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## Examining cross-functional cooperation as a driver of organizational ambidexterity

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## ABSTRACT

Despite the growing number of articles on cooperation, research in the area still lacks insights into this phenomenon on an intraorganizational level. Therefore, this study examines the effect of cross-functional, firm-internal cooperation on organizational ambidexterity (i.e., exploitation and exploration) and the moderating role of social cohesion. Drawing on organizational learning theory and analyzing survey data obtained from 392 department heads and project leaders of new product development teams, we demonstrate that cross-functional cooperation has a significant positive effect on exploratory innovation. Moreover, we find support for the moderating influence of social cohesion on the relationship between cooperation and exploitative innovation. These results not only provide valuable insights for managers in the fields of new product development and innovation, they also highlight the need for further research on the dynamic interplay of competitive and cooperative elements within firms.

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## 1. Introduction

In their seminal work, Brandenburger and Nalebuff have introduced cooperation as a new mindset regarding how to succeed in business when cooperation is required for “creating a pie” and cooperation for “dividing it up” (1996: 4). In this context, cooperation is defined as the simultaneous occurrence of cooperation and competition among two or more actors (Brandenburger & Nalebuff, 1996). It has been identified as a driver of various innovation outcomes on the firm level and has thus gained importance as an instrument fostering organizational wealth.

So far, however, this stream of research has largely focused on cooperation among separate firms. Ritala (2012), for instance, has shown that cooperation of firms in external alliances is beneficial for both various innovation performance outcomes and market performance. Other studies have found that cooperation positively influences incremental and radical innovations in certain industries and organizations (Ritala & Hurmelinna-Laukkanen, 2013).

Yet, cooperation also exists on the intrafirm level, namely within the focal firm among functions or departments (Luo, Slotegraaf, & Pan, 2006), among business units (Tsai, 2002), or among project teams (Ghobadi & D'Ambra, 2012a, 2012b). A recent study in this field reveals how cross-functional cooperation can be fostered within organizations, for instance by applying a considerate or participative leadership style

as well as by using formalized organizational structures (Strese, Meuer, Flatten, & Brettel, 2016). Despite this effort, however, there is still no deeper understanding of how internal cooperation affects those organizational outcomes that enable firms to achieve a competitive advantage through ambidextrous innovation activities.

Ambidexterity is defined as the capability to pursue exploitative and exploratory innovations simultaneously (Raisch, Birkinshaw, Probst, & Tushman, 2009), which enables organizations to attain their ambitious growth targets. More concretely, exploitative innovations are an extension of existing products and services, build upon existing knowledge, and are developed for existing customers (Benner & Tushman, 2003). Exploratory innovations, in contrast, result in new products and services which are developed for emerging customers or markets, drawing on new knowledge and skills (Benner & Tushman, 2003). Hence, exploitative and exploratory innovations require different types of knowledge and competencies. To devise such innovations successfully, it is crucial to ensure an effective knowledge transfer across the functional boundaries within a firm. This transfer of knowledge can be rather challenging as functions or departments need to collaborate while competing against each other for scarce resources—which again reflects the phenomenon of cross-functional cooperation (Luo et al., 2006; Tsai, 2002).

For the following three reasons it is important to gain a deeper understanding of how internal cross-functional cooperation is associated with exploitative and exploratory innovation: (1) Up to now, innovation-related studies investigating cross-functional relationships have assumed that these relationships are either cooperative or competitive, but not both (e.g. Brettel, Heinemann, Engelen, & Neubauer, 2011; Ernst, Hoyer, & Rübsaamen, 2010). By introducing cross-functional cooperation into this research stream, this study is one of the first to explore which

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consequences the joint occurrence of the cooperative and competitive dimensions—together composing cross-functional cooptition—has on exploitative and exploratory innovation (Luo et al., 2006). (2) Research on innovation management constantly emphasizes how important human relationships are when it comes to developing and implementing new ideas leading to exploratory or exploitative innovations. On the one hand, the successful development of innovations is significantly driven by efficient interactions of distinct functions within a firm (e.g., Troy, Hirunyawipada, & Paswan, 2008). On the other hand, research suggests that the ability of departments to pursue innovations depends on the relational dimensions of social networks within a firm (Jansen, Van Den Bosch, & Volberda, 2006). Studies also show that the strength of social relations promotes knowledge exchange (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004). Furthermore, the concept of cross-functional cooptition draws from social network theory (Granovetter, 1973) which focuses on the strength of human interactions; hence, this phenomenon might be a powerful instrument fostering innovations. (3) Finally, cooptition affects innovation on the intrafirm level differently than on the interfirm level because the process of knowledge sharing—a key element of cooptition (Tsai, 2002) and innovation (Jansen et al., 2006)—varies between those levels due to distinct communication barriers and restrictions: “[...] rivalry and conflict are likely to be less extreme within a firm than between firms” (Luo et al., 2006: 69). Accordingly, our first research question (1) inquires: How does cross-functional cooptition influence exploitative and exploratory innovations within new product development teams?

