




Ambidexterity between low cost strategy and CSR strategy: contingencies of competition and regulation

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Abstract

Drawing on the strategic management and organizational ambidexterity literature, this study develops an ambidexterity perspective on firms' hybrid strategies that emphasizes both low-cost and CSR-based differentiations (i.e., hybrids of low cost and CSR strategies), and distinguishes between the balance and combined dimensions of hybrid strategies to investigate their differential influence on firm performance. By taking a contingency perspective, this study further identifies competitive intensity and government pressure as two important moderators in firms' market and political environments. Based on an empirical examination of 171 listed firms in China using both first-hand survey data and secondary data, both dimensions of hybrid strategies are found to be positively related to firm performance. And the effects of these two dimensions are differentially moderated by competitive intensity and government pressure. These findings provide important implications for both research and the practice of strategic management and organizational ambidexterity.

Keywords Low cost strategy · CSR strategy · Organizational ambidexterity · Firm performance · Competitive intensity · Government pressure

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In transition economics such as China, firms are facing significantly intensified price competition and heightened citizen awareness of corporate social responsibility (CSR) (Bai & Chang, 2015; Mutlu, Zhan, Peng, & Lin, 2015; Yin, 2017). Consequently, firms such as Spring Airlines, Xiaomi, Midea, and Gree, are motivated to emphasize both cost efficiency and CSR-based differentiation factors in their strategies to sustain and improve performance. Scholars usually refer to the strategic paradigm in which multiple strategies are pursued simultaneously as “hybrid strategies” to better differentiate them from the single competitive strategies (i.e., a low cost or differentiation strategy) proposed by Porter (1980) (e.g., Acquaah, 2007; Claver-Cortés, Pertusa-Ortega, & Molina-Azorín, 2012; Gabrielsson, Seppälä, & Gabrielsson, 2016; Spanos, Zaralis, & Lioukas, 2004). As a low cost strategy caters to firms’ internal expectations of profitability, and as a CSR-based differentiation strategy (hereafter CSR strategy) meets the growing external expectations for firms to be socially responsible (Acquaah, 2007; Campbell-Hunt, 2000; Dess & Davis, 1984; Flammer, 2015; Husted & Allen, 2007; Porter & Kramer, 2006; McWilliams & Siegel, 2011), firms’ simultaneous pursuit of these two strategies has great potential to yield superior performance. However, this potential remains underexplored, not only because the specific differentiation factors of hybrid strategies are insufficiently addressed in the literature, but also because of the shadow cast by the on-going debate over the (in)compatibility between low cost strategies and differentiation strategies. That is, low cost strategy and differentiation strategy inherently place divergent and sometimes even conflicting organizational demands on firms, reflecting the inherent tension between them (Jensen, 2002; Mackey, Mackey & Barney, 2007; McWilliams & Siegel, 1997; Orlitzky, Siegel, & Waldman, 2011; Porter, 1980, 1985). Nevertheless, low cost and differentiation strategies are not necessarily exclusive and can lead to mutually reinforcing pathways to their respective fulfillment, which implies an interrelatedness (Claver-Cortés et al., 2012; Leitner & Guldenberg, 2010).

The literature on organizational ambidexterity supports that as firms are confronted with contradictory but related strategic choices, they can benefit and learn from an ambidexterity perspective (Dameron & Torset, 2014; He & Wong, 2004; Smith & Tushman, 2005). With such a perspective, a firm’s hybrid strategy, integrating both a low cost and a CSR strategy, hinges on its balance dimension (BD) and its combined dimension (CD). Based on Cao, Gedajlovic, and Zhang (2009), BD focuses on matching the levels to which low cost and CSR strategies are pursued, while CD addresses measuring their combined extent. BD and CD depict distinct facets of the relationship between low cost and CSR strategies, and may represent different causal mechanisms whereby hybrid strategies influence firm performance. Studies have generally considered the hybrid strategy to be a unidimensional construct and have focused on the overall relationship between hybrid strategies and firm performance (e.g., Claver-Cortés et al., 2012; Spanos, et al., 2004; Thornhill & White, 2007), largely ignoring an ambidextrous consideration of the hybrid strategies.

Moreover, the environmental context in which firms’ hybrid strategies are implemented matters greatly in predicting firm performance (Katsikeas, Samiee, & Theodosiou, 2006). In a hostile environment, a firm is more likely to be exposed to the potential risks implicit in adopting low cost and CSR strategies, and is less likely to realize the advantages those strategies supposedly impart, which may further affect the performance of the hybrid strategy. Also, regulatory forces can influence the level of

performance produced by relevant hybrid strategies. Socially irresponsible behavior (e.g., the Shanghai Hushi scandal, the Foxconn suicide event, the Tengger desert pollution event) has prompted local governments in China to increasingly impose penalties that compel firms to take social responsibility (Wang, Wijen, & Heugens, 2018). As government pressure for increased CSR grows, particularly if formal regulations are imposed, firms and their stakeholders are more likely to cultivate the shared norm that CSR is the right thing to do (Campbell, 2007). In such cases, the possibility that a firm's performance is harmed by the risks associated with low cost and CSR strategies then decreases, and the stakeholders' support for the CSR strategy increases, which may lead to a change in the performance efficiency of their hybrid strategy. Although studies have explored the contingent effects of market and political factors on the efficiency of competitive strategies, the arguments and discussions mainly address the single strategy approach (Dess, Lumpkin, & Covin, 1997; Hill, 1988; Katsikeas et al., 2006; O'Cass & Weerawardena, 2010) and rarely involve hybrid strategies.

To address these research gaps, we propose that firms' hybrid strategies, including both low cost and CSR strategies, can influence firm performance. The efficiency of such hybrid strategies depends on the external operational environment. Here, we differentiate between two dimensions of firms' hybrid strategies—CD and BD—and propose that they can enhance firm performance through different mechanisms, which are further contingent on competitive intensity and government pressure. Drawing from the literature on organizational ambidexterity and on contingency theory, this study aims to clarify the relationship among firms' hybrid strategies, firm performance, and their operational environment. We empirically test our hypotheses based on both first-hand data collected from a survey of 171 listed companies in China, and on secondary data obtained from their published annual reports. Subsequent hierarchical regression analysis supports most of our arguments.

This study makes three key contributions to the literature. First, by focusing on hybrid strategies with CSR as specific differentiation factors and by further distinguishing between the balance and combination dimensions, this study helps facilitate a better understanding of the relationships between hybrid strategies and firm performance. Second, this study extends the significance of organizational ambidexterity by applying its dimensions and relevant mechanisms to explain and predict firm performance in the context of the tensions between low cost and CSR strategies. Third, by clarifying the specific market and political conditions under which a firm can achieve superior performance with hybrid strategies, this study further enriches the contingency perspective in the strategic management literature.

