COMMENTARY

Organizational capacity for change and strategic ambidexterity

Flying the plane while rewiring it

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Abstract

Purpose – Successful firms must exploit existing markets while simultaneously exploring new market opportunities. However, skills required to do both simultaneously are often at odds with each other. To reconcile this dilemma, the authors aim to discuss the new concept of "strategic ambidexterity", which is conceptualized as the ability to simultaneously pursue exploitation and exploratory strategies in ways that lead to enhanced organizational effectiveness.

Design/methodology/approach – The authors conceptually integrate literature from organizational theory, strategic management, and marketing to yield three new theoretical propositions.

Findings – It is argued that a relatively new dynamic capability, organizational capacity for change, is the primary antecedent of strategic ambidexterity and that this relationship is moderated by environmental uncertainty and organizational slack.

Originality/value – Most organizational and marketing theories rely on linear assumptions and models. However, twenty-first century organizations must reconcile competitive realities that are often nonlinear in nature. This study provides a conceptual framework which transcends traditional thinking, and provides a comprehensive yet concise framework for researching this new competitive reality further.

Keywords Strategic planning, Organizational change, Organizational effectiveness, Critical success factors

Paper type Conceptual paper

Today's strategic leaders face a daunting challenge. On one hand, they face the immediate pressures of delivering value to increasingly sophisticated and globally diverse customers while accelerating the return on these efforts for financial stakeholders. On the other hand, strategic leaders must identify and prepare for disruptive technologies and emerging market opportunities over the long-term. Put simply, overall organizational effectiveness requires firms to be efficiently responsive to current markets while effectively preparing for new markets on the horizon (Naman and Slevin, 1993).

Unfortunately, discussion around these two strategic orientations often focuses on whether firms ought to pursue the strategic goals of market exploitation or market

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exploration in a given context. Many assume they are mutually exclusive. This is perhaps due to the fact that exploitation and exploration strategies are typically associated with dramatically different organizational structures, cultures and systems (Kyriakopoulos and Moorman, 2004). Similarly, firms that pursue both exploitation and exploration are often seen as lacking good external organization-environment or internal organizational fit (Lawrence and Lorsch, 1967). Despite the longstanding argument that the key functions of business involves satisfying existing customers while seeking innovative new products and markets, a key question confronting many organizations today is how an organization can excel at both, simultaneously.

Reconciling strategic tensions

Recently, Aulakh and Sarkar (2005, p. 4) advanced the notion of "strategic ambidexterity" (SA) which they define as "a firm's ability to combine exploration and exploitation strategies across product, market, and resource domains". In their empirical study of international expansion strategies of South American manufacturing firms, these authors found that certain combinations of exploration and exploitation strategies were associated with superior firm performance. To our knowledge, this is the first conceptual and empirical solution to the dilemma posed by the exploitation and exploration imperatives.

While this development is encouraging, several important questions remain. First, no known studies have explored potential antecedents of strategic ambidexterity so little is known about how it might be created. Also, virtually nothing is known about what kind of contextual factors influence strategic ambidexterity. Finally, the SA concept is being formally and informally explored in the organizational theory, strategic management, and marketing literatures with no cross fertilization of ideas. Clearly, some integration of these literatures is needed to avoid redundancy and promote cross fertilization of ideas. Consequently, this research seeks to fill this void in the literature by:

- elaborating on the concept of SA;
- identifying a potential antecedent and moderators of SA; and
- integrating disparate literatures into a coherent whole.

Following Aulakh and Sarkar (2005), we conceptualize SA as the ability to simultaneously explore and effectively pursue new market opportunities while efficiently exploiting existing markets. The concept of SA builds on an extensive and growing marketing literature, which is increasingly interested in understanding the balance between exploitive and exploratory strategies (Berthon *et al.*, 2004; Bhuian *et al.*, 2005). In addition, it builds on literature within organizational theory and strategic management (Gibson and Birkinshaw, 2004; March, 1991; Miller, 1992). Together, these literatures offer a comprehensive perspective of SA.

