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Impact of Ambidextrous Marketing on Market and Financial Performance

Emrah Tokgöz, Ayten Akatay, and Serkan Özdemir
Çanakkale Onsekiz Mart University, Ramazan Aydin Yerleşkesi, Biga/Çanakkale, Turkey

Abstract

Firms need ambidextrous marketing functions which is being capable of exploitation and exploration of markets. In this research, impact of ambidextrous marketing on market performance and financial performance is revealed using Structural Equation Model (SEM). Small and Medium-Sized Enterprises (SMEs) operating in information technology have been selected. For this reason, sample of the study was collected via questionnaire through 392 SME’s managers and owners. According to the results of the model; marketing exploitation has significant and positive direct effect on market performance while marketing exploration has significant and positive effects on market and financial performance. When dependent variables are examined, it is revealed that market performance has significant and positive direct effect on financial performance. As a result, it is demonstrated that ambidextrous marketing has impact on market and financial performance.

Keywords: Ambidextrous Marketing, Marketing Exploitation, Marketing Exploration, Market Performance, Financial Performance

1. Introduction

Over the past 30 years, global competition is becoming tougher and more complicated than ever [28]. It is vital for organizations to develop marketing capability to challenge by global competitive pressures that are difficult to foresee [8]. Therefore, one of the issues that marketing literature most often works in is marketing capabilities [43]. The development of marketing capabilities has been identified as one of the important ways that firms can achieve performance [54]. Capabilities refer to the ability, competency, or efficacy to deploy, implement, or execute resources for a firm’s advantage. Capabilities capture the process domain of deployment [34].

Market deployment is found in actions that a firm takes to generate market response, which includes parts of the marketing mix, such as advertising, distribution, and promotion activities [11, 13, 16, 49]. Some researchers prefer to classify marketing mix as a capability [14, 22, 35, 37-39, 56]. Marketing capabilities have been defined as “the integrative processes designed to apply collective knowledge, skills and resources of the firm to market-related needs of the business, enabling the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and meet competitive threats” [17, 53]. At this stage, it is suggested that marketing managers face an important strategic dilemma. This dilemma is how
to exploit existing marketing capabilities while exploring entirely new ones [2]. In the literature, ambidexterity is shown as a possible solution to this dilemma [52].

In this study, we seek to understand and empirically examine the role of marketing exploration and marketing exploitation in improving market and financial performance. The aim of the research is to use ambidexterity literature which provides us with a theoretical viewpoint that we can examine how existing ambidextrous marketing may be improved via marketing exploitation and marketing exploration. In addition, this study investigates whether ambidexterity in marketing exploration and exploitation exists and effect market performance and financial performance.

2. Ambidextrous Marketing

In dynamic contexts, sustained performance is rooted in executing both existing products and innovation simultaneously. Long-term performance depends on the organization’s ability to adapt and change through innovation [50]. This adaptation and change capability is measured through organization functions separately and together. The most important way to achieve this capability is ambidextrous behaviors. Organization theorists have adopted this trait as a metaphor to describe organizations [7]. Schumpeter (1934) was the first to refer to these two terms: the exploration of new possibilities and the exploitation of old certainties. Both terms were used by March (1991) when in a paper discussing the trade-off between these two organizational learning possibilities [42].

Firms that effectively balance the tension between efficiently managing today’s markets while simultaneously exploring future markets are thought to be “ambidextrous” [15, 52]. Ambidexterity refers to how an organization does the job today while at the same time will do the job tomorrow [7]. This is why, in the literature, ambidexterity has two dimensions which are exploitation and exploration [6, 18, 32, 41, 44, 57]. Firms that engage in exploitation to the exclusion of exploration are likely to find themselves trapped in suboptimal stable equilibria. As a result, maintaining an appropriate balance between exploration and exploitation is a primary factor in firms survival and prosperity [32, 48].

