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Performance implications of marketing exploitation and exploration: Moderating role of supplier collaboration

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ABSTRACT

While previous studies suggest that firms can achieve superior performance by being ambidextrous—engaging in exploitative and exploratory activities simultaneously—research is scarce on the performance implications of pursuing ambidexterity in firms' marketing function. This investigation considers firms' ambidexterity in marketing to consist of exploratory and exploitative marketing activities and examines the individual and joint impact of these activities on market performance. In addition, this investigation proposes and tests the conjecture that firms' collaborations with suppliers would moderate the impact of marketing exploitation and exploration on firm performance differently. The findings from surveys of key informants in 220 firms show that pursuing marketing exploitation and exploration simultaneously hurts firms' market performance. Supplier collaboration enhances the impact of marketing exploration but weakens the impact of marketing exploitation on market performance.

1. Introduction

Prior literature suggests that firms can adopt either an exploitative or exploratory focus in their organizational functions (Abebe & Angriawan, 2014; Filippini, Güttel, & Nosella, 2012). Broadly, exploitation refers to a firm's capitalization on its existing practices within a specific function to maximize operational efficiency and effectiveness. In contrast, exploration refers to a firm's discovery of and experimentation with new and unconventional practices aimed at being adaptive in volatile environments. Previous research examining these concepts mainly addresses the means that firms use to achieve ambidexterity at the organizational level, and rarely explores how firms pursue exploitation and exploration simultaneously within a given business function (Kim, Song, & Nerkar, 2012; Raisch & Birkinshaw, 2008; Terjesen, Patel, & Sanders, 2012). Thus, this study extends prior studies that focus on how firms balance exploitation and exploration across business functions (Lavie, Kang, & Rosenkopf, 2011) by specifically examining how marketing exploitation and exploration contribute to firms' market performance. In addition, this investigation looks into the negative consequences of firms' attempt to engage in high levels of exploitative and exploratory marketing activities concurrently. Overall, this study shows the separate and joint effects of marketing exploitation and exploration on firm performance. (Exploitative or exploratory focus in other organization functions, such as supply chain management, may interact with marketing exploitation and exploration and affect a firm's performance. Although this issue is noteworthy, it is beyond the scope of the current study.)

The organizational learning literature suggests that a firm's exercise of exploitation and exploration entails internal and external learning respectively over time (March, 1991). Thus, it is probable that when a firm can leverage partnerships such as collaboration with major suppliers to gain external knowledge and improve performance (Gupta & Polonsky, 2014; Ho and Ganesan 2014; Krause, Handfield, & Tyler, 2007; Ragatz, Hanfield, & Petersen, 2002), it may pay less attention to internal learning. In other words, when supplier collaborations help a firm enhance performance, the firm may have lower motivation to put effort into and devote resources to further strengthening and refining its marketing competences. As a result, marketing exploitation would become less effective in creating customer value that contributes to firm performance. Marketing exploration, however, could possibly avoid such a pitfall because it focuses on learning from external sources. Thus, this study proposes and tests the conjecture that a firm's close collaboration with major suppliers would moderate the effects of marketing exploitation and exploration on its market performance in opposite ways. Focusing on supplier collaborations rather than other types of partnerships, the current study aims to show how collaborating with partners upstream could affect a firm's ability to create value for customers downstream.

This research augments the marketing literature in several ways. First, this investigation empirically validates the individual and joint effects of marketing exploitation and exploration on firms' market performance. Second, this study provides empirical evidence regarding

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supplier collaborations' direct effect and moderating effect of marketing exploration on firm performance—an important contribution since the marketing literature tends to emphasize the significance of leveraging customer partnerships (Prior research has examined the impact of buyer–supplier collaboration on suppliers' or buyers' operational performance and capability development (Cao & Zhang, 2011; Krause et al., 2007; Zacharia et al., 2011). However, the previous studies rarely examine the impact of such collaborations on buyers' ability to create value for customers downstream and thus market performance. The current study addresses this gap.) to improve firm performance but overlooks the value of collaborating with suppliers in creating downstream customer value. More notably, this study demonstrates that even though supplier collaborations can improve firm performance, such collaborations lessen the effectiveness of marketing exploitation in generating firm performance. Therefore, supplier collaborations are a double-edged sword that can either facilitate or dampen firms' marketing competences.

2. Theory and hypotheses

2.1. Marketing exploitation and marketing exploration

In the resource-based view, competences constitute a firm's ability to mobilize resources to achieve superior performance, thus conferring a competitive advantage on the firm (Barney, 1991). The knowledge-based view, an extension of the resource-based view, regards competences as residing in organizational routines and processes that integrate and apply firms' knowledge to create value (Grant, 1996). For example, market-sensing capability (Day, 1994) is a firm's ability to learn about customers, competitors, and channel members and thus continuously sense and act on trends in markets. In essence, firm competences embody productive use of knowledge.