Theoretical background and hypotheses

An ambidextrous perspective on the hybrid of low cost and CSR strategies

Competitive strategy refers to a consistent grouping or configuration of activities that aims to create a specific form of competitive advantage relative to a firm's rivals, and has been demonstrated to be vital for superior firm performance (Porter, 1980; Slater, Olson, & Hult, 2006; Spanos et al., 2004; Zott & Amit, 2008). Porter (1980, 1985) proposes two fundamental types of competitive advantage with which a firm can strive

to outperform its rivals. One is called “cost advantage.” This type of competitive advantage provides customers with products or services comparable to those offered by rivals but at a lower cost, and enables a firm to set competitive prices and attract more price-sensitive customers, which can be achieved by a firm’s adoption of a low cost strategy (Acquaah, 2007; Campbell-Hunt, 2000; Dess & Davis, 1984; Spanos et al., 2004). The other type of competitive advantage is called “differentiation advantage,” which concerns about conveying unique and attractive value of certain goods and services, to customers, for which a firm can charge premium prices (Acquaah, 2007; Slater et al., 2006). As the expectation of nowadays customers for firms has evolved to include the welfare of other stakeholders or even of society as a whole, the CSR strategy has gradually emerged as a very attractive choice for firms to achieve differentiation competitive advantage, and becomes an interesting differentiation strategy that keeps drawing academic attention (Cruz, Boehe, & Ogasavara, 2015; Flammer, 2015, 2018; McWilliams & Siegel, 2001, 2011; McWilliams, Siegel & Wright, 2006; Porter & Kramer, 2006). A CSR strategy refers to “a firm’s voluntary integration of social and environmental concerns in their operations and in their interaction with stakeholders” (Cheng, Ioannou, & Serafeim, 2014). With a CSR strategy, a firm can differentiate itself from its rivals in several ways, such as by adding CSR attributes to its products, developing socially responsible production processes, or proactively engaging in social issues to cultivate a CSR reputation (Cruz et al., 2015; McWilliams et al., 2006; McWilliams & Siegel, 2001, 2011; Porter & Kramer, 2006). Whichever approach the firm takes in implementing its CSR strategy, the result is that its products and services can be associated with the unique CSR values that are treasured by many customers, and then, accordingly, the firm can charge premium prices for those goods and services (Boehe & Cruz, 2010; Bhattacharya, Korschun, & Sen, 2009; Siegel & Vitaliano, 2007).

As a low cost strategy and a CSR strategy can each allow firms to develop competitive advantages over their rivals (Boehe & Cruz, 2010; Campbell-Hunt, 2000; Cheng et al., 2014; Flammer, 2015), it is natural to wonder whether firms can still achieve competitive advantages with their hybrids. This question needs to be addressed because the pursuit of both strategies seems to enable firms to simultaneously meet internal expectations of profitability (e.g., shareholders and employees) and external expectations of social responsibility (e.g., customers and governments), with implications for the performance and long-term development of firms. However, the decision to pursue a low cost strategy and a CSR strategy in tandem represents a significant challenge for firms because of the inherently complicated relationship between them. On the one hand, tensions exist between low cost and CSR strategies when they are implemented concurrently. Specifically, low cost and CSR strategies not only compete with each other over limited resources and managerial attention but also, in the process, may encourage firms to pursue mutually contradictory activities and processes (Amoako-Gyampah & Acquaah, 2008; Cheng et al., 2014; Dess et al., 1997; Mackey et al., 2007). For example, a low cost strategy may motivate firms to use cheap materials and rely on traditional manufacturing technology that is environmentally unfriendly, while a CSR strategy may encourage firms to use environmentally friendly materials and green manufacturing technologies, which may burden firms with heavy costs. On the other hand, low cost and CSR strategies may be interrelated and complementary. That is, a low cost strategy may save and generate resources for a

firm's implementation of CSR strategy, while a CSR strategy may enable firms to cultivate good relationships with stakeholders, whose efforts and resources can, in turn, facilitate a low cost strategy (Sen, Bhattacharya, & Korschun, 2006).

As one of the most salient literatures on how to benefit from strategic actions with tensions and relatedness, the literature on organizational ambidexterity sheds light on the ways in which a firm can benefit from a concurrent pursuit of a low cost strategy and a CSR strategy. Organizational ambidexterity refers to a firm's ability to undertake differing and often competing strategic actions simultaneously (Simsek, Heavey, Veiga, & Souder, 2009). This usually involves contexts where exploiting existing competencies and exploring new opportunities are pursued in unison (March, 1991). Exploitation and exploration are two fundamentally distinct approaches that firms take: the former centers on refinement and efficiency, while the latter emphasizes search, experimentation, risk taking and innovation (March 1991). Tensions exist between the two in that exploitation may foster a firm's structural inertia and weaken its adaptive capacity, both of which impair exploration, while exploration may slow the pace of exploitation by diverting a firm's managerial attention and scarce resources (He & Wong, 2004). Interrelations also exist between exploitation and exploration in that the experience and ability accumulated in exploiting may improve a firm's efficiency in exploring new opportunities, and the new knowledge and external resources internalized by exploration may improve the firm's ability to engage in successful exploitation (Cao et al., 2009). Exploitation and exploration are both acknowledged to be critical for sustaining a firm's competitive advantage, and choosing between them may trap firms in unfavorable situations (March, 1991). Under such circumstances, organizational ambidexterity, which emphasizes the simultaneous pursuit of exploration and exploitation, has emerged as an important determinant of firm performance and has understandably drawn a great deal of academic attention (Kristal, Huang, & Roth, 2010; O'Reilly & Tushman, 2013; Patel, Terjesen, & Li, 2012; Raisch & Birkinshaw, 2008; Simsek et al., 2009).

In early studies, scholars conceptualized and operationalized organizational ambidexterity in divergent ways. Some scholars focused on striking a balance between exploitation and exploration (e.g., Auh & Menguc, 2005; Ghemawat & Costa, 1993; Sidhu, Commandeur, & Bolberda, 2007; Smith & Tushman, 2005), while others explored the potential merits of high levels of both exploitation and exploration (e.g., Beckman, 2006; Jansen, Van Den Bosch, & Volberda, 2006; Lavie & Rosenkopf, 2006; Lubatkin, Simsek, Ling, & Veiga, 2006). Cao et al. (2009) proposed a two-dimensional approach to organizational ambidexterity, providing greater precision to the conceptualization and operationalization of the construct. According to the theoretical framework of Cao et al. (2009), the ability of organizational ambidexterity to deliver superior firm performance rests on two dimensions: a balance dimension (BD), which pertains to the balance between exploration and exploitation, and a combined dimension (CD), which pertains to the combined magnitude of exploration and exploitation. Crucially, these two dimensions of organizational ambidexterity influence firm performance through two different mechanisms: one corresponds to BD and refers to the extent to which contradictory activities can compensate for each other's weaknesses, and the other corresponds to CD and is concerned with the extent to which contradictory activities can reinforce each other's strengths. Gulati and Puranam (2009) describe

these two mechanisms as “compensatory fit” (for BD) and “supplementary fit” (for CD). A distinction between BD and CD, along with a distinction of their underlying mechanisms, is a feature of the prevailing perspective on organizational ambidexterity and has inspired research across various academic fields (e.g., Hahn, Pinkse, Preuss, & Figge, 2016; Herhausen, 2015; Liu, Liao, & Li, 2018; Wei, Yi, & Guo, 2014; Wong, Wong, & Boon-Itt, 2013; Tang & Rai, 2014).

Given that both inherent tensions and interrelatedness exist between low cost strategies and CSR strategies, similar to the situation of exploration and exploitation, it is reasonable to infer that firms may benefit from a hybrid of a low cost strategy and a CSR strategy similarly to benefiting from organizational ambidexterity. That is, an ambidexterity perspective that distinguishes between hybrid strategies’ BD and CD and their underlying mechanisms (compensatory fit and supplementary fit) may be conducive for understanding the performance of hybrid strategies and their resulting implications. Specifically, the BD of hybrid strategies describes the *relative* magnitude of a low cost strategy and a CSR strategy, and may influence firm performance through their *compensatory* fit, which reflects the ability of each strategy to compensate for each other’s weakness in facilitating firm performance. In contrast, the CD of hybrid strategies pertains to the *combined* magnitude of a low cost strategy and a CSR strategy, and its influence on firm performance may rest on their *supplementary* fit, which reflects the ability of each strategy to reinforce each other’s strengths in facilitating firm performance.

Compensatory fit between low cost strategy and CSR strategy through BD

Firms that pursue a low cost strategy regard cost reduction as their top priority. Cost reduction gives low cost strategy the legitimacy of a competitive strategy by providing short-term cash flow and a considerable profit margin (Porter, 1980, 1985). However, if cost reduction becomes the dominant consideration, then unavoidable consequences may arise and jeopardize firm performance. The most common phenomenon is that firms cut corners to save costs, such as by sacrificing a functional aspect of a product, replacing high-quality raw materials with inferior ones, or reducing the content or quality of a service. Environmental pollution is another problem that often accompanies a low cost strategy. Environment preservation requires firms to devote extensive resources to reduce and manage their waste, and the firms concerned with cost reduction are often reluctant to consider their damage to the natural environment. Countless scandals have demonstrated that once a firm decides to reduce costs at the expense of quality or the environment, it is only a matter of time before it suffers the crisis of firm survival.