Since cross-functional cooptition is grounded in the social network theory (Granovetter, 1973), we additionally integrate social cohesion in our study to account for the emotional, affective perspective of new product development teams. Extant literature does underline the vital role of social cohesion with regard to innovation performance, but so far, the directions of its effects have remained unclear (e.g. Im, Montoya, & Workman, 2013; Sethi, Smith, & Park, 2001). Therefore, we focus on the social cohesion of new product development teams as a factor augmenting the relationship between cross-functional cooptition and ambidexterity. Consequently, our second research question (2) is: How does the degree of social cohesion within new product development teams affect the relationships between cross-functional cooptition and exploitative as well as exploratory innovation?

For this study, we have analyzed survey data obtained from 392 department heads and project leaders of new product development teams. Our results expand existing literature in several ways. We contribute to the literature on cross-functional cooptition within organizational teams as we shed more light on the outcomes of the phenomenon of ambidexterity. We thus seek to advance research on the cooptition-innovation relationship by introducing the analysis on the intrafirm level and by examining the effects on innovation. In our effort, we follow calls of researchers to further investigate the cooptition-innovation relationship (e.g. Gnyawali & Park, 2011, Ritala & Hurmelinna-Laukkanen, 2013) and generate valuable insights into whether organizational ambidexterity can be fostered by cooptition, resulting in, e.g., radical and incremental innovations. Furthermore, this study also offers insights for managers who should become aware that the relationships of functions are characterized by the interplay of cooperation and competition, and this apparent tension constitutes a fertile breeding ground for innovations.

## 2. Theoretical premises

### 2.1. Definition of cross-functional cooptition

Cooptition, introduced by Brandenburger and Nalebuff (1996), entails the simultaneous occurrence of cooperation and competition among two or more actors on an individual, project, departmental, firm, or firm network level. Building on this concept, Lado, Boyd, and Hanlon (1997) later developed the theoretical foundation for an

increasing number of consecutive research efforts (c.f. Bengtsson & Kock, 2014 for an overview). Since the present study aims at examining cooptition on the intrafirm level, we follow Luo et al. (2006) and define cross-functional cooptition as the joint occurrence of cooperation and competition across functional areas within a firm. Functional areas are willing to cooperate and share knowledge in the interest of the firm, both in formal and informal ways. Yet at the same time, social interactions among functions are also competitive as functions are forced to vie for the limited resources of the firm (Luo et al., 2006; Ruekert & Walker, 1987). More concretely, competition or rivalry among departments exists since shared knowledge can be used to generate exclusive gains in order to outperform other departments (Tsai, 2002). Further triggers of cross-functional competition are conflicts about limited tangible (e.g., budgets, personnel) and intangible (e.g., top management attention) resources (Frankwick, Ward, Hutt, & Reingen, 1994) as well as differing goals and strategic priorities (Ruekert & Walker, 1987). On the one hand, such cross-functional competition or rivalry might impede the internal knowledge transfer (Maltz & Kohli, 1996). On the other hand, it also represents a significant incentive for the competing functions to interact with each other in order to understand their rivals' knowledge and actions as well as the potential consequences of the competition (Tsai, 2002). Hence, “the degree to which a firm's departments cooperate in conjunction with various levels of competition in the firm's social structure jointly defines the firm's level of cross-functional cooptition” (Luo et al., 2006: 69). Cross-functional cooptition might occur among different business units of a firm competing for external market share (Tsai, 2002) or among functions or departments that competing for internal resources (Luo et al., 2006).

### 2.2. Theoretical conceptualization of cross-functional cooptition

The theoretical conceptualization of cross-functional cooptition lies in social network theory, in particular in the strength-of-ties concept developed by Granovetter (1973). According to the social embeddedness framework, there are two types of social ties in any network that influence subsequent behavior: Strong ties are marked by frequent and strong interactions while weak ties are characterized by distant and sporadic interactions. The strength of a tie is thus defined as the quality and quantity of interactions. Prior research shows that the value of a network is maximized by a complementary mix of strong and weak ties (Granovetter, 1973; Uzzi, 1997). Strong ties ensure a sufficient level of trust (Granovetter, 1985) and cooperation (Gulati, 1998), whereas weak ties promote the exchange of knowledge with other loosely related work groups, thereby providing access to a broader pool of information (Burt, 1995). Earlier studies argue that firms with cooperative social ties among organizational members who, in turn, are embedded in a broader competitive framework may be able to enhance their performance (Luo et al., 2006).

To reflect this seemingly conflicting interplay, we follow Luo et al. (2006) and focus on three dimensions in our examination of cross-functional cooptition. On the cooperation side, (1) cross-functional cooperative ability refers to the skills needed to recognize, assimilate, transform, and deploy valuable knowledge acquired from other functions; it thus represents an absorptive capacity for lateral knowledge transfer. Moreover, (2) cross-functional cooperative intensity describes the degree to which interactions among different organizational functions are frequent and close. On the competition side, (3) cross-functional competition refers to the degree to which functions vie for limited intangible and tangible resources as well as for strategic importance, power, and department charter. These three dimensions form two cooptition effects: first, the cooptition effect of cross-functional cooperative ability and competition, and second, the cooptition effect of cross-functional cooperative intensity and competition.

Several scholars theorized cooptition to entail various performance benefits such as reducing production costs, increasing innovation, or sharing resources (Lado et al., 1997; Yami, Castaldo, Dagnino, Le Roy,

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