Organizational capabilities and strategic orientation

One of the oldest dictums of strategic management is that organizational strategy and structure should be aligned (Andrews, 1971). However, the strategic landscape now appears to require the pursuit of multiple strategic orientations so that there is a "loose-tight" fit between strategy and structure (Arogyaswamy and Byles, 1987). While organizational structure is clearly important, we think that the more current organizational capabilities research is more likely to reconcile these divergent strategic imperatives.

Organizational capabilities and exploitive strategies

The notion that customers should occupy a central place in corporate strategy dates back to Drucker's (1954) discussion on obtaining and retaining customers as the central purpose of business. The marketing discipline examines these ideas and their many facets through the core concept of "market orientation" (e.g., Narver and Slater, 1990). In this paper, for the purposes of integrating discussion of SA from several literature bases, we refer to market orientation as an "exploitive" strategy. An exploitive strategy can be conceptualized as:

- a unifying frame of reference that emphasizes serving the customer through understanding their needs and creating value for them (Slater and Narver, 1999);
- a set of organization-wide processes involving the generation, dissemination, and responsiveness to market intelligence (Jaworski and Kohli, 1993); and
- an organizational capability that enables the firm to compete through understanding market requirements and forging relationships with customers, channel members, and suppliers (Day, 1994).

Several studies have identified marketing-related capabilities as keys to competitive advantage. Capabilities previously identified include: customer service, product branding, new product development, relational assets (e.g. customers, networks, supply-chain), and intellectual assets (e.g., Ray *et al.*, 2004). A key idea throughout this research is that firms with exploitive strategies seek a tight alignment with customers and expect this alignment to lead to valuable and rare competitive advantages.

However, some marketing and strategy scholars argue that there are considerable strategic risks to an exclusive focus on market exploitation. Evidence shows a firm's over-emphasis on this strategic orientation can lead to an unhealthy, escalating commitment, described by Hamel and Prahalad (1994) as the "tyranny of the served market". Their argument is that firms can be rightfully preoccupied with exploiting core capabilities to serve customers profitably. Yet, in the process, they can get so focused on tightly aligning with served markets that its core capabilities become "core rigidities", that limit visibility of the market's periphery, where major opportunities and threats emerge (Leonard-Barton, 1992).

Similarly, some evidence shows the influence of current customers can adversely shape the trajectory of competence renewal (Danneels, 2002), lead to myopic R&D efforts (Frosch, 1996), or possibly cause firms to get stuck in a loop of developing incremental new products to serve existing customer needs (Christensen and Bower, 1996).

Overall, the literature suggests that an exploitive strategy often leads to superior value delivery and performance in the short-term. However, recent evidence regarding an over-emphasis on served markets suggests its viability for long-term performance is questionable. This research suggests that firms need capabilities to do more than just exploit existing markets.

Organizational capabilities and exploratory strategies

An exploratory strategy takes a different approach to creating value whereby managers devote their energy to innovation through experimentation, taking creative risks, and being proactive in identifying and serving new markets (Covin and Slevin, 1989). Discussion of this strategic orientation usually focuses on issues such as developing innovative products, discovering new technologies, and finding untapped markets. Unlike an exploitation strategy, an exploratory strategy advocates maintaining loose linkages with current customers and pursuing market adaptability. The key idea is that by maintaining loose linkages, firms can remain flexible and adapt to a dynamic environment, as well as seize opportunities or avoid distant threats that lie on the market's periphery (Danneels, 2003).

Despite the apparent long-term benefits of an exploratory strategy, a significant obstacle to innovation is that firms are often unable to effectively financially appropriate the value they create. In these cases, firms fail to erect isolating mechanisms, and the value created through innovation is claimed by customers and competitors before any profit is realized (Ghemawat, 1991). Similarly, firms can get caught in a cycle of cannibalizing their previous products with new product introductions. Also, having loose linkages with customers is inherently less efficient than an exploitive strategy, and recent research suggests that financial markets reward firms for shifting away from long-term value creation to short-term value appropriation (Mizik and Jacobson, 2003).