In contrast, a CSR strategy considers a firm’s stakeholders, society as a whole, and the natural environment. To meet both internal and external expectations, firms with CSR strategies must devote a great proportion of their resources and managerial attention to CSR-related initiatives, most of which are unlikely to bring immediate financial benefits and may eventually fail. A CSR strategy is thus much riskier and more uncontrollable than a low cost strategy, often leading to doubts among firm owners and shareholders over whether “CSR is the right thing to do” (Aupperle, Carroll, & Hatfield, 1985; Brammer & Millington, 2008; Jensen, 2002; McWilliams & Siegel, 1997). Therefore, the firms that adopt a CSR strategy are likely to provoke questions and even witness discontent among owners, shareholders, investors, and

other stakeholders who desire immediate or predictable financial returns (Liu, Feng, & Li, 2015). These concerns of primary stakeholders are likely to result in internal disunity and instability, making firms even more vulnerable to competition.

Considering the possible negative outcomes of both low cost and CSR strategies, choosing between them, or emphasizing one over the other, is likely to expose firms to their respective weaknesses (Claver-Cortés et al., 2012). We argue that the best choice for firms is to balance these two strategies so that they can compensate for their relative weaknesses (Gulati & Puranam, 2009; Hahn et al., 2016). The underlying premise of this argument is that the two strategies are indeed mutually compensatory. A low cost strategy may make firms intentionally or unintentionally ignore negative externalities (e.g., employee' mistreatment and environment pollution), but a CSR strategy enables firms to consider the interests and expectations of various stakeholders, society, and the natural environment. Conversely, a CSR strategy may lead to internal questions and discontent (e.g., an agency problem), while a low cost strategy may appease firm owners, shareholders, and investors by demonstrating efforts to realize profit.

For example, the case of Yili, a leading enterprise in the Chinese dairy industry, well illustrates the importance of balancing low cost strategies and CSR strategies. In its early years, Yili vigorously implemented a low cost strategy and initiated a famous and ambitious networking project in 2006, which focused on integrating production, sales, and markets nationwide to realize strategic cost reduction (Wang & Yip, 2018). In 2008, Yili was involved in the "Melamine Scandal," which was largely attributed to the huge cost reduction pressure that dairy enterprises put on dairy farmers and dairy enterprises' long-standing neglect of the interests of external stakeholders, especially customers and suppliers (Barboza, 2008). Yili suffered a resultant total loss of nearly 2 billion yuan in the same year, which was almost 20 times the profit it made in 2007. To manage the crisis, Yili immediately put CSR on its agenda, and it bore all of its dealers' losses as the first step in its CSR strategy. Since then, Yili has devoted great efforts to focusing its CSR strategy on building a green industrial chain and helping its industrial chain partners better grow, enabling better consideration of external stakeholders' interests in Yili's daily operation and thus effectively reducing the negative externality of its low cost strategy.¹ Yili has also proactively implemented its low cost strategy and expanded its networking project to cover more global markets, thus showing that Yili is genuinely concerned about its shareholders' and investors' welfare and has successfully addressed their concerns about or discontent with the firm's CSR strategy.² With these efforts, Yili has gradually changed an extremely unbalanced relationship between its low cost strategy and CSR strategy into a more balanced one, using each strategy to overcome the weaknesses of the other to remove hidden hazards or concerns. In 2009, Yili turned a profit, and it maintained a steady profit growth of 1 billion yuan a year in most of the following years.³

¹ Yili's CSR strategy was included on the Best Practices List of CSR-China, the most influential portal website on CSR in China, which is sponsored by China's commerce ministry. See CSR-China's website: <http://en.csr-china.net/a/BestPractices/BestPracticesList/2016/0927/185.html>.

² Yili initiated its Globally Networking Project in 2013 by acquiring New Zealand Oceania Dairy Co., Ltd. and then expanded the project to cover more countries, including Italy, America and the Netherlands. See Yili's official website: <http://www.yili.com/en/rest/reception/articles/list?categoryId=31>.

³ All of the financial data were collected from Yili's annual reports. See Yili's official website: <http://www.yili.com/en/rest/reception/files/list?categoryId=22>.

Taken together, above arguments and case indicate that when firms simultaneously pursue low cost and CSR strategies by balancing these strategies instead of overcommitting to one or the other, they can achieve a compensatory fit where the low cost strategy compensates for the weakness of the CSR strategy, and vice versa. Through this compensatory fit, firms can avoid the risk associated with each strategy's weakness and thereby enjoy superior performance. Therefore, we make the following hypothesis.

Hypothesis 1 The balance dimension of the hybrid strategy (i.e., the hybrid of a low cost strategy and a CSR strategy) is positively related to firm performance.

Supplementary fit between low cost and CSR strategies through CD

In addition to compensating for each other's weaknesses, low cost and CSR strategies can facilitate each other when adopted jointly. A low cost strategy can supplement a CSR strategy in several ways. First, a low cost strategy motivates firms to increase internal efficiency by reducing costs per unit to increase the profit margin, which is conducive to saving resources and creating additional leeway for CSR strategy. Second, as firms pursuing a low cost strategy emphasize cost control and attach importance to "efficiency," they are likely to retain this inertia in their implementation of CSR strategy. Rather than mindlessly devoting a large amount of resources and effort to engage in CSR initiatives that may become a heavy burden, firms with experience in controlling costs and increasing efficiency are able to allocate and use valuable resources efficiently, so most unnecessary costs can be avoided during their execution of CSR strategy.

A CSR strategy can also supplement a low cost strategy. Many researchers have demonstrated that a CSR strategy can help a firm establish good reputation and image among its stakeholders, especially when the CSR strategy is closely associated with its stakeholders' interest, which further enable the firm to cultivate good relationships with their stakeholders, (Bhattacharya et al., 2009; Hull & Rothenberg, 2008; McWilliams & Siegel, 2011; Sen et al., 2006; Zhu, Sun, & Leung, 2014). These stakeholders include those who play key roles in the firm's daily operations and those who have control or influence over important resources that the firm requires, such as employees, suppliers, and local governments (Brammer & Pavalin, 2006; Carmeli, Gilat, & Waldman, 2007; Orlitzky, Schmidt, & Rynes, 2003). Good relationships with the aforementioned important stakeholders can be critical for firms that pursue a low cost strategy. For example, having good relationships with employees helps firms secure employee support, boost efficiency, and sustain day-to-day compliance (Gao & Yang, 2016), further enabling firms to decrease costs during the implementation of a low cost strategy (McWilliams & Siegel, 2011). Having good relationships with suppliers also makes a firm more likely to negotiate favorable contracts and reduce costs (Fombrun, Gardberg, & Barnett, 2000). Good relationships with local government are even more important for a firm to successfully implement a low cost strategy, enabling it to win the favor of local government, which not only provides access to the most valuable and scarce resources held by the government, but also enables it to enjoy local business policy support and protection regarding its competitive behavior over other firms (Arnoldi & Villadsen, 2015; Yin, 2017).

Take Walmart's business in China as an example. In 2008, Walmart proposed to build a socially responsible global supply chain, and since then, it has focused part of its CSR strategy in China on making its local suppliers' packaging more environmentally friendly (Winston, 2008). To implement such a CSR strategy in China, it was essential for Walmart to ensure that improving packaging would not impose a burden on local suppliers. Walmart chose to utilize its rich experience in cost reduction accumulated by implementing low cost strategy globally to provide local suppliers with training in and valuable proposals related to improving packaging.⁴ Walmart thus successfully implemented its CSR strategy in China and significantly reduced the negative influence of its supply chain on the environment.⁵ Walmart's successful CSR strategy also significantly reduced local suppliers' excessive packaging, considerably saving related costs, which increased the efficiency of Walmart's low cost strategy in China.⁶

Taking above together, we argue that low cost and CSR strategies can interact to increase each other's efficiency in improving firm performance (i.e., a supplementary fit). We therefore propose the following hypothesis.

