Organizational Ambidexterity, Strategic Purity and Corporate Venture Units

Lennart Hinrichs

Abstract
This essay reviews existing literature of organizational ambidexterity. The two major research streams, structural or architectural ambidexterity and contextual ambidexterity, are portrayed and antecedents described. It is then put into context with the concept of competitive strategy and the idea of Porter’s generic strategies, with exploitation being connected to cost-leadership and exploration being connected to product differentiation. It is argued that a potential instrument to combine ambidexterity and strategic purity can be venture units that provide a structural ambidexterity for the whole organization, allowing the core business to maintain strategic purity. To be successful the venture unit itself needs to be contextually and relationally ambidextrous and keep close ties with the core organization. This idea allows to combine the two concepts of organizational ambidexterity and competitive strategy, therefore provides a potential explanation for the ambiguous findings regarding the influence of the two concepts on performance.

Introduction
On August, 10 2015, Google’s CEO Larry Page announced a new holding company, named Alphabet. According to Page, by doing this, Google intends to facilitate more independent venture and transparency (Economist, 2015). This move can obviously be interpreted as the institutionalization of a matured Google to address shareholders’ concerns about a lack of transparency of the costs of the research. With Google being an innovation powerhouse and the new parent company being divided into existing businesses (e.g. search engine) and new ventures (e.g. autonomous cars), it is also true, though, that this structure will allow innovation outside the bureaucracy of Google’s existing business and thus might be the manifestation of (structural) organizational ambidexterity. This research stream argues that a company needs to pursue the distinct activities of exploitation and exploration (March, 1991) to achieve a superior performance (He & Wong, 2004) and secure a long-term competitive advantage (Tushman et al., 2010). In the literature, two distinct ways of organizational ambidexterity are described, one being contextual (Gibson & Birkinshaw, 2004; He & Wong, 2004) and the other being structural (Tushman & O’Reilly, 1996). Google apparently moves from a more contextual ambidexterity towards a more structural approach.

The discussion about organizational ambidexterity has only developed in recent decades and is still quite fragmented and ambiguous about the effectiveness of the concept and its antecedents (Junni et al., 2013; O’Reilly & Tushman, 2013; Raisch & Birkinshaw, 2008). This essay will, in the light of
the recent restructuring of Google, address the latter linking it to competitive strategy to answer the following question:

How can venture units provide means to maintain strategic purity and stay competitive in the long term based on the ambidexterity premise?

Research has addressed organizational ambidexterity through numerous theoretical lenses, such as organizational learning, organizational design and strategic management, this essay takes the perspective of the former with particular focus on technological innovation. Of course, important implications of other research streams will also be addressed. Organizational ambidexterity is, furthermore, put into context with competitive strategy, to show possible ways of connecting the concepts to achieve superior short- and long-term performance.

This essay will address the distinction and relevance of exploitation and exploration, before providing about an overview about the literature about organizational ambidexterity.
The concept will then be evaluated in the context of competitive strategy providing venture units as possible solution to maintain strategic purity.

Theory
Although not coining the term ambidexterity in the context of organizational learning, March (1991) was the first to distinguish between exploration and exploitation. This distinction will be provided in the first section of this chapter. A general overview about organizational ambidexterity and the distinction of contextual (Gibson & Birkinshaw, 2004) and structural (Tushman & O’Reilly, 1996) will be given afterwards, before going into more detail regarding the antecedents of organizational ambidexterity and relevance for corporate venture units.

Organizational Ambidexterity
Differentiating between the “exploration of new possibilities and the exploitation of old certainties” (p.71), March (1991) laid the foundation for the concept of organizational ambidexterity. He argues that they are in a constant competition for scarce resources, be it explicitly in the form of investment or implicitly in the form of organizational decisions. Cao et al. (2009) highlight this problem for cash-constraint companies, coming to the conclusion like March that a careful balance of the two is required for a system to be successful and survive in the long-term. March elaborates on the differences, stating that they “vary not only with respect their expected values, but also with respect to their variability, their timing, and their distribution within and beyond the organization” (p.71).