Finally, firms that overemphasize the technology aspects of an exploratory strategy to the exclusion of market feedback can fall into a "product orientation", whereby its products and services fail to match up with the actual benefits sought in the marketplace (Kotler and Armstrong, 1996). So, while an exploratory strategy seems critical for firms hoping to survive long-term, strategic leaders enacting this strategy may struggle to compete today given the inefficiencies of this approach and pressure for short-term results from financial institutions.

Organizational capabilities and strategic ambidexterity

Within the strategic management and organizational theory literatures, significant attention has been given to managing the trade-offs of conflicting demands (March, 1991; March and Simon, 1958). For example, Gibson and Birkinshaw (2004) explored an overarching tension between the goals of organizational alignment and organizational adaptability, and theorized that successful organizations are ambidextrous to the extent they can effectively reconcile the two. Others characterize this tension as a balance between incremental and radical organizational change and reason that the tension lies in the fact that a firm's productivity gains can inhibit its flexibility to innovate (Benner and Tushman, 2003).

Adler *et al.* (1999) explored the trade-offs between organizational efficiency and effectiveness through an in-depth case study of the Toyota Production System within the NUMMI automobile manufacturing facility in California. They discovered that the keys to successfully balancing these two imperatives are extensive investments in training, the continuous enhancement of organizational trust, leadership and management skill, and an innovative culture that contains accountability checks. Mayrhofer (1997) argued that that best way to be both efficient and effective is by maintaining a dynamic balance of organizational polarities – having structured and unstructured activities; seeking diversity and coherence; and emphasizing the presence of tight fits while allowing for organizational slack when necessary. We think that Mayrhofer is pointing out something important that has been neglected in the literature, and we build upon this insight in the following section.

Organizational capacity for change and strategic ambidexterity

The central tenet behind the resource based view is that a firm's bundle of resources can yield one or more capabilities to serve as the driving force behind competitive advantage(s) and superior performance (Wernerfelt, 1984). Current resource-based research reveals that some of the most valuable resources are dynamic capabilities. Dynamic capabilities foster congruence between the firm's strategy and the changing business environment and enable a firm to alter its capability base through the: integration, adaptation, reconfiguration, gaining, and shedding of resources to generate new value-creating strategies (Teece *et al.*, 1997). More pertinent to this discussion, dynamic capabilities have been linked to discussions of balancing strategic exploitation and exploration (Benner and Tushman, 2003). For example, Brown and Eisenhardt (1998) propose that dynamic capabilities can enable a firm to rhythmically switch between exploratory and exploitive organizational strategies. However, we are interested in discovering what organizational capability allows simultaneous pursuit of both strategic orientations.

Organizational capacity for change (OCC) – precursor to strategic ambidexterity?

OCC has been defined as "a dynamic organizational capability that allows the enterprise to adapt old capabilities to new threats and opportunities as well as create new capabilities" (Judge and Elenkov, 2005, p. 893). OCC is a new and relatively comprehensive organizational construct emerging from the resource based perspective that addresses many organizational issues confronting strategic leaders today.

OCC is related to several other organizational change constructs, but it is distinct in its overall scope and implications. For example, it is similar to "readiness for change" (Weeks *et al.*, 2004) in that it proposes key dimensions for change preparation and assists in diagnosing a change situation. However, it goes beyond an individual level of analysis to describe an organizational unit's collective capacity for change. Also, the OCC construct is comparable to "organizational adaptive capacity" (Staber and Sydow, 2002) and "capacity for change" (Meyer and Stensaker, 2006), however, OCC has been operationalized and tested empirically.

OCC integrates eight key dimensions of organizational change key into four organizational polarities:

(1) a leader and follower polarity;

(2) an innovation and accountability polarity;

(3) a unitary and distributed leadership polarity; and

(4) a thinking and action polarity.