Hypothesis 2 The combination dimension of the hybrid strategy (i.e., the hybrid of a low cost strategy and a CSR strategy) is positively related to firm performance.

An environmental contingency perspective on the hybrid of low cost and CSR strategies

Lawrence and Lorsch (1967) first proposed contingency theory in their book "Organization and the Environment," and it has since become a key strategic management theory, enabling a better understanding of the various performance facilitating abilities of a particular strategy. The theory suggests that there is no single optimal strategy for all organizations, and posits that the most desirable choice of strategy is subject to certain contingency factors, such as aspects of the environment, organization structure, technology, and marketing decisions (Zott & Amit, 2008). Of these factors, the contingent effects of the factors in a firm's operational environmental have long been the subject of attention and interest, with market and political factors being the most frequently investigated. The consideration of market factors in a firm's strategic decisions, such as competitive intensity, market structure, the market supply and demand situation, and industry entry barriers, have been either proposed or demonstrated as vital for firm survival and development (Chan, He, Chan, & Wang, 2012;

⁴ Since 2008, Walmart has held a "Walmart Eco-Packaging Event" in China every year, offering related training programs regularly and proactively organizing experts to provide technical advice and solutions to assist local suppliers in reducing excessive packaging and packaging waste more efficiently. See Walmart's official China website: <http://www.wal-martchina.com/news/2010/20101102.htm>.

⁵ For instance, Coca-Cola (China) actively responded to Walmart's call and successfully developed a lighter and more environmentally friendly bottle, reducing carbon emission by about 30% and saving about 70% in recycling space. By cooperating with Walmart and utilizing environmentally friendly packages, P&G (China) saved nearly 100 tons of plastics and reduced the use of packing cardboard by 40% every year for two of its sub-brands, Pantene and Olay. See Walmart's official China website: <http://www.wal-martchina.com/news/2010/20101102.htm>.

⁶ Before Walmart initiated the 5-year plan to reduce packaging in 2008, it estimated that reducing packaging by 5% could save the firm about 3.4 billion dollars. See Walmart's official website: <https://news.walmart.com/news-archive/2006/09/22/wal-mart-launches-5-year-plan-to-reduce-packaging>.

Flammer, 2015; Hill, 1988; Meng, Zeng, Xie, & Qi, 2016; Spanos et al., 2004). Researchers have also indicated that the political factors in firm's operational environment, including formal government regulations, informal political ties, and government support, are critical in shaping strategic decisions and relative outcomes, particularly when the government controls the majority of the social resources desired by firms (Li, Poppo, & Zhou, 2008; Li & Zhou, 2010). Therefore, to better understand the conditions under which firms may achieve higher (or lower) performance through strategic organizational ambidexterity, we must take into account the contingent effects of factors in both the market and the political environment. We focus on one important factor for each environment: competitive intensity (for the market environment) and government pressure on CSR (for the political environment), as they are likely to affect the efficiency of BD and CD in improving firm performance.

The contingent effects of competitive intensity

As competitive intensity increases, survival becomes more difficult and the competition between firms becomes fiercer and more relentless (Chan et al., 2012; Li et al., 2008). The firms become not only more motivated to protect their profit margin by any means, but also more inclined to seize upon any possible opportunity to exploit their competitors' weaknesses, even if small, and defeat them (Henderson & Mitchell, 1997). We propose that the performance facilitating efficiency of BD is then likely to increase, as intensified competition can increase the risks associated with a firm's overemphasis on low cost and CSR strategies, increasing the importance of balancing the two strategies to increase performance.

Specifically, when a firm overemphasizes its low cost strategy, its absolute prioritization of cost reduction is likely to result in negative externalities, including the improper treatment of employees and environmental pollution. As competition intensifies, these negative externalities become more appealing to the firm, as they enable it to immediately reduce considerable costs, helping them survive the increasingly fierce price war. These negative externalities are thus more likely to arise during the firm's implementation of a low cost strategy (Campbell, 2007). Competitors also become more vigilant during intensified competition, and their attention is more easily and rapidly drawn to the behavior of other firms, particularly if that behavior is illegal or unethical. As competitive intensity increases, the possibility that the firm's negative externalities are intentionally utilized and amplified by their competitors to harm its reputation increases. The risk of the firm's performance suffering also increases.

Similarly, when a firm overemphasizes its CSR strategy, the questions and discontent from primary stakeholders are likely to intensify and become more of a threat to the firm's performance as competitive intensity increases. Higher competitive intensity results in a narrower profit margin and thus shrinks the shareholders' value. A firm's overemphasis on its CSR strategy is therefore more likely to be viewed by shareholders as "putting the cart before the horse," resulting in even more questions and discontent, which in turn provokes internal instability and further weakens the firm's ability to cope with intense competition. Consequently, the firm's performance is more likely to suffer.

Considering the combination of the above arguments, we conclude that because a firm's performance is more likely to suffer from an overemphasis on either a low cost

strategy or a CSR strategy when competitive intensity increases, the compensatory fit between the two strategies through BD becomes more important for a firm. Therefore, we propose the following hypothesis.

Hypothesis 3 The positive relationship between BD and firm performance is stronger when competitive intensity is stronger than when it is weaker.

In addition to increasing the risk associated with overemphasizing either strategy, intensified competition can also weaken the ability of both strategies to cross-fertilize each other's performance facilitating efficiency. Increasing competitive intensity enables customers in the market to change their suppliers more freely, and thus enables them to demand more from current suppliers, including lower prices and more products or services with CSR-related attributes (Chan et al., 2012). Many firms are then either forced to engage in more intense price wars or are motivated to take on more social responsibility in their operation processes (Bai & Chang, 2015; Fernández-Kranz & Santaló, 2010). If the price war becomes fiercer, the profit margin of a firm's low cost strategy narrows, and the resources needed to reduce costs increase (Kohli & Jaworski, 1990). The additional leeway and residual resources that a low cost strategy can create and save for a CSR strategy accordingly decrease. If more firms choose to engage in CSR-related initiatives to cope with intense competition, then a firm's stakeholders may become less sensitive to its CSR strategy because its competitors also actively pursue their own CSR strategies—or stakeholders might even view the firm's CSR strategy as just “following suit” or as “window dressing.” Thus, the ability of a firm to cultivate good relationships with its stakeholders through a CSR strategy may weaken, and the possibility of the firm accessing the important resources held by these stakeholders, to better implement its low cost strategy, then decreases.

To summarize, as competitive intensity increases, the abilities of both strategies to facilitate each other's efficiency in improving firm performance decreases. The supplementary fit between a low cost strategy and a CSR strategy through CD weakens with competitive intensity. Therefore, we propose the following hypothesis.

Hypothesis 4 The positive relationship between CD and firm performance is stronger when competitive intensity is weaker than when it is stronger.

The contingent effect of government pressure

Government pressure on CSR refers to the extent to which governments threaten, or actually impede, the regular operations of a company through regulatory forces, based on the government's assessment of a company's social performance (Banerjee, Iyer, & Kashyap, 2003; Kassinis & Vafeas, 2006). Researchers have long suggested that government influence is one of the most salient stakeholder pressures motivating firms to take social responsibility, due to the government's coerciveness and power of deterrence (Campbell, 2007; Menon & Menon, 1997; Xu, Yang, Quan, & Lu, 2015). Unlike the effect of competitive intensity, we argue that government pressure on CSR can weaken the performance-facilitating role of BD because it can decrease the performance risk associated with a firm's overemphasis on either a low cost or CSR strategy.

