

**A BRIEF UNDERSTANDING OF
ORGANIZATIONAL AMBIDEXTERITY AND DYNAMIC
MANAGERIAL CAPABILITIES,
AND HOW THEY RELATE?**

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ABSTRACT

The concept of organizational ambidexterity and dynamic managerial capabilities have raised researchers' interest. Based on previous studies, this paper aims to provide a simple understanding of those two concepts, so that everyone from diverse backgrounds can easily capture the ideas of these concepts. In addition, the clear explanation of the relationship between dynamic managerial capabilities and organizational ambidexterity also provided. In short, Ambidexterity is defined as the need for the firm to achieve a balance between explore and exploit (He and Wong, 2004; O'Reilly, 2013) and the responsibility to manage both lays on the TMTs. On the other hand, Dynamic managerial capabilities emphasize the important role of managers or leaders to sense, to seize, and to reconfigure organizational skills and resources to match with changing the environment (Eisenhardt and Martin, 2000; Teece et al., 1997). TMTs dynamic managerial capabilities influence their ability to sense opportunities for ambidexterity and seize them through combining, integrating and reconfiguring exploitative and explorative resources and capabilities. Several studies have provided several examples of these two concepts are related. For instance, TMTs' human capital describe the knowledge, education, experience, and skills of the TMTs, then logically, the TMTs that have rich working experience will be able to manage the resources for exploitative and explorative activities in the better system (Heavey, 2010).

Key Word: Organizational Ambidexterity, Dynamic Managerial Capabilities

INTRODUCTION

Researchers have put more interest in the concept of organizational ambidexterity (O'Reilly, 2013). The concept postulated that organizations need to be able to do concurrently both exploitation and exploration for long term survival (O'Reilly, 2013). Exploitation Strategy is to exploit a firm's current competitive advantages by efficiently managing the firm's existing resources and capabilities (Benner and Tushman, 2003; Hitt et al., 2011). On the other hand, exploration strategy represents entrepreneurial actions (Hitt et al., 2011) that aim to create new business opportunities that emerge outside the scope of current strategy (Sirén et al., 2012). Previous studies have shown the positive impact of ambidexterity into performance; to sales growth (He and Wong, 2004); to profit growth (Chen and Ling, 2010), returns of sales (Chen and Ling, 2010), returns of asset (Chen and Ling, 2010), returns of earning (Chen and Ling, 2010), and firm's reputation (Chen and Ling, 2010).

It is worthwhile to understand other than to do concurrently, the organization also required balancing both exploitation and exploration activities. March (1991) posited that focusing more on exploration or exploitation will lead to disadvantages for the organizations. For instance, focusing more on exploitation leads to competency trap or inertia (Heavey, 2010) as the organizations find themselves trapped their current stable. On the other hand, focusing more on exploitation will lead to a failure trap in which organizations gain no returns from its knowledge (Heavey, 2010). Furthermore, previous studies have shown that there are positive impact of balanced application of exploit-explore into performance (Hitt et al., 2011; Hitt et al., 2001; Ireland, Hitt, and Sirmon, 2003; March, 1991; O'Reilly and Tushman, 2008) in (Sirén et al., 2012). However, it is challenging to attain and maintain an optimal balance between exploration and exploitation as each of them has different requirements (Heavey, 2010). Thus, it is pivotal to be able to balance the contradictory demands of exploration and exploitation.

Hitt et al (2011) stated that there three inputs that related with exploring and exploiting activities in the organization; environment factors, organizational resources, and individual resources. Organization resources are involving culture and leadership in which based on TMTs' mindset (Hitt et al., 2011). Thus, TMTs are important in shaping the culture and conducting good leadership. The individual resources include on financial capital, social capital, and human capital (Hitt et al., 2011).