A sole focus on exploration, in terms of inventing a new technology, as opposed to exploitation, in refinement of an existing technology (p.72), holds the danger of sacrificing today’s business for an uncertain future. March describes exploration as “systematically less certain, more remote in time, and organizationally more distant from the locus of action and adaption” (p.73), making exploitation the more natural choice in the distribution of resources. With the opposite extreme, focusing on exploitation entirely, a firm risks its long-term survival. Small exploitation successes generate path dependencies that can prevent optimal outcomes, a concept also known as success or competency traps (Wang et al., 2015).
Danneels (2002) explores the idea of exploitation and exploration in the context of product innovation, stating that “product innovation drives organizational renewal by exploiting and exploring firm competences” (pp.1095f). He describes exploration as the development of new competences whilst exploitation is based on existing resources (p.1104). He relates the degree of novelty to the dimensions technology and customers. A pure exploitation within this framework is a competence existing in the firm for both dimensions and a pure exploration a competence new to the firm in both dimensions. Otherwise, a company is either leveraging their customer or their technological competence (p.1105).

Lavie et al. (2010) define exploitation and exploration as a continuum (p.114f) and observe that organisations might move between the two in cycles. It has also been argued that there are synergetic effects between exploitation and exploration (He & Wong, 2004, p.482). Despite definitions that see exploitation as the mere reuse of ideas, implying all learning is achieved by exploration, it is reasonable to stick to the original definition by March (Lavie et al., 2010).

The idea of simultaneously pursuing exploitation and exploration led Tushman and O’Reilly (1996) to introduce their so-called ambidexterity premise that highlights the importance ambidexterity in achieving superior firm performance (p.24). They define the nature of exploitation as a (short-term) increase in alignment and fit of strategy, structure, and culture in an evolutionary way. They argue that managers must in the long run destroy this very alignment in order to maintain their competitive advantage or achieve a new one, potentially cannibalising existing business. An ambidextrous organisation is, therefore, required to have contradictory structures, processes, and cultures under the same roof, creating high tensions and putting a lot of pressure on the managers.

Tushman and O’Reilly suggest an architectural (structural) approach, separating the units that are exploiting from the one that are exploring. The structural ambidexterity can be achieved through either spatial separation or parallel structures, though (Raisch & Birkinshaw, 2008, p.391). Spatial separation means that units should be physically and culturally different without sharing management or incentive systems. The combining factor is the senior management team and the corporate culture (O’Reilly & Tushman, 2011). Parallel structures exist within a unit, providing different structures depending on the task (Gibson & Birkinshaw, 2004). This means that actors focus either on exploration or on exploitation (Andriopoulos & Lewis, 2009).

Gibson and Birkinshaw (2004) argue that the context is more important than then structure of the company in order to achieve superior financial performance from organizational ambidexterity. Exploration and exploitation should not be separated structurally and put in different business units. They define it as “the behavioural capacity to simultaneously demonstrate alignment and adaptability across an entire business unit” (p.209). The context provides guidance for individual behaviour. It consists of systems, processes, and beliefs. The idea is that there should be a balance of hard (discipline and stretch) and soft (support and trust) elements in order to provide a supportive context rather than a fixed structure. A shared vision is an example for providing a context. So with the contextual approach, ambidexterity is, generally, achieved by behavioural and social means (Andiopoulos & Lewis, 2009).
Thirdly, leadership was introduced as a means to achieve ambidexterity. The senior management or top management team is considered an important factor in providing the environment for organizational ambidexterity by providing social networks and interactions (Cao et al., 2010). The link between individual top management ambidexterity and organizational ambidexterity is magnified by contextual ambidexterity in the organization (Carmeli & Helevi, 2009). Thus, the concepts are of contextual and leadership-based ambidexterity are closely connected. In terms of organizational adaption and the balance between continuity and change, the top management is regarded as a promoter of discontinuous change, whilst the middle management is viewed a supporting incremental change and facilitating adaption by providing emotional balancing. (Raisch & Birkinshaw, 2008, p.380). Andriopoulos and Lewis (2009) find paradoxes of innovation such as strategic intent (profit vs. breakthroughs), customer orientation (tight vs. loose), and personal drivers (discipline vs. passion) that they suggest should be resolved with integration and differentiation tactics. This means that both extremes should either be embraced put into a context (integration) or be split into different units and, thus, structurally separated (differentiation). They also argue in a later study (2010) that paradoxical management approaches are required to overcome the innovation paradoxes, but that those differ from company to company. Overcoming cognitive contradictions is also present in Smith and Tushman’s (2005) research in which they suggest building coordination mechanisms to do this.