First, as government pressure on CSR increases, the penalties for irresponsible corporate behavior become greater and the scope of corporate behavior norms expands. Thus, a firm is more likely to consciously refrain from any socially irresponsible behavior during its regular operations, even though that behavior may bring significant financial returns (Henriques & Sadosky, 1999). Applying this rationale to our case, when a firm overemphasizes its low cost strategy, its cost reduction behavior is less likely to result in negative externalities, as it comes to fear severe government sanctions. The performance risk associated with the firm's overemphasis on the low cost strategy then decreases.

Second, when governments increasingly exert pressure on firms within their jurisdiction to take up their social responsibilities, any focus on CSR in the firm's strategy is more likely to be viewed by its owners and shareholders as catering to local government to win its support and improve business, rather than as an "agency problem" that may hurt their interests. These more positive (or less negative) attitudes of shareholders toward the firm's CSR strategy allow the firm to become more solid and stable, and then more likely to benefit from its overemphasis on the CSR strategy. The performance risk implicit in an overemphasis on a CSR strategy thus also decreases.

As government pressure on CSR reduces the potential performance risks when a firm overemphasizes a low cost or CSR strategy, the compensatory fit between the two strategies through BD becomes less critical for firm performance, when government pressure on CSR increases. Therefore, we make the following hypothesis.

Hypothesis 5 The positive relationship between BD and firm performance is stronger when government pressure is weaker than when it is stronger.

Government pressure indicates their CSR concerns and suggests that they expect firms in their jurisdictions to take social responsibility. As government pressure increases, the importance governments attach to CSR and the expectations they place on firms also increase. A firm's CSR strategy is then more likely to please the government and lead to a good relationship. Thus, the firm may be more likely to gain access to the valuable resources held by the government and other forms of support (e.g., tax incentives, government subsidies, and policy support), which can further contribute to a more effective implementation of a low cost strategy (Gao, Lin, & Yang, 2017). The greater likelihood of a CSR strategy bringing valuable government resources motivates the firm to allocate the profit gained from its low cost strategy, along with the resources saved, to implementing a CSR strategy. This demonstrates to the government the firm's willingness to assume social responsibility. Moreover, government pressure on CSR is a type of coercion that forces firms to integrate CSR into their strategies, rather than leaves the firms to take voluntary action (Shrivastava, 1995). A firm is then more inclined to use the internal processes derived from its low cost strategy to implement CSR strategy as efficiently as possible, reducing the problems associated with CSR.

To summarize, as government pressure on CSR increases, the two strategies become better able to facilitate each other's efficiency in improving performance. Therefore, the

supplementary fit between a low cost strategy and a CSR strategy through CD is strengthened by government pressure on CSR.

Hypothesis 6 The positive relationship between CD and firm performance is stronger when government pressure is stronger than when it is weaker.

Methodology

Data and sample

We drew the sample for this research from a survey conducted in early 2013, targeting Chinese listed manufacturing firms in chemical, consumer goods, food processing, and pharmaceutical industries. We focused on firms in these four industries because either their products or their manufacturing processes were of particular CSR concern, so they were more likely to adopt CSR-oriented strategies than firms in other industries. By focusing on listed firms, we were able to collect secondary data from their annual reports, thus avoiding any common method biases.

Following Gerbing and Anderson's (1988) approach for developing survey instruments, we conducted in-depth interviews with 10 senior managers from the aforementioned industries, to explore issues associated with their strategies and operational environments. From these interviews, and based a comprehensive review of the literature, we developed a survey questionnaire in English. This was then translated into Chinese and back translated by independent scholars to ensure conceptual equivalence and accuracy. We conducted an onsite pretest with 18 randomly selected firms from the targeted industries before the formal survey, asking their managers to answer the survey questions, and requesting feedback and comments to refine the questionnaire.

For the subsequent data collection, experienced interviewers were hired from the All China Marketing Research Co. Ltd. (ACMR) to conduct onsite interviews to complete the questionnaires, instead of our conducting a traditional paper-and-pencil mail survey. A sample of 651 listed firms was randomly selected from a directory published by ACMR, and the interviewers were then assigned to call these firms to (1) locate the key informants (i.e., CEOs, general managers, or senior managers); (2) request their cooperation; and (3) check their qualifications to ensure that they had the knowledge to answer questions on their firms' strategies. After this preliminary work, the interviewers made appointments for onsite interviews with the informants who qualified and had agreed to participate in the survey. At the interviews, the participants were (1) informed that their responses were to remain completely confidential and anonymous; (2) asked to answer questions as honestly as possible; and (3) told there were no right or wrong answers. Our intention was to reduce the bias of social desirability.

Our method resulted in 171 completed and usable questionnaires, representing a response rate of 26.3%. Following Kanuk and Berenson (1975), we assessed any potential nonresponse bias by looking for differences between the nonresponse and

response firms. Specifically, we focused on comparing their size, age, industry, and ownership type by using a multivariate analysis of variance (MANOVA), and found no significant differences (Wilks' lambda = .99, $F = .07$, $p = .65$). Thus, the nonresponse bias did not appear to be a concern for our study.

Measurement of variables

The measures used in this study are either directly derived or adapted from established studies, and except for some control variables (i.e., firm size and firm age) and the dependent variable (firm performance), all of the constructs were measured using a seven-point Likert scale (1 = strongly disagree; 7 = strongly agree) in reference to the three years preceding 2013 (i.e., 2010–2012). The measurement items and their reliability and validity assessments appear in the Appendix.

Explanatory variable

With a low cost strategy, a firm aims to attain operational excellence and enjoy the corresponding cost advantage over its competitors during the processes of value creation and value delivery. This covers primary activities such as internal logistics, operations, sales, and marketing, and involves related support activities, including procurement, R&D, and administrative functions (Porter, 1980, 1985). To capture the internal operations-oriented aspect of a low cost strategy, we used a five-item scale adopted from Olson, Slater, and Hult (2005). A firm's CSR strategy reflects the extent to which it integrates CSR considerations into its strategic decisions and plans (Banerjee et al., 2003), and to assess it, we adapted the items developed by Banerjee et al. (2003) to our context and created a five-item scale.

BD relates to the balance, or to the relative levels of the low cost strategy and the CSR strategy (Cao et al., 2009; Hahn et al., 2016). To operationalize BD, we used the method from Cao et al. (2009), first calculating the absolute difference between the two strategies and then subtracting this difference score from five to get the final scale of BD. Five was used as the minuend because the absolute difference varied from 0 to 3.4, as in Cao et al. (2009). With CD, a firm seeks to enhance performance by increasing the combined levels of a low cost strategy and a CSR strategy, through developing and leveraging complementary knowledge and resources from both strategies (Cao et al., 2009; Hahn et al., 2016). The measure used in previous empirical research on organizational ambidexterity was applied (e.g., Cao et al., 2009; He & Wong, 2004), and we multiplied the cost-oriented strategy and the CSR strategy to operationalize CD. We mean-centered the low cost strategy and CSR strategy scales before obtaining their product to reduce the potential for multicollinearity.

Dependent variable

To avoid common method biases, we considered the secondary data and used a firm's return on assets (ROA) in 2013 to measure firm performance, computed as the ratio of net income to total assets, ensuring that the performance data are accurate and reliable.

Moderators

Competitive intensity refers to the degree of competition that a firm faces in its industry (Li et al., 2008). We took the most frequently cited measurement, developed by Jaworski & Kohli (1993), and used three items from it. The resulting three-item scale contains one item assessing the overall competitive situation (“Competition in our industry is cutthroat”), and two items assessing the behavior, resources, and ability of competitors to differentiate (e.g., “Anything that one competitor can offer can be matched readily by others”).

For government pressure on CSR, we used the scale developed by Banerjee et al. (2003) to measure regulatory forces for corporate environmentalism, and adapted it to our CSR context. Consistent with the original scale, we used three items concerned with managerial perceptions of the influence of government regulation on strategy, and on the level of CSR-related regulation faced by industry, to measure government pressure on CSR.