Dynamic managerial capabilities emphasizes the important role of managers to sense, to seize, and to reconfigure organizational skills and resources to match with changing environment (Eisenhardt and Martin, 2000; Teece et al., 1997). In addition, Adner and Helfat, (2003) explains the importance of dynamic managerial capabilities to synchronize the organization's internal capabilities with changing external environment. (Adner & Helfat, 2003). Managers must be able to creatively locate and seize opportunities in the external environment as well as be able to build, expand, and modify internal resources (Adner and Helfat, 2003; Teece et al., 1997). As TMTs members is unique as each individual is different, it will lead to the difference on how top managers build, integrate, and reconfigure organizational resources and capabilities and as a result it will lead to different outcome (Adner & Helfat, 2003). As found in the study done Adner & Helfat (2003) that there are three foundations of dynamic managerial capabilities; managerial cognition (Huff, 1990), managerial social capital (Burt, 1992) and managerial human capital (Becker, 1964) that form the decision-making and strategic choices. In short, TMTs dynamic managerial capabilities influence their ability to sense opportunities for ambidexterity and seize them through combining, integrating and reconfiguring exploitative and explorative resources and capabilities.

This paper tries in simple way to explore the concept of organizational ambidexterity and dynamic managerial capabilities, how these constructs are related. At the beginning, the concept of organizational ambidexterity and dynamic managerial capabilities are elaborated followed by a brief rationale on how their related.

LITERATURE STUDY

Ambidextrous derived from the *ambos* and *dexter*. Ambos means both whereas dexter means right, thus ambidextrous means doing both right. Organizational ambidexterity is defined as the need for firm to achieve a balance between explore and exploit (He and Wong, 2004) while Jansen, George, Van Den Bosch, & Volberda (2008) and March (1991) defines Organizational ambidexterity as an organization pursuits both exploitation and exploration simultaneously. Historically, the term of Ambidexterity was first used by Duncan (1976), however, the concept became popular used after March, (1991) published his seminal paper on ambidexterity. March (1991) suggest that the organizations involve in two fundamental different types of activities; exploitation and exploration. He describes exploitation are the activities that are based on the refinement, efficiency, selection, and implementation of existing knowledge while exploration refers to the search, variation, experimentation, and discovery of new knowledge. In addition, March (1991) also emphasis on the important to pursuit both activities.

March (1991) contended focusing more on exploration or exploitation will lead to disadvantages for the organizations. For instance, focusing more on exploitation leads to competency trap or inertia (Heavey, 2010) as the organizations find themselves trapped their current stable. On the other hand, focusing more on exploitation will leads to a failure trap in which organizations gain no returns from its knowledge (Heavey, 2010). In short, Focusing more on exploitation or exploration to the exclusion of the other will lead to failure of decreasing profitability (Ketchen et al., 2007).

However, doing both exploration and exploitation brings some challenges as March (1991) stated that both explore and exploit require different requirements such as different structure, process, and controls. For instance, exploration requires structure that is decentralized, the dominance of R&D or Marketing functions (Schulze et al., 2008). On the contrast, exploitation needs centralized structure, clear chain of authority, and the dominance of operations and sales function (Schulze et al., 2008). To solve this contradictory requirements between exploration and exploitation, Schulze et al., (2008) provide some solutions as doing temporal separation (focus on either one), accepting the paradox and using it constructively, by spatial separation (outsource) or by solving the paradox by introducing new concept or new perspective.

Pursuing both explore and exploit are also the basic concept of Strategic Entrepreneurships. The concept emphasizes that in order for the organizations to grow, to create value for customers and to create wealth for multiple stakeholders, the organizations should be able to simultaneously doing exploiting current competitive advantages (the purview of strategic management) while exploring for opportunities (the purview of entrepreneurship) (Hitt et al., 2011; Ireland et al., 2003). As stated in Duane Ireland & Webb, (2007) effective strategic entrepreneurship allows the firm to apply its knowledge and capabilities in the current environmental context while exploring for opportunities to exploit in the future by applying new knowledge and new and/or enhanced capabilities. In short, by having balanced exploitation and exploration, the companies able to have continuous innovation. However, to be effective SE needs the firm to be balance between exploration and exploitation activities. However, it is challenging to attain and maintain an optimal balance between exploration and exploitation as each of them has different requirements. And it is the TMTs responsibilities to manage combinatory tension between exploit and explore (Simsek, Heavey, Veiga, & Souder, 2009).

