

Organizational Ambidexterity of SMEs

Subjects: Business

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According to the organizational learning theory, there are two types of corporate activities, exploitation and exploration, for enhancing and improving corporate performance. However, organizations are continually faced with choosing between these two conflicting activities that require different organizational structures, strategies, and environments, respectively.

Keywords: SMEs ; organizational ambidexterity ; organizational learning theory

1. Introduction

The company maximizes corporate operation efficiency by maximizing the exploitation of accumulated resources through management. However, in today's market environment of high market uncertainty, businesses must explore new opportunities. Exploration activities at a company can capitalize on opportunities for new products, services, and innovative technologies. So, in today's companies, exploitation should be performed simultaneously with exploration. Companies must establish a process that balances exploitation and exploration ^[1]. Large enterprises have relatively abundant resources. However, because resources are always scarce, it is difficult for small- and medium-sized enterprises (SMEs) and ventures (hereinafter referred to as small- and medium-sized enterprises (SMEs)) to balance exploitation and exploration ^[2]. Various studies suggest approaches for carrying out these two activities. Organizational ambidexterity refers to an organization's ability to pursue and balance these two activities at the same time. Recently, SMEs and ventures have also adopted an ambidexterity strategy that simultaneously operates exploitation and exploration for performance and survival ^{[3][4]}.

2. The Concept of Exploitation and Exploration

March (1991) ^[2] published a key paper on exploitation and exploration in organizational learning, which clearly stated the notion of the activities required by the firm. Exploitation implies an organization's activities, such as efficiency, selection, execution, production, as well as firms learning to enhance their existing capabilities and competencies, using existing knowledge, focusing on current activities, mitigating risks, and predicting outcomes through exploitation in their existing business ^{[3][5][6]}. Organizational activities associated with exploration include variation, new knowledge, experimentation, flexibility, long-term needs, risk-taking, entrepreneurship, and innovation ^{[7][8][9]}. Exploration, in other words, refers to the development of new organizational routines, as well as the discovery of new technologies, products, business opportunities, and processes ^{[8][10][11]}.

Based on the conceptual understanding of exploitation and exploration, previous studies have identified what each activity produces as an outcome within the organization. Juni et al. (2013) ^[3] found that exploratory activity was primarily related to the firm's long-term growth in their meta-analysis. While the firm's exploration activities may not impact immediate profit, they eventually positively impact growth ^[12]. In contrast, firms pursuing productivity efficiency rather than innovation were the focus of exploitation activity ^{[3][13]}. That is, the firm's exploitative activities mainly relate to the firm's current profits but do not closely relate to growth ^[3]. Organizations may abandon a promising and seemingly attractive business opportunity because stakeholders perceive the opportunity as overly disruptive. ^[14].

Because it is hard to choose just one of the two strategies, previous research on ambidexterity has argued that firms must balance exploitation and exploration ^[15]. The ability to aim and apply exploration and exploitation has been suggested as essential for the long-term performance and survival of organizations ^{[3][4]}. Furthermore, according to Schumpeterian theory, innovative organizations outperform noninnovative ones, and ambidextrous organizations outperform businesses that focus solely on one strategy, such as exploitation or exploration ^[16].

However, organizational ambidexterity is recognized as a paradoxical characteristic in the sense of pursuing two different activities at the same time as evidenced by the use of various terminologies in various studies. Scholars, for example, assert that causation and effectuation are not mutually exclusive but rather interactive relationships ^{[17][18]} and that these

two strategies can be viewed as distinct types of exploitation and exploration ^{[21][19][20]}, cost leadership and differentiation ^[21], competition and collaboration ^[22], and efficiency and flexibility ^{[23][24]}.

3. Characteristics of SMEs

SMEs face greater difficulties than large corporations when pursuing an ambidexterity strategy. The majority of previous studies on ambidexterity have concentrated on large corporations. However, in recent years, there has been a growing body of literature studying the practice of ambidexterity at the scope of SMEs, such as ventures, high-tech startups, and entrepreneurial firms ^[25]. Many SMEs face managerial quandaries regarding their growth, such as whether to pursue differentiation or low cost as a strategy, adopt a mechanistic or flexible structure, or prioritize control or autonomy ^[26]. SMEs may require a new logic to effectively manage their resources and introduce entrepreneurial bricolage, which is defined as “making do by applying combinations of the resources at hand to new problems and opportunities” ^[27]. SMEs’ core competencies and management skills are to overcome scarce resources and operate ambidextrous organizations.

4. Features of Organizational Ambidexterity

Firms can use organizational ambidexterity to solve conflict and the dilemma of paradoxes by employing a few typologies. In previous studies, two ambidextrous methods, contextual and structural ambidexterity, were most representatively presented. Structural ambidexterity is defined as the separation of individuals or groups based on the action plan of an organization ^{[28][29][30]}. To address the conflict and dilemma created by the paradoxes of balancing exploration and exploitation, firms establish separate units that respond to environmental changes and communicate with external stakeholders.

On the other hand, contextual ambidexterity is defined as performing both two strategies at an individual level in the organizational unit ^[29]. Individuals focus on the organization’s regular activities while also undertaking new activities ^[29]. According to this HRM viewpoint, an ambidextrous structure enables an organization to better take advantage of business opportunities while holding onto its current market share. However, when implementing contextual ambidexterity, an important question about who can manage an individual arises ^{[31][32]}.

Previous literature suggests another pathway to achieve organizational ambidexterity for firms; sequential ambidexterity ^{[30][33]}. Sequential ambidexterity refers to an organization’s focus on one of the competing objectives in turn.

Firms achieve different structural alternatives, such as structural or contextual separation, to resolve the organizational paradox. While earlier studies argued that firms should build separate organizational units to gain the benefits of adaptability and alignment at the same time ^{[15][34][35]}. However, the separated units may not be effective for SMEs due to their small size and limited resources. In reality, these structures hinder the sharing of knowledge and capabilities with the mainstream units. Thus, Duncan (1976) ^[36] suggests that organizations should implement a dual structure that allows them to structurally respond to their environment while pursuing both exploration and exploitation.

5. Performance in the SME Organizations

Empirical studies have already indicated that ambidextrous organizations have a positive effect on the firm’s performance ^{[41][31][33][37][38][39][40][41]}. Many studies have proposed that organizational ambidexterity is related to a longer period of survival ^[42], better financial performance ^{[43][44][45]}, and improved learning and innovation ^{[46][47]}, whether directly related to the firm’s performance or not.

However, scholars still have arguments that pursuing such organizational ambidexterity can be either beneficial or detrimental to firms ^{[48][49][50]}. The lack of empirical tests of the ambidexterity-performance relationship has been criticized by Raisch and Birkinshaw (2008) ^[30] and Andriopoulos and Lewis (2009) ^[51]. Few studies have provided empirical support for the hypothesis of ambidexterity and performance. For example, Bierly and Daly (2001) ^[52] investigated the impact of ambidexterity on firm performance in a sample of 98 manufacturing firms but found no significant results. Katila and Ahuja (2002) ^[53] discovered a positive relationship between the proclivity to cite different patents and the proclivity to cite specific patents repeatedly on new product development, but did not test the impact on firm performance ^[54].

These ambiguous findings encourage further investigation into whether ambidexterity has a significant impact on the performance and survival of SMEs. However, it is a challenge to capture when and how ambidexterity is implemented and results are created due to the nature of SMEs that operate firms with scarce resources.

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