THE ROLE OF ETHICS IN DEVELOPING ENTREPRENEURIAL AMBIDEXTERITY

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ABSTRACT

Ambidexterity describes the synergistic combination of exploration and exploitation in organizational learning and innovation. Within entrepreneurial firms, exploration largely maps onto opportunity search and recognition, while exploitation maps onto opportunity exploitation. Yet ambidexterity is hard to achieve, as exploration and exploitation often entail conflicting capabilities and resources. My paper explores the role of ethical values in these processes among founder entrepreneurs. Based on interview data with 30 founder entrepreneurs, the study suggests that stronger ethical values provide a foundation for decision-making and behavior that integrate exploration and exploitation. Ethical values therefore appear to moderate entrepreneurial ambidexterity.

INTRODUCTION

As they strive to grow their firms, entrepreneurs must build the capability to exploit and execute while at the same time continuing to explore and innovate. That is, they must lead ambidextrously as they combine ongoing opportunity search and recognition with effective exploitation of their chosen opportunities (O’Reilly & Tushman, 2007). Yet this combination of capabilities is hard to achieve. On the one hand, entrepreneurs must search and explore, and thereby create or discover fresh opportunities. Such exploratory capability may conflict with the rigors and routines of efficient exploitation, for being good at exploitation requires entrepreneurs to adopt more systematic roles and routines. These changes may conflict with an entrepreneurial culture of opportunity search and exploration (Schein, 1996). Indeed, those who equate being entrepreneurial with exploratory risk-taking may feel alienated by a growing emphasis on the administrative discipline and process efficiencies required for exploitation (Hannan, Baron, Hsu & Kocak, 2006). In order to combine these divergent activities, entrepreneurial founders must be capable of integrating exploration and exploitation, and thus leading their firms ambidextrously.

Sustaining ambidexterity is therefore difficult and demanding, especially in fast growing firms where there are urgent demands to scale exploitative capacity and ensure efficiency (Slevin & Covin, 1997). Moreover, it is not yet clear how ambidexterity can be initially developed and then managed in entrepreneurial firms (Benner & Tushman, 2003; Adner & Levinthal, 2008). What is clear, however, is that founder entrepreneurs are especially important and problematic in this process (Smith & Tushman, 2005). In particular, founders typically determine a young firm’s risk-taking culture, and in the early stages often focus on exploration and innovation. Yet they are often poor at exploitation and execution. Indeed, the inability to manage the exploitation challenges of rapid growth is a common reason for founder exit (Wasserman, 2003). Therefore, it is important to understand how and why founders and firms develop ambidextrous capability, and what underpins this capability. My empirical paper explores this question in relation to ethical or moral values. It asks whether the strength of ethical or moral values helps or hinders ambidexterity. This approach is novel because, to date, very few studies have explored the role of ethics or morals in achieving or sustaining ambidexterity.

THEORETICAL BACKGROUND

Before discussing the literature on these topics, it is necessary to define who is an entrepreneur, and what do I mean by ethics and morals.

Entrepreneur. There are a range of definitions of who is an “entrepreneur” (Shane, Locke, & Collins, 2003). One defines entrepreneurs as agents who open and enter new markets (e.g., Lumpkin &
Dess, 1996). In this regard, entrepreneurs may include corporate employees. Another definition focuses on entrepreneurs as the founders of new ventures, although typically excluding franchise owners and corporate employees (e.g., Low & MacMillan, 1988; Shaver & Scott, 1991). In this study, I follow a number of other scholars in defining entrepreneurs as founder managers (e.g., Allinson, Chell, & Hayes, 2000; Brockhaus, 1980; Forbes, 2005).

**Ethics and Morals.** In this study, ethics and morals are defined as synonymous. They are defined as the conception or standards of right, good or acceptable conduct or behavior (Joyner, Payne, & Raiborn, 2002). For any given group or individual, including entrepreneurs, ethical standards are typically based on core values and conceptions of what is right and good.

