

The asymmetric moderating role of market orientation on the ambidexterity–firm performance relationship for prospectors and defenders

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Abstract

Drawing on the resource-based view of the firm and, in particular, the capabilities perspective of firm performance, the authors examine the relationship between ambidexterity and firm performance for two strategy typologies: prospectors and defenders. Ambidexterity, defined as the combination of two discrete capabilities (exploration and exploitation), should have a less negative effect on firm performance among prospectors that add exploitation to exploration than among defenders who add exploration to exploitation. Hence, this research predicts an asymmetric effect of ambidexterity on firm performance for prospectors and defenders. The authors further posit that a boundary-spanning culture, such as market orientation, can function as a metaculture by integrating the subunit cultures generated by exploration and exploitation. As a result, market orientation should mitigate the negative effect of ambidexterity on firm performance, albeit differently for prospectors and defenders, and thus point to an asymmetric moderating role of market orientation. The findings provide mixed results, which the authors discuss along with some theoretical and managerial implications.

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1. Introduction

Capabilities refer to the ability, competency, or efficacy to deploy, implement, or execute resources for a firm's advantage. Capabilities, unlike resources, capture the process domain of deployment. According to Slotegraff, Moorman, and Inman (2003, p. 296), "deployment occurs when resources are put into action". Put differently, market deployment is "the degree of action directed toward managing organizational resources in the market place" (Slotegraff et al., 2003, p. 296). According to the resource-based view of the firm, capabilities play a key role in contributing to marketplace positional advantage and superior firm performance (Day & Wensley, 1988). Consequently, the notion of capabilities in marketing strategy has gained increasing attention from marketing scholars (Atuahene-Gima, 2005; Day, 1994; Moorman & Slotegraaf, 1999; Slotegraff et al., 2003;

Srivastava, Fahey, & Christensen, 2001). The common thread that emerges from these works is that capabilities provide a source of value creation and competitive advantage.

The strategy typology advanced by Miles and Snow (1978) has been well accepted in marketing strategy literature (Matsuno & Mentzer, 2000; McDaniel & Kolari, 1987; Slater & Narver, 1993). For example, Matsuno and Mentzer (2000) and McDaniel and Kolari (1987) reveal a sharp contrast between prospectors and defenders in terms of their focus and areas of importance (e.g., efficiency vs. growth, incremental vs. radical innovation). Prospectors underscore exploration as their focal capability, as manifested in innovation differentiation strategies, by focusing on research and development (R&D) (Slater & Narver, 1993). They typically engage in exploration that entails experimentation, risk taking, and creative destruction (Rust, Moorman, & Dickson, 2002). In this respect, exploration is more tacit and causally ambiguous. Conversely, defenders take cost leadership positions by emphasizing operational efficiency through streamlined production and distribution (Slater & Narver, 1993). For these firms, cost management through automation and modernization of facilities, cost reduction through

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economies of scale, and optimal capacity utilization represent the hallmarks that define their exploitation capabilities (Rust et al., 2002; Slater & Narver, 1993). Thus, exploitation is less tacit and more explicit than exploration. In this research, we establish exploration and exploitation as the focal capabilities practiced by prospectors and defenders, respectively.

However, in the modern business environment, firms must be multifaceted in their operations. As customers' demands accelerate and become more fragmented, firms must not only meet but exceed expressed and latent customer needs. Furthermore, the demand for both incremental innovations introduced into the market quickly and frequently and radical (or breakthrough) innovations that separate firms from competitors has increased as means to guarantee long-term survival. Consequently, an organization should engage in exploratory learning while simultaneously bearing and reaping the fruits of a learning orientation. Hence, the combination of exploration *and* exploitation, or what we define as ambidexterity, is becoming a key capability to sustain a competitive advantage in today's marketplace.

In line with current developments in strategic marketing and management, we use the term ambidexterity to reflect a firm's higher-order capability of simultaneously pursuing competing, contradictory, discrete capabilities. For the sake of our study, we refer to an ambidextrous firm as one that jointly pursues exploration and exploitation. Therefore, we also differentiate the notion of ambidextrous capabilities from the widely used concept of hybrid capabilities. Hybrid capabilities refer to any combination of capabilities that do not necessarily contradict or cause tension (e.g., innovation differentiation and service differentiation), whereas ambidextrous capabilities refer to simultaneously pursued, multiple, discrete capabilities that require opposing cultures and organizational structures. Thus, not all hybrid capabilities are ambidextrous, but ambidextrous capabilities represent particular examples of hybrid capabilities.