Control variables

We included firm size, firm age, market uncertainty, industry, and firm past performance as control variables. First, as larger firms tend to achieve better performance (cf. economies of scale), we controlled for firm size as the logarithm of the number of employees. Second, as younger firms often suffer from the liability of newness and lack sufficient resources to execute their strategies, firm age is an important factor that can influence financial performance (Thornhill & Amit, 2003), and we controlled for this using the natural logarithm of the number of years the firm has operated. Third, market uncertainty has been found to have a significant influence on financial performance (Kumar, Jones, Venkatesan, & Leone, 2011; Sheng, Zhou, & Lessassy, 2012), thus we included market uncertainty as a control variable, measured with a three-item scale adapted by Sheng, Zhou, and Li (2011) from that developed by Jaworski and Kohli (1993). Fourth, as our data were collected from four industries, we controlled firm’s industry with three 0–1 dummy variables. To rule out the possible influence of past performance, we also included firms’ ROA in 2009 as an important control variable.

Construct reliability and validity

We verified the reliability and validity of all of the constructs, first assessing the internal consistency of each construct with Cronbach’s alpha. The results for all of the constructs were greater than .70, which indicates high internal consistency. Second, the composite reliability (CR) values were calculated and the result demonstrates high construct reliability (all >.70). Third, confirmatory factor analysis (CFA) assessed the convergent validity of all of the multi-item constructs. The results showed a good fit for the data ($\chi^2= 272.18$, d.f. = 142, $p = .00$, Confirmatory Fit Index = .91, Tucker-Lewis Index = .90, root mean square error of approximation = .07). In addition, the scores of average variance extracted (AVE) for all of the constructs exceeded .50, also indicating a strong convergent validity. Fourth, we used two methods to evaluate the discriminant validity of the constructs. First, we conducted a chi-square difference test using two-factor confirmatory measurement models with each possible pair of constructs, to

determine whether the restricted model, in which the correlation between the two constructs was fixed to 1, was significantly worse than the unrestricted model, in which the correlation between the two constructs was freely estimated. All of the differences between the restricted and unrestricted models were highly significant, and in every instance the restricted models showed a worse fit to the data, suggesting adequate discriminant validity. Second, following the recommendation of Fornell and Larcker (1981), it was also verified that the AVE for each construct was greater than its shared variance with other constructs, represented by the square of its correlations with other constructs, supporting discriminant validity.

Results

Regression results

We used hierarchical regression analysis to test our hypotheses, enabling us to take sequential steps to enter variables, as suggested by Cohen, Cohen, West, and Aiken (2003). We mean-centered the variables in interaction terms to mitigate the possibility of multicollinearity. Table 1 provides means, standard deviations, and correlations for all of the variables, and Table 2 shows the regression results. Model 1 is the base model including the control variables of firm size, firm age, market uncertainty, industry, and firm's past performance, along with low cost strategy, CSR strategy, and the two moderating variables of competitive intensity and government pressure ($F = 2.21$, $p < .01$). A low cost strategy was found to have a positive and significant effect on firm performance ($\beta = .18$, $p < .05$), while the effect of CSR strategy on firm performance was not significant. Firm's past performance ($\beta = .28$, $p < .01$) was significantly and negatively related to firm performance.

In Model 2, we added BD only on the basis of Model 1 and found that the overall model was still significant ($F = 2.52$, $p < .01$), and BD was significantly and positively related to firm performance ($\beta = .19$, $p < .05$), thus supporting Hypothesis 1. Similarly, we added CD only in Model 3 on the basis of Model 1 and found that CD was also significantly and positively related to firm performance ($\beta = .18$, $p < .01$), as predicted in Hypothesis 2. Then, we added both BD and CD in Model 4 on the basis of Model 1. The result indicated that the significantly positive relationships between BD, CD, and firm performance still exist.

In Model 5, to test the moderating effects of competitive intensity and government pressure, we added BD, CD, and their respective interaction terms with competitive intensity and government pressure on CSR. Table 2 shows that after adding these variables the overall model is significant ($F = 3.04$, $p < .01$), and three of four interaction terms show a significant effect on the dependent variable. Specifically, the interaction term for competitive intensity and BD was significantly positive ($\beta = .15$, $p < .05$), supporting Hypothesis 3. However, as Model 5 shows, the interaction term for competitive intensity and CD was not significant ($\beta = -.07$, $p > .10$), so Hypothesis 4 was not supported. The interaction term of government pressure on CSR with BD was significantly and negatively related to firm performance ($\beta = -.20$, $p < .01$), while its interaction term with CD showed a significantly positive relationship with firm performance ($\beta = .17$, $p < .05$). Thus, both Hypotheses 5 and 6 were supported.

Table 1 Descriptive statistics and correlation matrix

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Firm size	1.00													
2 Firm age	0.44**	1.00												
3 Chemical	0.06	-0.08	1.00											
4 Consumer Goods	-0.01	-0.03	-0.29**	1.00										
5 Pharmaceutical	-0.16*	0.10	-0.45**	-0.07	1.00									
6 Past Performance	-0.01	-0.05	0.06	-0.04	-0.00	1.00								
7 Market Uncertainty	-0.16*	-0.08	-0.02	0.00	0.04	0.02	1.00							
8 Competitive Intensity	-0.10	-0.07	-0.07	0.08	0.03	0.11	0.34**	1.00						
9 Government Pressure	-0.02	0.03	-0.02	-0.15	0.11	-0.03	0.38**	0.09	1.00					
10 Low Cost Strategy	0.07	-0.10	0.03	0.01	0.03	0.06	0.32**	0.21**	0.28**	1.00				
11 CSR Strategy	0.11	-0.09	-0.11	0.04	0.01	-0.14	0.17*	0.15	0.32**	0.47**	1.00			
12 BD	-0.02	-0.03	0.05	0.08	-0.09	0.10	0.04	0.01	0.10	-0.05	0.41**	1.00		
13 CD	0.04	0.03	-0.04	0.01	-0.01	0.05	-0.16*	-0.13	-0.02	-0.38**	-0.18*	0.46**	1.00	
14 Firm performance	0.02	-0.09	0.10	-0.04	-0.05	0.28**	-0.09	-0.12	-0.03	0.16*	0.09	0.03	-0.05	1.00
Mean	7.53	3.11	0.66	0.17	0.09	0.06	5.15	5.26	5.73	5.78	5.56	3.75	0.44	0.03
SD	1.42	0.71	0.48	0.38	0.29	0.07	1.19	1.25	1.02	0.92	1.03	0.90	1.18	0.10

N=171, **p<0.01 *p<0.05

Table 2 Results of regression analysis of firm performance (ROA)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	VIF
Firm Size	0.13	0.09	0.11	0.11	0.09	1.417
Firm Age	0.09	- 0.12*	- 0.14**	- 0.13*	- 0.07	1.428
Industry_Chemical	0.09	0.09	0.10	0.10	0.05	1.533
Industry_Consumer goods	0.01	- 0.01	0.01	- 0.00	- 0.04	1.218
Industry_Pharmaceutical	0.03	0.04	0.04	0.04	0.01	1.447
Past Performance	0.28***	0.26***	0.26***	0.25***	0.26***	1.059
Market Uncertainty	- 0.04	- 0.08	- 0.05	- 0.09	- 0.11*	1.404
Competitive Intensity	0.02	0.04	0.04	0.06	0.08	1.442
Government Pressure	0.06	0.07	0.05	0.10	0.16**	1.243
Low Cost Strategy	0.18**	0.14*	0.15**	0.11*	0.11	1.418
CSR Strategy	- 0.06	0.02	- 0.04	0.02	0.02	1.333
Direct effect						
Balance Di of Hybrid Strategy (BD)		0.19**		0.17**	0.20***	1.418
Combined Di of Hybrid Strategy (CD)			0.18***	0.16**	0.13**	1.146
Moderating effect						
BD × Competitive Intensity					0.15**	1.198
CD × Competitive Intensity					- 0.07	1.286
BD × Government pressure					- 0.20***	1.174
CD × Government pressure					0.17**	1.286
R ²	0.13	0.16	0.16	0.18	0.25	
Δ R ²		0.03**	0.03**	0.05***	0.07***	
F	2.21***	2.52***	2.54***	2.70***	3.04***	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ (two tailed)