There is an increasing interest in academic research to investigate how organizations can achieve this balance between exploration and exploitation. Creating ambidextrous functions has been suggested as one possible solution, which involves the synchronous pursuit of both exploration and exploitation [4]. The aim of this study is therefore to explore how marketing exploration and marketing exploitation can be simultaneously achieved, through a multilevel analysis that integrates the operational as well as the managerial level [8]. Furthermore, in the literature, it can be argued that ambidexterity influence organizational performance [3, 5, 9, 10, 15, 20, 26, 30, 34, 57, 58].
2.1. Marketing Exploitation

Concept of exploitation is defined in different ways in literature. Exploitation was about refinement, choice, production, efficiency, selection, implementation and execution \([27]\). According to \([26]\), exploitation is defined as primarily involve improving and refining current procedures associated with existing marketing strategies, including current market segments, positioning, distribution, and other marketing mix strategies. Exploitation can improve a firm’s current expertise, and involves the use of explicit knowledge bases, such that by internalizing and combining them. In effect, the intent of exploitation is to respond to current environmental conditions by adapting existing technologies and further meeting the needs of existing customers \([30]\).

Marketing exploitation refers to the development of new capabilities about the firm’s existing markets, products, and capabilities \([57]\). Marketing exploitation can be conceptualized as a serving the customer through their needs and creating value for them, a processes involving the generation, dissemination, and responsiveness to market capability and forging relationships with customers, channel members, and suppliers \([21]\). Marketing exploitation build on existing knowledge and reinforce existing skills, processes, and structures \([20]\).

Thus, we hypothesize the following:

\(H_1\): Marketing exploitation has significant and positive effect on financial performance

\(H_2\): Marketing exploitation has significant and positive effect on market performance

2.2. Marketing Exploration

Exploration was about search, variation, risk-taking, experimentation, play, flexibility, discovery, and innovation \([27]\). Exploration is defined as primarily involve challenging prior approaches to interfacing with the market, such as a new segmentation, new positioning, new products, new channels, and other marketing mix strategies. Exploration require the development of new capabilities \([26]\), and involves the use of new marketing trajectories are developed. Essentially, exploration is intended to respond to latent environmental trends by creating innovative new markets \([30]\).

Marketing exploration refers to the development of new capabilities that goes beyond what is currently known about markets, products, technologies and capabilities \([57]\). Across different research contexts, exploration has been variously associated with pioneering, improvisation, capability-building, autonomy and chaos, and emerging markets and technologies \([24]\).

Thus, we hypothesize the following:

\(H_3\): Marketing exploration has significant and positive effect on market performance

\(H_4\): Marketing exploration has significant and positive effect on financial performance
2.3. Market Performance

Market performance refers to the company’s ability to satisfy, develop, and retain customers by offering products, services, and other elements that suit their needs [29, 36, 59]. Market performance is the effectiveness of an organization’s marketing activities with regard to market-related goals, such as revenues, growth, and market share [19]. In other words, it is conceptualized market performance as the extent to which a firm achieves success on its existing businesses, products or markets, and in future positioning in its markets [23].

Market performance will lead to superior financial performance because satisfying customers increase repeat purchases, reduce complaints, encourage them to buy other company products, and generates positive word-of-mouth recommendations [29]. Furthermore, it is expected that there is a positive impact of market performance on financial performance, which is also a well established link in the marketing literature [19, 36, 38, 45, 46, 59].

Thus, we hypothesize the following:

H5: Market performance has significant and positive effect on financial performance.

3. Financial Performance

According to dictionary, performance means the result obtained into a competition by somebody; extremely good achievement into a field of activity [51]. Performance can be defined as a state of competitiveness of the organization, reached through a level of efficiency and productivity which ensures a sustainable market presence [33].

Financial performance centres on outcome-based financial (e.g., return on assets, return on investment, profit growth) indicators, reflecting the fulfillment of the economic goals of the organization [31]. We define financial performance as operating profits, profit to sales ratio, profit return on investment and return on assets of SMEs [29].

In [40] observe that ambidextrous organizations are successful at both exploiting the present and exploring the future. However they also note that few companies have the capability to integrate these two processes well. It is not surprising then that integration of these two processes provides financial performance. The few studies that examine links between the ambidextrous approach and firm performance have focused on financial measures and associated ratios. We include multiple measures of financial performance [47].

According to theoretical background, research model in Figure 1 is revealed.

4. Method

The aim of this study is to explore how marketing exploitation and marketing exploration can be simultaneously effect market performance and financial performance. In this study, convenience sampling procedure which is one of the non-random sampling
method is used. A sampling frame of firms was constituted all SMEs operating in information technology around Turkey. A questionnaire was created with Google-Drive survey. We then determined contact information for the managers and owners of the SMEs via telephone. Participants were asked to evaluate their marketing exploitation, marketing exploration, market performance and financial performance, over the last 3 years, if they participate in the expressions in the survey. To implement the data collection, a survey link was mailed to each firm, and a pretest was performed. After correcting errors, it was continued to implement.