Opposing poles along OCC dimensions represent corresponding concepts that serve as the "other side of the coin". For example, an accountable culture complements one that values innovation. That is, each dimension calls for a complementary dimension, without which it can not be effective in supporting organizational learning and change efforts.

Given the nascent nature of OCC research, there is limited evidence about how these dimensions interact and the resulting outcomes and interactions that occur when various levels are achieved. However, based on their use in the literature, it is theorized here that in reconciling internal organizational polarities that the polarity of exploitation and exploration will be reconciled as well.

Theoretical propositions

As discussed previously, strategic leaders in the 21st century are exhorted to simultaneously exploit market opportunities while exploring new market opportunities. This complex but undeniable challenge requires the ability to manage polarities within the organization and across the organization-environment interface (Johnson, 1992). The following discussion investigates how these polarities might be managed and what some moderating influences might be.

Organizational capacity for change and strategic ambidexterity

As previously discussed, OCC is a dynamic organizational capability that may allow firms to both explore and exploit market opportunities. While sensing the need to change is undeniably the first step, recent authors have highlighted the dilemma that simply knowing "what to do" can fall painfully short of actually following through and experiencing success (Pfeffer and Sutton, 2000). Thus, actually implementing change efforts to reconfigure and renew exploitive and exploratory strategies is likely the biggest hurdle in a firm's pursuit of strategic ambidexterity. In fact, this stage is likely where most change efforts fall short and firms end up as using the more common "either/or" approach as opposed to the "genius of the and" approach (Collins and Porras, 1994). Furthermore, the ability to manage organizational polarities may facilitate the ability to manage strategic polarities, such as simultaneously exploiting and exploring market opportunities. In sum, this relationship can be stated more formally as:

> *P1.* An organization's capacity for change is positively related to its strategic ambidexterity.

Moderating impact of environmental uncertainty

An organization and its environment are constantly changing. As a result, the organization-environment interface must change. Often, the environment changes more quickly and less predictably than the organization does, so the organization must "catch up" to its environment. During this catch-up phase, the organization sometimes attempts to fit more closely with its environment. However, the organization may neglect its internal fit as it searches for better external fit, as suggested in the organizational ambidexterity literature (Gibson and Birkinshaw, 2004). The same can be true as firms seek improved internal fit between structures and processes, often at the expense of external fit (Miller, 1992). This external-internal fit paradox implies that environmental uncertainty may moderate the relationship between OCC and SA.

Volberda (1996) argued that to maintain "functional" flexibility, the firm must resolve paradoxes and balance dualities. He asserted that tensions created by this paradox increase when the environment becomes less predictable and hypercompetitive. In addition, Jansen *et al.* (2005) recently found that environmental dynamism, a similar concept to environmental uncertainty, was positive related to an organizational unit's ambidexterity. This suggests that firms confronted by increasing environmental uncertainty might focus more on short-term performance needs via exploitive strategies and abandon efforts to explore new product-markets as a way of buffering the unit from an uncertain future (Thompson, 1967).

However, organizations with relatively high levels of change capacity might be able to dynamically respond to the increasing pressure for an exploitive strategy while simultaneously protecting initiatives to seek out and explore new product-markets. In other words, they could handle the tension of these seemingly conflicting imperatives and retain the ability to not only function, but thrive. We believe that the concept of "organizational resilience capacity" is quite similar to the OCC concept, and organizational resilience capacity has been posited to be critical to organizational effectiveness in high uncertainty environments (Lengnick-Hall and Beck, 2005). Overall, this suggests the following moderated relationship:

P2. The relationship between an organization's capacity for change and strategic ambidexterity will strengthen during periods of high environmental uncertainty and weaken during periods of low environmental uncertainty.

