


# The Influence of Organizational Ambidexterity on SME Speed of Internationalization

Carina Silva, School of Technology and Management and CIICESI, Porto Polytechnic Institute, Portugal

Miguel González-Loureiro, University of Vigo, Spain & CIICESI, Porto Polytechnic Institute, Portugal

 <https://orcid.org/0000-0002-4299-1995>

Vitor L. Braga, School of Technology and Management and CIICESI, Porto Polytechnic Institute, Portugal

## ABSTRACT

Small and medium enterprises (SMEs) require a combination of organizational and individual skills to grow more rapidly in international markets. The question is whether there is an ideal combination to compete in the present (exploitation orientation) or to prepare to compete in the future (exploration orientation), and whether managerial cognition plays a role on determining international growth. The analysis of Portuguese manufacturing SMEs suggests that the manager's cognitive systems do not have an overall influence on the growth of foreign sales to total sales (FSTS), but the two cognitive systems (experiential and analytic) have a different influence on international exploitation and exploration. International exploration and exploitation mediate the relationship between the latter variables. This study contributes to a better understanding of the role that organizational ambidexterity plays on the SMEs' speed of internationalization and how the manager's cognitive systems influence this organizational orientation.

## KEYWORDS

Cognitive Systems, Exploitation, Exploration, Medium-Sized Firms, Organizational Ambidexterity, Small, Speed of Internationalization

## INTRODUCTION

The topic of the speed of internationalization occupies a central position as a measure of the international success of businesses (Acedo & Jones, 2007; Casillas & Acedo, 2013), which is considered the most relevant time-based dimension in the study of the firm's internationalization (Prashantham & Young, 2011).

The literature on the concept and measure of speed of internationalization has become vast and heterogeneous, and it includes various perspectives. Despite conceptual (Casillas & Acedo, 2013) and empirical studies (Pla-Barber & Escribá-Esteve, 2006) have suggested that speed of internationalization is a multi-dimensional concept (Casillas & Acedo, 2013; Zucchella et al., 2007), the core of the definition indicates that *speed of international expansion* captures how fast a firm

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spreads its sales activities to several foreign markets (Casillas & Acedo, 2013; Hilmersson & Johanson, 2016; Hilmersson et al., 2017).

Additionally, ventures become international increasingly early, which requires firms to grow significantly quickly in short time period, a type of born to grow requirement, in order to survive and obtain the return needed to compensate the higher risk that such decision entails (Puig et al., 2018; Zucchella et al., 2007).

When a firm operates in an international market, it faces a more competitive environment. Managers should then address the following question: how many resources should the firm allocate to exploration and exploitation of international activities? International Business-IB theories characterize the internationalization of firms as the ability to exploit competitive advantages, and the desire to explore resources that strengthen corporate global competitiveness and long-term performance (Hsu et al., 2013). Thus, while some firms tend to search for new international business opportunities (international exploration orientation), others tend to exploit existing products, services, assets or capabilities in foreign markets already identified as the key target (international exploitation orientation). Furthermore, a recent research stream claim that such decisions strongly depend on how managers use their two cognitive systems (Maitland & Sammartino, 2015), namely cognitive system-C (Sys-C, analytical, conscious reasoning) and system-X (Sys-X, intuitive, effortless, automatic and experiential-based reasoning).

Thus, the aim of this study is to shed light on which organizational orientation helps SMEs to grow faster internationally, and the role played by the manager's cognitive systems. Our results have relevant implications for theory and practice. First, whether international organizational ambidexterity –i.e. simultaneously exploring while exploiting– can reach international growth at higher pace. Second, whether there is an optimal combination of exploration and exploitation activities to allow quicker international grow. Third, whether the combination of experiential knowledge (Sys-X) and analysis plays a role to explain the pace of international growth and organizational orientation.

The empirical analysis is carried out on a sample of 93 Portuguese SMEs. Portugal is a peripheral region from EU and a small open economy in which SMEs should become international, at some moment, in order to survive. The Portuguese industrial system is predominantly dominated by SMEs, representing a relevant setting for this research. Our sample includes firms from traditional manufacturing sectors: footwear, textile, clothing and furniture.

In the remaining of the paper, we first review the literature on the organizational ambidexterity - speed of internationalization link, with a special focus on reflecting whether and how much the manager's cognitive systems influence this relation. Hypotheses are then developed on the cognitive systems effects over the levels of international exploration versus exploitation and on the links of the latter orientations with international sales growth. In the following section, we describe the sample, data and measurements used for the empirical analysis by means of partial least squares. We then present and discuss the results and, finally, we introduce our conclusions and their implications for both researchers and practitioners.

## **LITERATURE REVIEW**

The increasing level of rivalry in international markets requires firms to be proactive (Martini, et al., 2013), driving the interest in the study of the different competences that the organization should have for the creation of new businesses (Kickul, et al., 2009).

The term 'organizational ambidexterity' was the proposal of March (1991), which portrays the phenomenon as the ability of firms to share attention and resources that affects how managers approach markets (He & Wong, 2004; March, 1991), which includes domestic and international markets. The term "organizational ambidexterity" is related to the businesses ability to simultaneously pursue learning, innovation, stability and transformation in organizational adaptation and strategic

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