To further explore the nature of the significant moderating effects, we used the variance and covariance matrix of regression coefficients resulting from the regression analysis to run simple slope tests following the procedure recommended by Preacher, Curran, and Bauer (2006). The pattern of the significant moderating effect of competitive intensity on the relationship between BD and firm performance is illustrated in Fig. 1. When competitive intensity was at low level (i.e., one standard deviation below mean), BD was insignificantly related to firm performance (simple slope = .005, $t = .53$, $p = .60$). When competitive intensity increased to moderate level (i.e., mean), BD became significantly and positively related to firm performance (simple slope = .017, $t = 2.47$, $p < .05$), and this positive relationship became stronger (simple slope = .030, $t = 2.90$, $p < .01$) when competitive intensity reached a high level (i.e., one standard deviation above mean). We also followed the recommendations of Preacher et al. (2006) to examine regions of significance using the Johnson–Neyman technique, which flips the logic of a simple slopes test by identifying the points, over the range of scores on a moderator variable (if any), at which the slopes for a predictor variable become significant. This technique revealed that the slopes for BD–firm performance relation became significantly positive

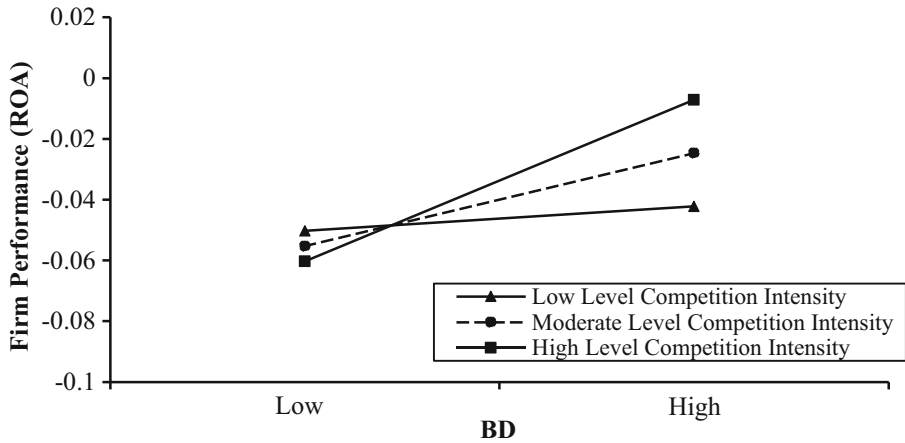


Fig. 1 Moderating effect of competitive intensity on the relationship between BD and firm performance

for values of competitive intensity that were at or above a standardized score of -0.36 ($p < .05$), below which the slopes were insignificant. Based on this finding, for BD to significantly increase firm performance, only moderate or lower levels of competitive intensity are required.

In contrast, according to the results of simple slope tests, the pattern of the significant moderating effect of government pressure on the relationship between BD and performance shows an opposite trend, which is illustrated in Fig. 2. When a firm was confronted with a low level of government pressure on CSR, BD was positively related to firm performance and the effect was statistically significant (simple slope = $.030$, $t = 3.75$, $p < .01$), and this positive relationship weakened but was still significant when government pressure increased to a moderate level (simple slope = $.017$, $t = 2.47$, $p < .05$). However, when government pressure on CSR confronted by a firm reached a high level,

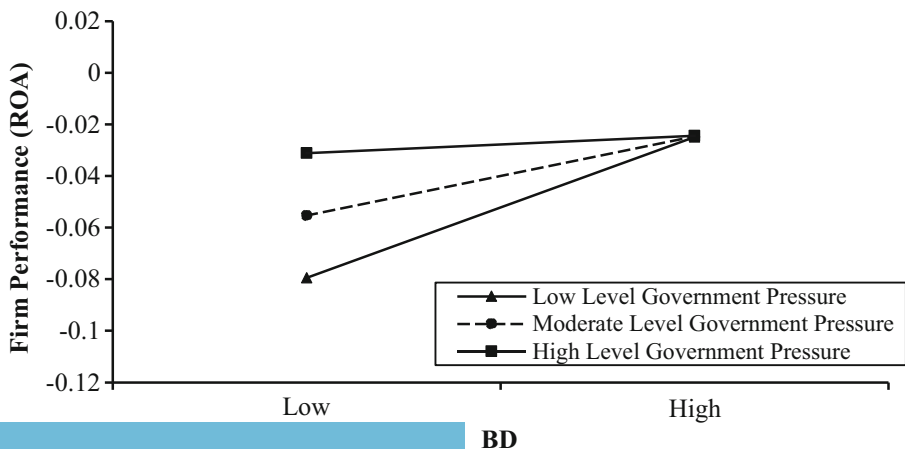


Fig. 2 Moderating effect of government pressure on the relationship between BD and firm performance

BD became insignificantly related to firm performance (simple slope = .004, $t = .42$, $p = .68$). For this moderation, we also used Johnson-Neyman Technique to examine the regions of significance. The technique revealed that the slopes for BD-firm performance relation became significantly positive for the values of government pressure that were at or below a standardized score of 0.23 ($p < .05$), and the slopes became significantly negative for the values of government pressure that were at or above a standardized score of 6.15 ($p < .05$). Thus, for all effective purposes, only moderate to low levels of government pressure produced an effect of BD on firm performance, and this effect was positive.

The simple slope tests also revealed a pattern of the significant moderating effect of government pressure on the relationship between CD and firm performance, which is illustrated in Fig. 3. When government pressure was at a low level, CD was insignificantly related to firm performance (simple slope = $-.003$, $t = -.47$, $p = .64$). When government pressure increased to a moderate level, CD became positively and significantly related to firm performance (simple slope = $.009$, $t = 1.79$, $p < .1$), and this positive relationship strengthened when government pressure reached a high level (simple slope = $.021$, $t = 2.60$, $p < .05$). To further probe the significant interaction, we again examined regions of significance using the Johnson-Neyman Technique. The technique revealed that the slopes for CD-firm performance relation became significantly positive for the values of government pressure that were at or above a standardized score of 0.10 ($p < .05$), and became significantly negative for the values of government pressure that were at or below a standardized score of 7.01 ($p < .05$). Based on these findings, and for all effective purposes, only moderate to high levels of government pressure produce a positive effect of CD on firm performance. We also conducted variance inflation factor (VIF) analysis for Model 5 and, as Table 2 shows, the VIF values for all of the explanatory variables were below 2, indicating multicollinearity was not a concern in our study.

In summary, we found strong empirical support for five out of the six hypotheses.

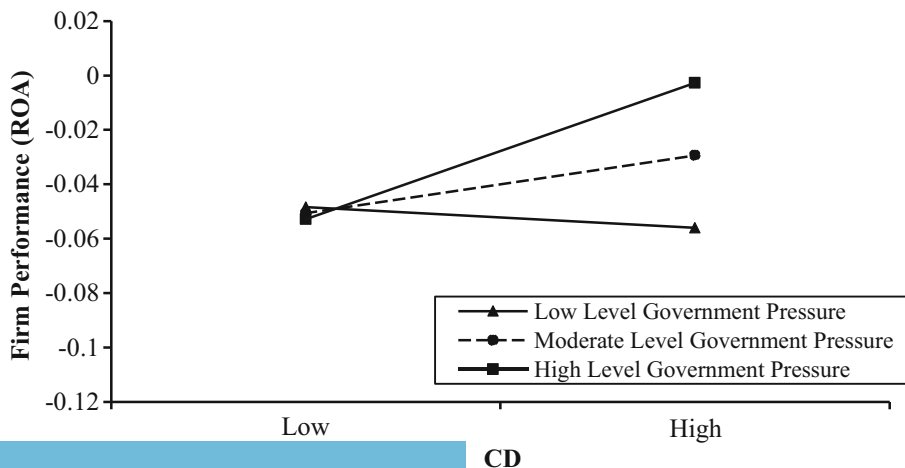


Fig. 3 Moderating effect of government pressure on the relationship between CD and firm performance

Discussion

Theoretical implications

The hybrid strategy has increasingly become a weapon a firm can use in its battle to survive in a complex market, and many researchers have extensively elaborated or demonstrated its legitimacy and superiority over the single competitive strategy (Claver-Cortés et al., 2012; Gabrielsson et al., 2016; Hill, 1988; Miller & Dess, 1993; Spanos et al., 2004). This study focuses on a firm's hybrid strategy that integrates both a low cost and a CSR strategy, and explored its relationship with firm performance. By combining the ambidexterity perspective and contingency theory, we reveal the underlying mechanisms through which a firm can benefit from a hybrids of low cost strategy and CSR strategy where both tensions and relatedness coexist. Our study makes three main contributions to the literature.