Moderating impact of organizational slack

One of the keys to organization effectiveness is an organization's capacity to absorb environmental variation (Thompson, 1967). This ability to adapt to dramatic shifts in the environment is frequently called organization slack (Bourgeois, 1981). Cyert and March (1963) considered all organizations as coalitions of individuals, and these individual's and coalition's behaviors are highly influenced by the presence or absence of organizational slack.

Organization slack has been shown to be empirically related to a wide variety of organizational processes and outcomes. With respect to processes, slack has been found to be negatively associated with political behavior within top management teams (Bourgeois and Singh, 1983), positively related to organizational responsiveness to the environment (Cheng and Kesner, 1997), and curvilinearly related with organizational innovation (Nohria and Gulati, 1996). Also, slack has been found to both facilitate and inhibit firm growth (Mishina *et al.*, 2004), as well as influence firm risk and return (Wiseman and Bromiley, 1996).

A relentless pressure has been imposed on all organizations over the last two decades to become more efficient by eliminating all waste. Consequently, many organizations are quite "lean" compared to organizations of the past. One of unanticipated outcomes of this lean state is the elimination of slack resources necessary to cope with environmental change and innovate for the future. Thus, organizations often lack the time to think and the discretionary financial and human resources to experiment (Lawson, 2001).

This theory and research suggests that organizational slack might be an important moderator of the relationship between an organization's capacity for change and its strategic ambidexterity. For example, in high slack conditions, it might be easier to engage the organization in the pursuit of both the exploitation and exploration of existing and new product-markets even during a recession, as recent research by Srinivasan *et al.* (2005) suggests. In sum, slack resources might provide the wherewithal by which political behavior is minimized, training is provided to employees to learn new skills, trust is more freely given to organizational leaders, high performers are rewarded for taking risks and going the extra mile, and the subtle but important system interdependencies are all addressed adequately. This suggests our third and final theoretical proposition:

> *P3.* The relationship between an organization's capacity for change and strategic ambidexterity will be stronger for relatively high levels of organizational slack, and weaker for relatively low levels of organizational slack.

Discussion and conclusions

Barney and associates (2001, p. 631) suggest that "to the extent some firms in a rapidly changing environment are more nimble, more able to change quickly, and more alert to changes in their competitive environment, they will be able to adapt to changing market conditions more rapidly than competitors, and thus can gain competitive advantage". Capturing the dimensions that allow firms to approach this goal is what the OCC dynamic capability endeavors to provide. Yet, research in this regard is in its infancy, and there is much work to do to understand how firms might go through rapid and effective change to keep up with dynamic markets.

This study offers at least three contributions to the strategic marketing literature. First, it represents a unique perspective on how to resolve the dilemma to both exploit existing markets while simultaneously exploring new markets. As such, we build on the emerging concept of "strategic ambidexterity" to capture this approach.

Second, we argue that the key means by which an organization becomes strategically ambidextrous is by cultivating organizational capacity for change. This new construct allows a firm to transcend the many dualities that it confronts (Graetz and Smith, 2005). While it may be possible to sequentially pursue these conflicting strategic imperatives, as suggested by the simulation study by Siggelkow and Levinthal (2003), we think that simultaneous pursuit of these diametrically different strategic imperatives will prove more effective. As such, we build upon the dynamic capabilities perspective and couple it with Ashby's (1963) law of requisite variety to advance three novel, empirically-testable, and managerially-useful propositions.

Finally, we discuss some potential moderating conditions external to and internal to the organization which may influence the capacity for change-strategic ambidexterity relationship. All of this theory is advanced by considering and integrating literature from the marketing, strategic management, and organization theory perspectives.

It is said that “the ability to hold two competing thoughts in one’s mind and still be able to function is the mark of a superior mind” (Fitzgerald, 1956). We believe that this ability for organizations to manage seemingly contradictory polarities in a productive fashion is the hallmark of good marketing and strategic management, and the key to sustained competitive advantages in the 21st century. This study offers new insights into how those organizational polarities might be managed and what contextual factors might affect the situation. We encourage other scholars to empirically test our ideas so that these ideas can be refined and extended.

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