The idea of organizational ambidexterity contradicted several papers suggesting the simultaneous pursuit of exploitation and exploration is impossible (e.g. Hannan & Freeman, 1977; McGill, Slocum, & Lei, 1992; Miller & Friesen, 1986; according to Raisch & Birkinshaw, 2008, p.378), leading to the idea that firms should focus on one or the other (Burns & Stalker, 1961; Denison, Hooijberg, & Quinn, 1995; Ghemawat & Ricart i Costa, 1993 according to Raisch & Birkinshaw, 2008, p.378). Furthermore, some research suggests that knowledge should be sourced outside the company or that companies should switch between the exploitation and exploration, highlighting the aforementioned cyclical nature of the concept (according to Raisch & Birkinshaw, 2009, p.390).

There are several moderators to the concept of organizational ambidexterity such as the dynamism of the environment and then competitiveness of the environment (Jansen et al., 2006). Since dynamic environments make existing products obsolete (Jansen et al., 2005b), such situation lead to higher financial returns from exploration and decreasing returns for exploitation (Jansen et al., 2006, p.1664).

Despite the ambiguous empirical findings on the impact of organizational ambidexterity, the concept provides valuable insights into how a company can achieve exploration and exploitation at the same time. The concept does not give an indication how the innovation achieved by this can be embedded into the corporate strategy, though.

**Organizational Ambidexterity and Competitive Strategy**

The Jansen et al. findings lead us to the idea how ambidexterity can influence a firm’s strategy. The original postulate of Porter’s (1980) generic strategies says, that companies should either focus on cost leadership or product
differentiation. In terms of innovation, this means that they should either focus on exploitation (improving processes, achieving more efficiency) or exploration (superior and unique product) (Thornhill & White, 2007). He and Wong’s (2004) study finds that indeed exploration is connected to product innovation while exploitation is connected to process innovation. Numerous studies have found weaknesses in Porter’s line of argumentation, though, pointing to the fact that a hybrid strategy does not necessarily translate into a ‘stuck-in-the-middle’ situation (Pertusa-Ortega et al., 2009). He and Wong (2004) on the other hand argue that companies might indeed end up worse trying to implement organizational ambidexterity if it is not properly managed, although, concluding that appropriately managed it generate superior results. Other research also found that strategic purity translates into better performance (Thornhill & White, 2007). Santos-Vijande et al. (2012) argue that organizational learning allows companies to pursue both a cost leadership and a differentiation strategy, with organizational ambidexterity as a possible way to prevent the ‘stuck-in-the-middle’-problem.

Applying the March (1991) idea that it is absolutely necessary to pursue both exploitation and exploration to stay competitive in the long term, it is, therefore, important for all companies, even those who follow a pure cost-leadership strategy, to find ways to achieve exploration without harming the exploitation of current resources. Corporate venture units might provide such an opportunity.

**Venture Units and Ambidexterity**

Corporate venture units, such as the Google ‘moonshots’ ventures, are a common vehicle to achieve exploration. Mudambi and Swift’s (2014) argument of cyclical spending peaks that occur when an organisation switches from exploitation to exploration, also known as temporal separation (Hill & Birkinshaw, 2014, p.1902) can be put into this context. Although, organizational ambidexterity suggests the simultaneous pursuit of both exploration and exploitation, setting up new venture units to pursue explorative innovation creates initial costs that might become visible in the form of increase research and development spending. This does not necessarily translate into the transition from exploitation to exploration that Mudambi and Swift assume, though. Ambidexterity could still be present, especially as argued before within the newly founded venture.