A substantial amount of research exists across several disciplines to document ambidexterity, including marketing literature on marketing and learning exploration versus exploitation (Atuahene-Gima, 2005; Kyriakopoulos & Moorman, 2004; Slater & Narver, 1995); strategic management literature on alignment versus adaptability (Gibson & Birkinshaw, 2004), innovative exploration versus innovative exploitation (He & Wong, 2004), and radical versus incremental innovation (Tushman & O'Reilly, 1996; O'Reilly & Tushman, 2004); and operations management literature on flexibility versus efficiency (Adler, Goldoftas, & Levine, 1999).

Our research builds on and extends recent work by Kyriakopoulos and Moorman (2004) but differs from their investigation in several ways. Although research to date informs several aspects of ambidexterity, a paucity of empirical research in marketing literature considers the consequences of pursuing ambidexterity when a particular firm is inherently more engaged in one capability than another. Moreover, we understand even less about whether any asymmetric effect exists between prospectors and defenders that try to become ambidextrous. Consequently, this research addresses what firms can do to manage the competition and tension related to exploration and exploitation capabilities when they emphasize one capability over another. We draw on marketing and organizational theory literature to find a solution,

because this literature commonly recognizes the significance of an overarching culture or context that unites and integrates disparate and opposing capabilities. Therefore, we use market orientation as a metaculture that overrides the local belief, vision, and goals underscored by discrete capabilities (Atuahene-Gima, 2005; Day, 1994).

In turn, this article sheds new light on several research questions. First, if prospectors embrace exploitation in addition to exploration and defenders adopt exploration in addition to exploitation, what consequences do both experience in pursuing this ambidextrous capability? For prospectors, ambidexterity implies adding exploitation to their existing exploration capability, that is, adding a less tacit and more explicit capability. Conversely, for defenders, it entails adopting a more tacit and less explicit capability (i.e., exploration) in addition to their exploitation capability. Therefore, ambidexterity may have an asymmetric effect on firm performance for prospectors and defenders, such that defenders may have more difficulty than prospectors because of the tacit and causally ambiguous aspect of exploration relative to exploitation. Second, what can firms do to mitigate the tension, if any, created by a dual pursuit of exploration and exploitation? We test whether market orientation might have an asymmetric moderating role on the ambidexterity–firm performance relationship between prospectors and defenders.

To this end, we develop a conceptual model based on the capabilities framework to empirically test (1) the asymmetric effect of ambidexterity on firm performance for prospectors and defenders, (2) the performance effect of ambidexterity at varying levels of market orientation for prospectors and defenders, and (3) whether the moderating effect of market orientation is also asymmetric in the ambidexterity–firm performance relationship for prospectors and defenders.

Thus, our research contributes to marketing strategy literature in several ways. First, we contribute to the resource-based view and capabilities literature by conceptualizing and operationalizing ambidexterity as a higher-order capability comprised of two lower-order, discrete, and conflicting capabilities, namely, exploration and exploitation. Furthermore, we address how firms that are predisposed toward one capability might effectively realize the performance benefits of ambidexterity by couching it within the confines of a market-oriented culture.

Second, scholars such as Porter (1980, 1996) have long used the phrase “stuck in the middle” to describe firms that try to achieve both differentiation and low-cost strategies. This description demonstrates that strategies based on firm performance have been mixed and ambiguous at best. In an academic sense, conflicting results related to such strategies might result from the types of firms analyzed; prior studies rarely distinguish the strategic type (i.e., prospector or defender) that a researched firm follows. We therefore address this issue but choose not to examine analyzers, because an analyzer firm strategically intends to become a prospector and a defender at the same time. Including such firms may cloud outcomes, because the opposing effects could cancel each other out and produce a null result. In contrast, our more fine-grained analysis, which takes into account the strategic type of the firm, should reveal a clearer picture of ambidexterity outcomes.

In the following sections, we first discuss ambidexterity in greater detail by drawing on the resource-based and capabilities

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