**Ambidexterity**

As March (1991) argued in his seminal paper on organizational learning, firms face great challenges in synthesizing exploration and exploitation. For both sets of activities entail different cognitive, behavioural and organizational capabilities. On the one hand, exploration is more creative, imaginative, open ended and risk taking; while on the other hand, exploitation is more systematic, routine, closed and risk avoidant. Moreover, as organizations become more adept at exploitative activities, they often lose the capacity to explore. As routines become more embedded and risk aversion develops, exploratory creativity and novelty are repressed. Learning therefore becomes myopic in its focus on the here and now, and captive to existing competencies (Gavetti, Levinthal, & Rivkin, 2005; March, 2006). For all these reasons, scholars are concerned to understand how organizations can both explore and exploit, simultaneously and synergistically. Doing so effectively is to be ambidextrous, when both exploration and exploitation are actively coordinated.

Ambidexterity is especially important in entrepreneurial firms. Indeed, entrepreneurship may be characterised as a process of opportunity search and recognition grounded in exploration, leading to opportunity exploitation (Lumpkin & Lichtenstein, 2005). The entrepreneurial process thus commences with the exploration of new opportunities, and leads to the marshalling of resources and capabilities to exploit such opportunities. In this way, entrepreneurship spans both major features of ambidexterity. The exploration phase of entrepreneurship refers to the creation or discovery of opportunities, while the exploitation phase refers to organized resourceful action in the pursuit of opportunities (Shane & Venkataraman, 2000; Teece, 2007). This characterization of the entrepreneurial process is shared by Tushman and O’Reilly (2007), who conceive of ambidexterity as a type of dynamic capability, where dynamic capabilities are defined as specific organizational processes that enable the firm to manipulate and reconfigure resources into new value-creating strategies (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997).

Ambidexterity is especially critical in entrepreneurial firms as they grow and mature. During this phase of their development, firms become more systematic and structured as they seek to improve and scale productive capacity. Formal systems evolve to ensure discipline and efficient exploitation. Roles and boundaries are more defined. Routines are entrenched and defended (Hugo & Garnsey, 2005). For all these reasons, organizational growth and maturity can lead to a loss of exploratory capacity, even while improving exploitative capacity. That is, as entrepreneurial firms grow and mature, they often become less exploratory and therefore less ambidextrous (Smith et al., 2005).

Importantly, the firm’s culture and values often become more focussed on the priorities and meanings that underpin exploitation, such as efficiency, rule following, compliance, quality control and loss minimization (Benner & Tushman, 2003). In contrast, strongly entrepreneurial cultures exhibit stronger values concerning innovativeness, independence, positive risk-taking and tolerance of failure (Stewart, Watson, Carland, & Carland, 1999; Teece, 2007). Therefore culture and values appear to play a significant foundational role in exploration and exploitation, and hence in the development of ambidexterity (O’Reilly III & Tushman, 2004). Yet despite the noted significance of culture and values, very little is known about the role of ethics or morals in ambidexterity. My paper therefore addresses that question in the context of entrepreneurship.

**Ethics and Entrepreneurship**

Entrepreneurs typically engage in the creation of new social and economic value. Their motivations for doing so can include hedonistic self-interest, the ambition to build and lead a new firm, wanting to create innovative products and new organizational forms, and the altruistic desire to grow the collective wealth and wellbeing of society (Shane, 2003). By pursuing value creation of different types with varied motivations, entrepreneurs often face ethical choices and challenges. Whether deliberately or unconsciously, they often choose between the pursuit of personal gain versus the social...
good, between the interests of their own firm and what is fair to other stakeholders, and between maintaining and compromising strict ethical standards (Sarasvathy, 2002; Venkataraman, 2002).

Such dilemmas regarding values and ethics in decision making are often amplified in the dynamic, hyper-competitive business environment inhabited by entrepreneurs. In those situations, competing interests are often more intense, resources are scarce, and decisions must be made under conditions of high uncertainty and time pressure (Brenkert, 2002; Morris, Schindehutte, Walton, & Allen, 2002). Consequently, it may prove difficult to meet normative standards of justice, fairness, and ethical behavior. At the same time, high profile ethical failures routinely feed popular concern about the social impact of entrepreneurship. As a result, scholars increasingly focus on the role of values and ethics in decision making by entrepreneurs. More recently, leading scholars in the field of strategic management have also called for a renewed emphasis on ethics (Bower, 2008; Grant, 2008). Prompted by the contemporary global financial crisis, attendant corporate failures and outright fraud, plus a perceived malaise in strategic theorizing, these scholars call for greater attention towards ethical questions in research, teaching and practice of strategy, and especially entrepreneurial strategy.