Using the above process, a total of 392 surveys were made. After implementing 392 surveys, construct reliability was calculated. Then, we assessed the validity and reliability of four constructs, employing 23 items, using Confirmatory Factor Analysis (CFA). CFA models are commonly used to examine patterns of interrelationships among various constructs. Each construct in a model is measured by a set of observed variables. A key feature of CFA models is that no specific directional relationships are assumed between the constructs as they are correlated with each other only [25]. Finally, SEM was conducted and compared the traditionally reported fit indexes if they were within the acceptable range [12].

5. Measures

Marketing exploitation was measured with 7 items scale adapted from [47, 57]. The items show good reliability (alpha = 0.909). Marketing exploration was measured with 7 items scale adapted from [32, 47, 57]. The items show good reliability (alpha = 0.931). Market performance was measured with 5 items scale adapted from [29, 55, 59]. The items show good reliability (alpha = 0.863). Financial performance was measured with 4 items scale adapted from [29]. The items show good reliability (alpha = 0.926). (see Table 1 and the Appendix).

Construct reliabilities are 0.909 for marketing exploitation, 0.931 for marketing exploration, 0.863 for market performance and 0.926 for financial performance. All the measures proved reliable (see Table 1).
Then, we use Confirmatory Factor Analysis (CFA). The CFA indicated a good fit to the data, while the factors loaded highly on their assigned constructs. Chi-square is 640.39, degree of freedom (df) is 224, Normed Fit Index (NFI) is 0.97, Non-Normed Fit Index (NNFI) is 0.98, Comparative Fit Index (CFI) is 0.98, Goodness-Of-Fit Index (GFI) is 0.88, Adjusted Goodness-Of-Fit Index (AGFI) is 0.85, Standardized Root Mean Square Residual (SRMR) is 0.045 and Rootmean Square Error Of Approximation (RMSEA) is 0.069. The traditionally reported fit indexes are within the acceptable range [12].

fp: Fix Parameter

The scale format for each of these measures was 1 = “strongly disagree” and 5 = “strongly agree.”

Correlation is significant at the 0.01 level.

Table 1 presents the correlations matrix between latent variables. Marketing exploitation has positive and significant correlation with marketing exploration 74 percent, with market performance 66 percent and with financial performance 40 percent. Marketing exploration has positive and significant correlation with market performance 62 percent and with financial performance 50 percent. Market performance has positive and significant correlation with financial performance 53 percent.

Table 2 presents the confirmatory factor analysis and descriptive statistics of measures. The t-value for each item was always significant. All standard errors of the estimated coefficients were low, and the standardized factor loadings extracted for each question were greater than the threshold of 0.50. The estimates are positive and significant which provides evidence of convergent validity [1].
6. Analysis and Results

After confirmatory factor analysis, we employed structural equation modeling (SEM), using Linear Structural Relations (LISREL) 8.54 program to analyze the data and test the research hypotheses. SEM was RUN and the model fit indexes were within the acceptable range but H1 path way t-value was not significant (t= 1.02 at p > 0.05). Then H1 path way with low significant was deleted. And SEM was RUN again. In this case, in Figure 2, model fit indexes were within the acceptable range and all path ways were significant (p < 0.05).

In Figure 2, the measurement model indicated a good fit to the data. The fit statistics for the predicted model indicated the following: chi-square is 644,70, degree of freedom (df) is 225, Normed Fit Index (NFI) is 0.97, Non-Normed Fit Index (NNFI) is

<table>
<thead>
<tr>
<th>Survey Measures</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>t-values</th>
<th>Standardized Factor Loading</th>
<th>Error Variance</th>
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**Table 2: Confirmatory Factor Analysis and Descriptive Statistics of Measures.**
Comparative Fit Index (CFI) is 0.98, Goodness-Of-Fit Index (GFI) is 0.87, Adjusted Goodness-Of-Fit Index (AGFI) is 0.85, Standardized Root Mean Square Residual (SRMR) is 0.046 and Root mean Square Error Of Approximation (RMSEA) is 0.069. The traditionally reported fit indexes are within the acceptable range.