Recent literature suggests that a sustainable competitive advantage requires more than possession of unique, inimitable, and non-substitutable assets and capabilities. Firms must also be ambidextrous, especially in volatile environments (O'Reilly & Tushman, 2004). That is, firms must exploit their existing competences while also avoiding dysfunctional rigidity and complacency by exploring new competences to replace the existing ones (Leonard-Barton, 1992). Whereas exploitation is associated with such aspects as refinement, efficiency, and control, exploration refers to such notions as search, variation, experimentation, and discovery. These notions concur with the dynamic capability view, which contends that firms must continuously reconfigure and transform competences to adapt to dynamic business environments (Eisenhardt & Martin, 2000). The concepts of exploitation and exploration have been applied to various management issues, including those pertaining to companies' founding teams, foreign direct investments, and alliance management (Beckman, 2006; Hoang & Rothaermel, 2010; Tsang & Yip, 2007). However, applications of these concepts to specific organizational functions such as marketing remain scarce.

This investigation suggests that marketing exploitation and exploration are two distinct approaches by which marketing competences create customer value. Marketing exploitation creates value through firms' strengthening and improvement of existing skills and practices in marketing, whereas marketing exploration creates value through firms' development of entirely new marketing skills and practices (Kyriakopoulos & Moorman, 2004). Exploitation and exploration both require a firm to access, synthesize, and use firms' knowledge resources. Exploitation aims to enhance the efficiency and effectiveness of marketing competences through repetition and refinement, whereas exploration aims to attain adaptability in marketing competences through experimentation and innovation. With proper systems and processes in place, firms could possibly pursue exploitative and exploratory marketing activities simultaneously, even though these two sets of activities are distinct from each other (Gibson & Birkinshaw, 2004).

Marketing competences reside in firms' routines and practices, and refer to firms' superior ability to execute tasks in specific marketing activities such as branding, promotion, and customer services. Competences develop through a learning process that is based on cumulative experience and the availability of complementary organizational resources (Mishra & Shah, 2009). Because competitors cannot easily develop competences internally or acquire them from the factor market, firms possessing rare, inimitable, and non-substitutable marketing competences can create superior customer value and differentiate their offerings from those of their rivals.

Previous research shows that firms' marketing competences contribute to financial and market performance (Luo & Homburg, 2007; Morgan, Vorhies, & Mason, 2009). Relatedly, marketing exploitation and exploration reflect how marketing competences create customer value that contributes to market performance. Marketing exploitation boosts efficiency through constant upgrading and improvement of a firm's current marketing skills and practices, whereas marketing exploration stimulates innovation through the development of novel marketing skills and practices. When firms engage in high levels of marketing exploitation or exploration, they devote substantial resources to strengthening and renewing their marketing competences respectively. These processes pose barriers for rivals seeking to imitate or counteract a firm's marketing competences. As a result, the firm should perform more strongly in the marketplace.

Hypothesis 1. Marketing exploitation is positively related to a firm's market performance.

Hypothesis 2. Marketing exploration is positively related to a firm's market performance.

2.2. Simultaneous pursuit of marketing exploitation and marketing exploration

Prior organizational studies contend that firms must be ambidextrous to survive in today's increasingly turbulent environments (O'Reilly & Tushman, 2004). That is, firms must engage in sufficient exploitation to ensure current viability and profitability and sufficient exploration to ensure long-term survival (Levinthal & March, 1993). Firms that pursue only exploitation usually achieve returns that are proximate and predictable but not necessarily sustainable, and they may suffer from non-innovative and obsolescent competences. Focusing solely on exploitation may enhance firms' short-term performance, but this approach can produce competency traps, leaving firms unable to respond adequately to environmental changes and technological breakthroughs. Conversely, a firm that pursues only exploration may encounter difficulty in estimating its returns a priori, and returns may take a long time to materialize. While exploration may enhance a firm's ability to review and revise its knowledge bases, excessive exploration can consign organizations to an endless cycle of search, failure, and unrewarding change. Therefore, some literature suggests that firms engaging in exploitative and exploratory activities simultaneously can avoid both the threat of competence traps and the hazard of excessively risky novel undertakings, resulting in stronger firm performance (He & Wong, 2004; Raisch, Birkinshaw, Probst, & Tushman, 2009).

The pitfall of being ambidextrous, however, is that exploitation and exploration entail conflicting goals and require vastly different organizational processes, structures, and policies. Therefore, building an organizational design or culture that can effectively support both sets of activities at the same time is extremely challenging (Voss, Sirdeshmukh, & Voss, 2008). One school of thought—structural separation—contends that firms should undertake exploitative and exploratory activities in independent organizational units so that these two bundles of activities do not interfere with each other (Raisch et al., 2009). An alternative school of thought—domain separation—posits that firms can achieve ambidexterity by undertaking exploitation and exploration in different organizational