RESEARCH METHODS

The concept of dynamic managerial capabilities was introduced by Adner and Helfat (2003). It is extended from the concept of dynamic capabilities. Teece et al., (1997) defines dynamic capabilities as *“the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”*. The main assumption of this concept is that the core competencies should be used to modify short-term competitive positions that can be used to build longer-term competitive advantages. As such, dynamic capabilities, manifest in the decisions of senior managers, help an organization reallocate and reconfigure organizational skills and assets to permit the firm to both exploit existing competencies and to develop new ones (O’Reilly, 2013).

On the other hand, Dynamic Managerial Capabilities is the ability of the managers to synchronize internal organization capabilities or competencies with external changing environment (Adner & Helfat, 2003). Dynamic managerial capabilities focus on the role of managers, individually and in teams and their impact on strategic change (Helfat and Martin, 2015). As found in the study done Adner & Helfat (2003) that there are three foundations of dynamic managerial capabilities; managerial cognition (Huff, 1990), managerial social capital (Burt, 1992) and managerial human capital (Becker, 1964). Managerial cognition is knowledge structure, mental process and emotion (Helfat & Martin, 2014). Managerial social capital is the support that managers gain from the relationship from external organization, in formal or informal model that makes them easier to find information to sense and to capture opportunities (Helfat & Martin, 2014). On the other hand, managerial human capital refers to education and experience (Helfat & Martin, 2014).

These three foundations capabilities will impact to strategic change that lead to firms' performance. Previous studies provide confirmation that there is managerial impact on strategic change and firms' performance (Helfat & Martin, 2014). However, as managers have different capabilities in these areas, some managers might have better or weaker dynamic capabilities, then the impact will be different. Therefore, Helfat & Martin (2014) analysed the impact of each capabilities to strategic change and firm performance based on previous researches.

The firm's social capital is the sum of its internal social capital (relationships between individuals) and its external social capital (relationships between external organizations and individuals in the focal firm (Hitt et al., 2011). Social capital results from social relationships and can confer influence, control, and power (Adner and Helfat, 2003). It reflects that social ties and the goodwill that these ties may confer, transfer to other settings such as work. Social ties also may help to transfer information from one setting to another. The social capital not only derived from external ties, but also extend from internal organization (Adler and Kwon, 2002). Previous study done by Geletkanycz and Hambrick (1997) shows that external ties able to improve performance in two ways. Firstly, the ties can provide access to external resources that firms need in order to operate (e.g., financing). Secondly, directorship ties in particular provide information about practices in different firms. Greater diversity of information in turn improves executive decision making. Likewise, the internal ties also enhance the performance. For instance, formal and informal work relations provide managers with a network that they can use to obtain information and other resources. Or in other case, the corporate managers depend upon information from division managers in order to make decisions. The difference social ties (internal and external) will impact to different to social capital that include access to information that lead to different strategic decision decisions (Adner and Helfat, 2003).

Human capital is the set of individuals' capabilities, knowledge, and experience related to a task and the ability to increase the "capital" through learning (Lumpkin and Dess 2001 in Hitt et al. 2011). On the other hand, Helfat and Martin (2015) describe human capital to indicate *"the core characteristics that human capital comprises . . . knowledge, education, experience, and skills"* and all of these forms of managerial human capital can be beneficial to the firm. Human capital, as conceptualized by Becker (1975), refers to learned skills and knowledge that individuals develop through their prior experience, training, and education. Recent work has acknowledged (other than skills and knowledge), the psychological attributes of cognitive ability (general intelligence) and other abilities (personality, values, and interests) of individuals (Ployhart and Moliterno, 2011).