As shown in Figure 3, the structural model is given. There is 0.73 correlation between marketing exploitation and marketing exploration. Financial performance has 0.68 percent error variance and market performance has 0.53 percent error variance. It is understood that this research model explains the 0.32 percent (1-0.68= 0.32) of financial performance and 0.47 percent (1-0.53= 0.47) of market performance.

According to the results of the model; marketing exploitation has not significant effect on financial performance. **H1 was not supported.** Marketing exploitation has significant and positive effect on market performance ($\beta= .44$, $t=5.84$). **H2 was supported.** Marketing exploration has significant and positive effects on market performance ($\beta= .30$, $t=4.13$). **H3 was supported.** Marketing exploration has significant and positive effects on financial performance ($\beta= .27$, $t=4.26$). **H4 was supported.** Market performance has significant and positive effect on financial performance ($\beta= .36$, $t=5.31$). **H5 was supported.**
7. Discussion

The purpose of this study was to develop and test a conceptual framework that broadens our understanding of ambidextrous marketing. The research model revealed that ambidextrous marketing exists and affects market performance and financial performance. This evidence supports our conceptualization.

This study demonstrates the importance of building marketing exploration and exploitation capabilities to improve the firm’s market and financial performance. It is also important to note that, in this study, firms do not set out the same level of marketing exploration than they set out marketing exploitation.

Reviewing the results of our analysis, we find that for the firms in our study, marketing exploitation appears to be providing a stronger effect for improving market performance than marketing exploration. When marketing capabilities improvement is needed, marketers can rely on marketing exploitation capabilities to make minor changes in the configuration of resources that deploy market-based assets. Firms use marketing exploitation more regularly in adaptive, evolutionary ways and use marketing explorations when managers/owners make the choice to perform more radical reconfiguration of market resources. Firms that are ambidextrous regarding marketing exploration and exploitation may have a significant advantage over less ambidextrous firms.

Additionally mentioned that research model has hidden moderator/mediator relationships. Market performance is a mediator between marketing exploitation and financial performance while moderator between marketing exploration and financial performance. As a result, it is demonstrated that ambidextrous marketing has impact on market and financial performances.

When we reviewed the result of the ambidextrous marketing dimensions effects on market performance, we could see that marketing exploitation has more effective than marketing exploration. The theory previously discussed predicts that firms will use marketing exploration to reconfigure marketing resources when marketing exploitation processes fail to yield desired results.

The study could not test the validity of the results across different industry groups because of the time limitations. Future studies need to examine the generalizability of the results in different industries. Future studies could extend our study by including additional antecedent and consequent variables in the conceptual model.

This study has important implications for managers and practitioners. It should not be forgotten that ambidextrous has two dimensions. To make ambidextrous marketing function possible, firms must use two dimensions same time.
8. Appendix: Survey Measures Used in the Research

**Marketing Exploitation** (considering your marketing actions over the last 3 years, to what extent do you participate in the following expression)

1- We focus on developing our existing marketing capabilities
2- Consistently reexamining information from previous projects and/or studies to modify existing marketing processes
3- Routinely adapting existing ideas when developing new marketing processes
4- Incrementally and routinely improving our existing marketing procedures
5- Focusing changes in marketing procedures on improving efficiency
6- We are very efficient in serving our current customers
7- We work well with other functional units in this organization

**Marketing Exploration** (considering your marketing actions over the last 3 years, to what extent do you participate in the following expression)

1- Different from existing marketing capabilities, continually developing new marketing procedures that are very different from others developed in the past
2- Different from existing marketing capabilities, routinely introducing new marketing procedures which are daring, risky, or bold
3- Consistently developing new marketing capabilities which deliver different outputs from existing processes
4- Different from existing marketing capabilities, creating new uncommon marketing processes not used before
5- Different from existing marketing capabilities, we focus on developing new marketing capabilities for customer satisfaction
6- Different from existing marketing capabilities, we develop new marketing capabilities which leading industry
7- Different from existing marketing capabilities, we develop new marketing capabilities which flexibility to provide us

**Market Performance** (considering your market performance over the last 3 years, to what extent do you participate in the following expression)

- Rate of retaining existing customers is high
- Rate of increasing sales from existing customers is high
- Rate of customer loyalty is high
- Our reputation among our customers is high
- Quality of service that we offer our customers is high

**Financial Performance** (considering your financial performance over the last 3 years, to what extent do you participate in the following expression)

- Our operating profits is high
- Our profit to sales ratio is high
- Our profit return on investment is high
- Our return on assets is high
References