According to Hill and Birkinshaw (2014) the success rate of the venture units is little, since they behave too exploratory, being too far from the core business or not fit to being integrated into the operations. The argument is that because they are no independent venture capitalists they are required to exploit their parent company’s resources, creating the very tension within the venture unit that makes organizational ambidexterity so difficult. Hill and Birkinshaw suggest that this can only be achieved by “nurturing a supportive relational context” (p.1901) which derives from the idea of contextual ambidexterity. In doing so a venture unit can overcome the social and cognitive obstacles that are associated with exploration and innovation and achieve the necessary optimal distinctiveness (p.1904). They use the survival of an entity as indicator for the success, coming to the conclusion that the relational context is most important. It refers to ties with other parties that are long-term and subjectively judged. They argue that the relational context
in which the unit is embedded provides resources and enables the unit to develop capabilities. Especially, interaction of the managers of the unit with senior executives, other business units, and members of the venture capital community increases the probability of a venture unit’s survival (Hill & Birkinshaw, 2014, p.1921). Besides the social or relational aspect of organizational ambidexterity, Hill and Birkinshaw (2014) highlight the importance of integration innovations created in the venture units into the existing product portfolio in order to achieve legitimacy.

**Discussion**

For companies that focus on cost-leadership strategy those venture units might provide a good alternative, allowing them to keep strategic purity in their core-business, focusing solely on process-optimisation (exploitation). Organizational ambidexterity should – following the ambidexterity research – clearly be present within venture units. Although, the outcomes of exploration are commonly perceived as something completely new, they rarely are. To use Google as an example again and one of their more prominent moonshots, the autonomous or self-driving car, which is to some degree indeed a radical innovation, one can quickly see how it is based on Google’s existing capabilities such as their satellite navigation (Google Maps) and their experience with augmented reality.

The findings of Hill and Birkinshaw’s (2014) study state that the survival rate of corporate venture units is connected to relational context of the unit and indeed its managers, concluding that this constitutes a successful ambidextrous unit. Their findings are limited with regards to the actual innovative output, though, and the relational ties a unit has to their parent company do not necessarily give insights into the intra-unit ambidexterity. Despite the idea of separating the core-business from the venture unit to allow strategic purity, it must still be considered important for the venture unit to connect to the core-business and maintain close ties, increasing the legitimacy, though.

Combining research on intra-unit and this research of inter-unit / unit-parent ambidexterity could provide a valuable research area. Ambidexterity research has highlighted the importance of the top management team and so have Hill and Birkinshaw for their study of corporate venture units. This is providing insights into the contextual and leadership dimension of the ambidexterity in the context of venture units. But venture units by nature are structurally separated from the rest of the organization. Emphasising the importance of exploiting existing resources and using existing knowledge within that organization, no research has yet specifically addressed how the exchange of ideas can be secured with consideration of strategic purity. While the contextual approach provides the idea of social connectedness as means to exchange and foster ambidexterity, venture units are more remote and, thus, more likely to fail at providing this. At the same time, it is important to test empirically how venture units work as a vehicle for organizational ambidexterity in companies that follow a pure strategy.

Putting all those ideas together, it can be argued that corporate venture units can provide a vehicle with which companies that follow a pure cost leadership strategy can achieve exploration without harming their core business. This should exploit the current resources. This structural
ambidexterity should be supported by a contextual and relational environment that allows the venture unit to access the firm’s resources and facilitates the integration of innovations into the existing business. This whole approach does still require managers to provide a supportive environment. It although means that the venture unit itself will be ambidextrous. Applying this idea to other contexts as technological innovations might prove difficult, though, because the disadvantages of separating exploration from the core business might overpower the advantages of strategic purity.

**Conclusion**

Despite ambiguous findings by several studies regarding the impact of strategic purity on the financial performance of companies, the concept still has strong advocates. This essay attempted to connect this theorem to organizational ambidexterity, that highlights the importance of pursuing exploration and exploitation at the same time, contradicting the strategic purity idea. It is suggested that this problem can be overcome by introducing venture units that are independent enough to allow the company to follow a pure strategy but enable the organization to stay competitive in the long term. Although, this means advocating structural or architectural ambidexterity, it is important to note that a venture unit can only be successful if contextual ambidexterity in the form of a close relational context is achieved.

Coming back to the initial example of Google, it can be argued that the new structure of the company creates freedom for exploration in completely new ventures that are relatively unrelated to the core business and allows the latter to advance by exploitation. Of course, such a structure complicates knowledge transfer from existing to new ventures, potentially leading to redundancies. Talking of intra-unit ambidexterity, one cannot yet determine whether Google will not – despite the new structure – still foster simultaneous exploitation and exploration within the business units, due to the specific nature of its business model.

**References**