Not surprisingly, therefore, most research into ethics and entrepreneurship focuses on the preconditions of ethical decision-making and behaviour (Hannafey, 2003). That is, researchers ask, under what conditions do entrepreneurs think and behave ethically, or not? In contrast, very little research has explored the role of ethics as a moderator or mediator of other features of entrepreneurship. For example, in this vein, researchers could investigate whether a strong ethical climate strengthens or weakens risk-taking and tolerance of uncertainty in entrepreneurial firms, and how the possession of strong ethical values influences the role of the founder in establishing and leading a new entrepreneurial firm (Joyner et al., 2002). These and other questions would presuppose a level of ethical awareness and behaviour, and then ask what influence such ethical systems have as moderators or mediators. Adopting such an approach, this paper explores the role of ethical values as a potential moderator or mediator of ambidexterity within entrepreneurial firms.

METHODS

As an exploratory study seeking to develop and enhance theory, I employed qualitative techniques to investigate a set of cases (Eisenhardt, 1989; Yin, 1994). The data included in the study were gathered as part of a larger mixed methods study into entrepreneurial decision-making. The study consisted of semi-structured interviews with 30 founder manager entrepreneurs regarding numerous aspects of their decision-making. The subjects were purposively selected to represent a range of industries and stages of company growth, but they were primarily drawn from high technology growth sectors. Some were long-term serial entrepreneurs, while others were novices. A few had failed and tried again. They had all been founder managers who retained a significant role in their venture. They possessed a range of ages, education levels, industry backgrounds, and seven were women. Some of their companies were start-ups less than three years old, while a few were late expansion stage over eight years old. All were based near Sydney, Australia. The entrepreneurs included in the study are summarized in Table 1.

<table>
<thead>
<tr>
<th>Company Age Years</th>
<th>Industry Sector</th>
<th>Gender</th>
<th>Role Tenure Years</th>
<th>Highest Education</th>
<th>Personal Age Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 (13)</td>
<td>Biotech (11)</td>
<td>Female (7)</td>
<td>&lt; 1 (5)</td>
<td>Certificate (1)</td>
<td>20-29 (1)</td>
</tr>
<tr>
<td>6-10 (11)</td>
<td>ICT (14)</td>
<td>Male (23)</td>
<td>1-2 (5)</td>
<td>1st degree (8)</td>
<td>30-39 (8)</td>
</tr>
<tr>
<td>11-15 (3)</td>
<td>Services (2)</td>
<td></td>
<td>3-5 (13)</td>
<td>2nd degree (17)</td>
<td>40-49 (12)</td>
</tr>
<tr>
<td>16-20 (2)</td>
<td>Retail (3)</td>
<td></td>
<td>6-9 (4)</td>
<td>Other (4)</td>
<td>50-59 (8)</td>
</tr>
<tr>
<td>21+ (1)</td>
<td></td>
<td></td>
<td>10+ (3)</td>
<td></td>
<td>60+ (1)</td>
</tr>
</tbody>
</table>

N= 30. The number of cases for each category value is given in brackets.

To avoid report bias, all subjects were told that the study was primarily about decision-making broadly defined, and they were kept unaware that it was exploring ethics and ambidexterity. Semi-structured interviews were conducted with all 30 entrepreneurs lasting approximately one hour
each. The researcher adopted a non-participant observer role, and used the same interview guide throughout. It covered a range of decision-making tasks including opportunity selection and exploitation. A copy of the interview questions is included as Appendix A. At the end of each interview, the interviewees were invited to talk openly about any related topics. The interviews were fully transcribed and entered into NVIVO, a computer application designed for the analysis of qualitative data.

RESULTS

Over a number of months, the interviews were thematically coded and a number of major themes emerged, including the following: (1) opportunity search and recognition as a form of exploration, indicated by the use of terms such as discover, create, search and explore; (2) opportunity exploitation as a form of exploitation, indicated by the use of terms such as produce, deliver and exploit; and (3) ethical and moral values, indicated by the use of terms such as ethics, morals, honesty, good and evil. It is important to note that during the coding phase of the analysis, I did not seek to identify patterns relating ambidexterity and ethics. This phase of that data analysis was delayed until all coding was complete, in order to prevent coding bias.