First, this study contributes to the literature on hybrid strategic management by developing a specific and multi-dimensional configuration of hybrid strategies. As mentioned, researchers have explored the relationship between hybrid strategies and firm performance, but they have often focused on hybrids of low cost strategies and generic differentiation strategies, and their empirical findings are mixed in that they have variously found positive, negative, and curvilinear relationships between hybrid strategies and firm performance (Acquaah & Yasai-Ardekani, 2008; Dess & Davis, 1984; Gabrielsson et al., 2016; Spanos et al., 2004; Thornhill & White, 2007; Wright, Kroll, Tu, & Helms, 1991). These mixed findings may be due to the insufficient academic attention received by 1) the specific differentiation factors in hybrid strategies and 2) the specific ways in which strategies are combined in hybrid strategies. Inspired by the strong rise of public CSR awareness in emerging markets such as China and the literature on organizational ambidexterity, this study introduces a new and specific configuration of the hybrid strategy that focuses on the hybrid of a low cost strategy and a CSR strategy and on its two dimensions, BD and CD, to explore the different ways in which a firm can benefit from such a strategy. Thus, this study not only facilitates a better understanding of the relationships between hybrid strategies and firm performance but also lays a solid foundation for further research on additional configurations of hybrid strategies.

Second, by developing an ambidexterity perspective on hybrid strategies, this study provides empirical evidence that organizational ambidexterity, including BD and CD, and their corresponding underlying mechanisms, compensatory fit and supplementary fit, can play important roles in predicting firm performance in the context of hybrid strategies. As an initial attempt to apply an ambidexterity perspective to strategic management, where tensions and interrelations between different competitive strategies coexist, this study responds to the research call of Simsek et al. (2009) and Hahn et al. (2016) by extending the implications of organizational ambidexterity and its contribution to firm performance to new fields, and it provides insightful empirical evidence of the advantages of organization ambidexterity.

Third, this study develops the contingency perspective in the strategic management literature. Previous research has demonstrated that both market and political factors can play key contingent roles in altering the efficiency of competitive strategies (Chan et al., 2012; Flammer, 2015; Hill, 1988; Li et al., 2008; Spanos et al., 2004; Li & Zhou,

2010). However, these researches have been limited to the relationships between single strategies and firm performance. This study empirically verified the significant contingent effects of competitive intensity and government pressure on the relationships between BD/CD and firm performance, thus revealing that contingency theory should not be restricted to the research of single strategies but instead be extended to the context of hybrid strategies.

Managerial implications

Customers expect firms to proactively engage in CSR and to provide products or services with attractive prices, and thus firms are increasingly motivated to simultaneously pursue low cost and CSR strategies. As there are considerable tensions between these two strategies, pursuing them simultaneously is not straightforward and requires firm managers to consider them carefully. The findings of this study provide important implications for managers seeking to achieve superior performance from their firms' simultaneous pursuit of low cost and CSR strategies.

Managers must be aware that the combined magnitude (CD) is significant in achieving superior firm performance. Our findings imply that the hybrid strategy may lead to situations where performance may be harmed. When a firm simultaneously pursues a high-level low cost strategy and a moderate-level CSR strategy, the performance derived from this hybrid strategy may suffer from an unbalanced emphasis on the two strategies. This study therefore suggests that managers should not blindly pursue the combined effect of low cost and CSR strategies, but should instead take the relative magnitude of the two strategies into consideration.

Moreover, it is imperative that managers keep in mind that their firms' market factors and political environments are critical in guiding their concurrent pursuit of low cost and CSR strategies. Our findings suggest to managers that it is imperative to balance the two types of strategies when competitive intensity reaches a high level. When competitive intensity is low, deliberately balancing low-cost strategy and CSR strategy is not recommended because this does not significantly change performance. However, when firms suffer from a high level of government pressure on CSR, the combined effects of the low cost and CSR strategies are imperative for managers, but they need not deliberately pursue this balance. When government pressure on CSR is at a low level, we suggest that managers temporarily forget the combined magnitude of low cost and CSR strategies, and focus their efforts on striking a balance between them.

Limitations and future research

The limitations of this study must be considered when interpreting the results. First, although we include two external environment factors as important moderators, their potential interaction effect is not considered in our study. Further studies can combine these two contingency variables and explore the effect of their interaction on the efficiency of hybrid strategies. Second, a firm's implementation of low cost and CSR strategies may involve many other internal and external variables. In this study, only two contingent variables are investigated, and the possible moderating effects of other contextual factors remain unknown. Future studies may explore other potential moderators to provide more theoretical and practical guidance for the management of

relevant hybrid strategies. Third, testing the conceptual model and hypotheses with data from a single country may limit the generalizability of our findings. Future studies can collect data from firms in other countries or from cross-country firms to retest, refine, and enrich the conceptual model.

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Compliance with ethical standards

Conflict of interest The authors declare that they have no conflict of interest.

Appendix

Measurement items and reliability and validity assessments.

Construct and Items	Loading
<i>Low cost strategy</i> (Cronbach's $\alpha = 0.86$, CR = 0.90, AVE = 0.64)	
During the past three years:	
1. Improving the operating efficiency of the business is a top priority for our firm.	0.80
2. We have a continuing overriding concern for operating cost reduction.	0.73
3. We continuously seek to improve production processes so that we can lower costs.	0.78
4. Achievement of economics of scale or scope is an important element of our strategy.	0.85
5. We closely monitor the effectiveness of key business processes.	0.84
<i>CSR strategy</i> (Cronbach's $\alpha = 0.84$, CR = 0.89, AVE = 0.61)	
During the past three years:	
1. Our firm has integrated CSR issues into our strategic planning process.	0.79
2. At our firm we make every effort to link CSR objectives with our other corporate goals.	0.75
3. Our firm has a clear policy statement urging CSR awareness in every area of operations.	0.73
4. CSR is a high priority activity in our firm.	0.84
5. At our firm we make a concerted effort to make every employee understand the importance of CSR.	0.78
<i>Competitive intensity</i> (Cronbach's $\alpha = 0.81$, CR = 0.89, AVE = 0.72)	
During the past three years:	
1. Competition in our industry is cutthroat.	0.86
2. Anything that one competitor can offer can be matched readily by others.	0.85
3. One hears of a new competitive move almost every day.	0.84
<i>Government pressure on CSR</i> (Cronbach's $\alpha = 0.75$, CR = 0.86, AVE = 0.67)	
During the past three years:	
1. CSR related regulation has greatly affected the continued growth of our firm.	0.83
2. Stricter CSR related regulation is a major reason why our firm is concerned about its impact on the society and the natural environment.	0.84
3. Our industry is faced with strict CSR related regulation.	0.77

Construct and Items	Loading
<i>Market uncertainty</i> (Cronbach's $\alpha = 0.82$, CR = 0.92, AVE = 0.79)	
During the past three years:	
1. In our kind of business, customers' product preferences change quite a bit over time.	0.83
2. Our customers tend to look for new product all the time.	0.92
3. It is difficult to predict changes of the market.	0.91

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