspective, suggesting that differentiating external relationships by their purpose may be inappropriate, since each one can be a source of ambidexterity in its own right, simultaneously fulfilling functions of both exploration and exploitation (Holmqvist, 2004; Im and Rai, 2008; Koza and Lewin, 1998).

Despite the growing interest in how ambidexterity can be enabled through external relationships, three issues have been under-explored. First, current work largely neglects interactions *across* a client portfolio. For example, how knowledge gained from one client can be used to explore or exploit across client relationships in the portfolio, or how the value of knowledge attained within a client relationship can shift with changes to the knowledge base or priorities of the firm. This is an important omission, as research on collaborative innovation (Dell'Era and Verganti, 2010) suggests the