Having completed all the interviews and thematic coding of them, I then analyzed patterns regarding ambidexterity. I first identified those interviews where references to opportunity exploration and exploitation were more prevalent and integrated. That is, I sought to identify the entrepreneurs who spoke about both types of activity in a more consistent and connected fashion, evidenced by proximal coding references. I then compared the number of coding references to ethics and morals for all interviews, to test for patterns connecting ambidexterity and ethical values. Interestingly, exactly half the sample of 15 exhibited some awareness and concern with ethical issues, while 15 did not.

In summary, analysis of these data suggested that opportunity exploration and exploitation are more often integrated among those entrepreneurs who are more aware of and concerned about ethical values. Indeed, the interviewees who did not mention ethical values exhibited almost no ambidexterity. These results are depicted in Table 2 below, which shows the number of references to exploration combined with exploitation, in relation to references to ethical values. I interpret these results to suggest that entrepreneurial ambidexterity is strongly and positively related to ethical values. The other significant result is that the 15 entrepreneurs who exhibited stronger ambidexterity and ethical values were twice as likely to refer to exploration and opportunity search and recognition, when compared to their non-ambidextrous peers.

<table>
<thead>
<tr>
<th>Opportunity Exploration</th>
<th>Opportunity Exploitation</th>
<th>Intersection of Opportunity Exploration and Exploitation</th>
<th>Ethical Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>117 (15/15)</td>
<td>58 (14/15)</td>
<td>12 (8/15)</td>
<td>37 (15/15)</td>
</tr>
<tr>
<td>66 (14/15)</td>
<td>42 (13/15)</td>
<td>0 (0/15)</td>
<td>0 (0/15)</td>
</tr>
</tbody>
</table>

N= 30. Figures not in brackets refer to the number of coding references for each theme. Figures in brackets refer to the number of interviews coded.

By way of example, one of the entrepreneurs who displayed a high level of ambidexterity and moral concern, said the following in relation to his work:

“At night time I read a huge cross section of things, I’m highly into theoretical physics, socio-economics, like I research alternative media sites, new technologies coming out, the latest in physics, the latest in different technologies, and the latest in spirituality. I apply all this to how I run this business, because I think the only way to acquire this tool to analyse things with such a high level of abstraction is to understand how stuff works in general in a holistic sense...”

In this way, he linked expansive opportunity search and exploratory learning about spirituality and holism to the business. He continued in the following fashion regarding ethical questions:
“... that’s the struggle I have because I deal with people who have lower levels of ethics. It’s like playing someone in tennis when they keep cheating, but you don’t want to cheat because you don’t think cheating is right, so that can be difficult. So I have to play defensive against that. At the same time I want to uphold a certain level of business ethics and just do the good thing and just don’t be dodgy. Don’t say just because there is a bit of money in it just go and do something.”

Another of the other highly ambidextrous and morally aware entrepreneurs explained her approach to ethics in relation to exploration and exploitation:

“Yes, principles and values that guides my decision making, like ethics and morals, what’s best for the company, what’s best for the longevity of the company. So there’s a lot of those factors that probably come into my innate decision making.”

While another member of this group remarked:

“Everything must be within that umbrella of integrity, and I see his decision making process and the way he comes out as always being, whether it’s right or wrong, but he does it under a set of guidelines. I think running a business, you do that, all of the good to great people that I know run businesses, all have the same umbrella over the way they make decisions.”

Similar statements were common among those who scored highly with regard to exploration combined with exploitation, that is, who displayed stronger ambidexterity combined with ethical awareness. However, such statements were almost non-existent among those who appeared to be non-ambidextrous. Indeed, those who scored lowest in terms of ambidexterity also scored lowest in terms of ethical awareness and concern. They were more inclined to focus on operational matters relating to either exploration or exploitation goals as separate and unconnected activities. As one member of this group explained:

“We build a production facility that is purpose built, we have got all the equipment running there, we have got the team in place and that team, resources and equipment should last about 3 years. That is basically the numbers we are doing, that uncertainty is now gone. It really just comes down to stuff to do with the market.”