Managerial cognition defines as "managerial beliefs and mental models that serve as a basis for decision making" (Adner and Helfat, 2003) in which it will influence the manner how managers process information and interpret events creating (Beck and Wiersema, 2013). Helfat and Martin (2015) posited managerial cognition consists of mental models and beliefs or also known as knowledge structures, mental processes or managerial cognitive capabilities, and emotions. Most of studies from different industries and methodology have shown that managerial knowledge structures, mental process or managerial cognitive capabilities, and emotion influence the strategic change and corelated with organizations' performance (Helfat & Martin, 2014). Knowledge structure includes mental representations & mental models, beliefs, resource & strategic Schemas (Helfat and Martin, 2015). The knowledge structure exercised by of top management was positively linked to strategic flexibility (Nadkarni, 2007). The fail of Polaroid was because of the belief of top management teams that prevented Polaroid to adopt to digital cameras (Tripsas, 2000). Helfat and Peteraf (2003) define managerial cognitive capability "the capacity of an individual manager to perform one or more of the mental activities that comprise cognition" and it is critical foundation of dynamic capabilities (Helfat and Martin, 2015). Mental actitives comprising some actitives such as attention and perception,

reasoning and problem solving, language and communication (Helfat and Martin, 2015). On the other hand, emotions defines on how the leaders regulate their emotion (Helfat and Martin, 2015)

RESULT AND DISCUSSION

Simsek et al. (2009) stated that it is the responsibilities of the TMTs to manage the combinatory tension between exploit and explore. The different level of exploit and explore in the organizations might lays in different individual in the TMTs, as TMTs members is unique, thus it impacts on how top managers build, integrate, and reconfigure organizational resources and capabilities and as a result it will lead to different outcome (Adner & Helfat, 2003). On the other hand, dynamic managerial capabilities focuses on the role of managers, individually and in teams and their impact on strategic change (Helfat and Martin, 2015). Previous studies have shown us how these concepts are related as described in the next paragraphs. Heavey (2010) postulated some rationales the important of TMTs' human capital influence the organizational ambidexterity. First, as human capital described knowledge, education, experience, and skills of the TMTs, then logically, the TMTs that have rich working experience will be able to manage the resources for exploitative and explorative activities in better system. Second, qualified TMTs human capital allow the TMTs to function in different roles, and event to engage in contradictory thinking in order to implement both exploration and exploitation activities.

In regards with the TMTs' social capital, it is rational TMTs' social capital will help the organization to be ambidextrous. With intense ties with several actors in internal and external organization, it makes the TMTs able to sense opportunities, to avoid familiarity trap (Simsek et al., 2009) and also to have complementary resources. In addition, TMTs social capital not only providing the organization to have access to update information, but also it help the TMTs to have new perspective in methods, problem solving, strategy and solution for concurrently doing exploitation and exploration (Heavey, 2010).

TMTs' managerial cognition discuss the mental activities that comprise cognition such as attention, perception or reasoning (Helfat and Martin, 2015), and it is embedded based TMTs characteristic and based on previous experience. However, ambidexterity requires the TMTs to against the normal or typical myopia in information search and process thinking (Jeong, 2018). Organizational ambidexterity needs the TMTs to challenge the current cognition or way of thinking, to be more active and careful in processing information to do both exploitation and exploration strategies. As cited in (Jeong, 2018), Tripsas and Gavetti (2002) postulated that the leaders that already familiar and success with certain will be hard to both activities in balances way.

CONCLUSION AND RECOMMENDATION

Ambidexterity is defined as the need for firm to achieve a balance between explore and exploit (He and Wong, 2004; O'Reilly, 2013). However, each activity required different architecture such as structure or resources allocation. Thus, balancing between exploring and exploiting activities is challenging. It is postulated that it is TMTs' responsibility to manage the contradictory tension between these two activities. On the other hand, Dynamic managerial capabilities emphasizes the important role of managers or leaders to sense, to seize, and to reconfigure organizational skills and resources to match with changing environment (Eisenhardt and Martin, 2000; Teece et al., 1997). TMTs dynamic managerial capabilities influence their ability to sense opportunities for ambidexterity

and seize them through combining, integrating and reconfiguring exploitative and explorative resources and capabilities.

Several studies have provided several examples on these two concepts are related. For instance, TMTs' human capital describe knowledge, education, experience, and skills of the TMTs, then logically, the TMTs that have rich working experience will be able to manage the resources for exploitative and explorative activities in better system (Heavey, 2010). In addition, TMTs' social capital makes it possible sense opportunities, to avoid familiarity trap (Simsek et al., 2009) and also to have complementary resources. In addition, TMT's mental cognition influences them to process or to see the condition.

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