Development of Model

Based on the results reported above, I propose that ethical values act as a moderator of ambidexterity in entrepreneurial firms. That is, when ethical values are present and strong, they provide a cognitive foundation or mental framework which supports overarching goals and principles of ambidextrous thought and behaviour. Within this framework, entrepreneurs then integrate and adapt exploration and exploitation. On the other hand, when ethical values are absent or weak, entrepreneurs lack any underlying framework and display little ambidextrous capability. These relationships are depicted in the model shown in Figure 1.

Figure 1

Model of Entrepreneurial Ambidexterity Moderated by Ethical Values
DISCUSSION

Interpreting the major findings suggests that ethical values and norms may provide entrepreneurs with a stable mental framework or foundation for decision making and managerial action within very uncertain and dynamic contexts (cf. Buchholz & Rosenthal, 2005). That is, a strong ethical foundation or moral compass may allow entrepreneurs to remain more flexible and adaptable when making strategic and operational choices regarding exploration and exploitation. Having a deeper and stronger commitment to ethical values and norms (Morris et al., 2002) may liberate them from the potential trap of over-committing to current exploitative activities (Joyner et al., 2002). The study’s findings therefore suggest that by adopting strong ethical values concerning the firm’s purpose and practices, founders are less captive to the immediate pressures of exploitation and execution, and at the same time less captive to the novelty drivers of exploration and innovation. In other words, the findings suggest that ethical values underpin a cognitive and behavioral framework which allows founder entrepreneurs to be more adaptive and ambidextrous (cf. Morris, Schindehutte, Walton & Allen, 2002).

The findings of the study further suggest that a strong moral compass or climate may support desired features of both individual and organizational learning. This occurs because strong ethical values provide a more stable, long-term framework for learning goals and objectives. Both exploration and exploitation are then framed within a fundamental ethical framework of higher purpose and principles, resulting in less vulnerability to the variable demands of either exploratory or exploitative learning behaviors (Butterfield, Trevino, & Weaver, 2000; Trevino, Weaver, & Reynolds, 2006). In these respects, ethical values may serve as an antidote to myopia and rigidity in organizational learning. This further suggests that ethical values may support more expansive search and novelty in opportunity exploration and exploitation (Becker, Knudsen, & March, 2006), and nurture creative risk-taking in organizational learning (March, 2006).

The paper’s findings also have implications for a range of topics in entrepreneurial research and practice. Regarding research, findings suggest that ethical values play a major role in the ambidextrous management of exploration and exploitation in entrepreneurial firms. This novel finding adds to existing research that focuses on the role of culture and cognitive frameworks in entrepreneurial strategy and ambidexterity (Smith & Tushman, 2005; Santos & Eisenhardt, 2004). This suggests a novel relationship between ethics and entrepreneurial strategy: that is, having a strong ethical framework may serve to guide, integrate and liberate strategic thinking and decision-making in highly volatile and uncertain markets, and cement the nexus of opportunity search, recognition and exploitation (cf. Sarasvathy, 2002).

Regarding implications for education and practice, the paper suggests that by enhancing ethical awareness and ethical decision-making in entrepreneurial firms, we may also strengthen ambidexterity, and vice versa. If these findings are validated in larger studies, the resulting knowledge could provide new techniques to stimulate ambidexterity and ethical behavior in rapidly growing entrepreneurial firms, thus contributing to the growing interest among educators and practitioners with the interaction of ethics and strategic entrepreneurship.

APPENDIX A. INTERVIEW GUIDE

1. What is your own approach to decision making when decisions have to be made quickly with limited information?
2. What is your own approach to decision making when the outcome is very uncertain and risky?
3. What is your own approach to decision making when you feel strongly about the issues?
4. In your own decision making, when do you rely on your intuitions or previous experience and when do you perform systematic analysis before making decisions?
5. In your decision making, how do you typically decide which opportunities you will try to exploit?
6. In your own decision making, how do you approach pursuing future gains, versus avoiding future losses?
7. Across the range of responsibilities you have – financial, strategic, HR, marketing, etc.–how confident are you in making decisions in those areas?

8. How important is decision making as part of your role in the company, relative to other aspects of the role such as leadership?

9. Why did you choose to become an entrepreneur?

10. Overall, what do you think are your main strengths and weaknesses as a decision maker?

11. Is there anything you would like to say about this topic or any other thoughts that come to mind?

REFERENCES


