

## AMBIDEXTROUS MANAGEMENT IN DIFFERENT GROWTH PHASES

**Dávid TARÓDY**

*Corvinus University of Budapest  
8 Fővám, 1093, Budapest, Hungary  
david.tarody@uni-corvinus.hu*

**Lilla HORTOVÁNYI**

*Corvinus University of Budapest  
8 Fővám, 1093, Budapest, Hungary  
lilla.hortovanyi@uni-corvinus.hu*

**Abstract.** *According to Greiner, historical forces and previous management decisions rather than external factors shape an organisation's future. On a competitive market, the only way to survive is to grow. Companies go through a series of different evolutionary periods, but each stage is challenged by a crisis period, when previous practices and routines become out-dated. Management in this haste to grow often forget Greiner's main message: without answering critical organisational development questions future growth prospects will definitely damage. The theory of ambidexterity focuses on organisations, which are adaptive in the long term and formalized in the short term, structures which can explore new market opportunities but are also able to exploit them effectively. However creating ambidexterity is a contradictory challenge. Burgelman's (1991) adaptation paradox calls managers' attention for the problem that concentrating on the present reduces the ability of preparing for the challenges in the future. Authors in this research seek answers for the question, how this paradox distorts top-managers perceptions and decisions and lead to excessive exploration at the expense of corporate growth. Because solutions for one crisis become definitely a major problem in the next crisis, and it is always tempting for managers to choose a solution that were tried before. Authors interpret dominant growth schemes in Greiner's phases as an exploration activity and the solution of crises as exploitation answers, which enable the organisation to continue growth on a next level. Authors carried out 43 interviews with middle and top managers in three organizations in the automotive, agricultural and baking industry. The sample of companies was selected by size, age, growth rate in the past, structure and level of diversification. The research revealed that it is possible to survive crises with 'quasi solutions', but management failures accumulate: lack of professional knowledge and skills leads to inappropriate organisational development solutions, which creates a functional specialist level with high responsibility and task avoidance. At a critical point, organisations have to solve all the previous crises correctly. The cause of this phenomenon lies in feedback-asynchrony: market's reaction time is faster and more direct than the costs of missing or wrong organisational development decisions.*

**Keywords:** *ambidexterity; exploration; exploitation; growth; control-crisis.*

### Introduction

The authors of the present research highlight that temporal aspects have an important role in the relation between ambidexterity and growth. Although prior literature describes growth and the solutions of growth crises in a prescriptive way, in practise there are several organisations that are able to grow continuously without following the classic growth patterns and survive crises with "quasi-solutions". Examining this phenomenon authors seek answers for the following questions: (1) how can ambidexterity interpreted in the different phases of corporate growth? (2) how can the relationship between exploitation and exploration be described in the growing process? (3) What are the catalysing or inhibitor effects between exploration and exploitation and growth crises?

## Theoretical background

The theory of ambidexterity has attracted the interest of many researchers since the last decades. Various literatures have argued that organisations need to become *ambidextrous* (Gibson & Birkinshaw, 2004; He & Wong 2004). The main thought of organisational ambidexterity is that firms need to create adaptive, innovation-oriented structure that can explore faster and more efficiently the new business opportunities and also can exploit more effectively the current, existing opportunities (Kauppila, 2010). March (1991) sees the long-term success of organisations in the exploitation of the existing competencies and abilities and in developing radical new competencies.

Most researches in the prior literature take exploration and exploitation for different kinds of innovation. Exploratory innovation is radical, means pursuing new knowledge and developing new products and services in order to meet the needs of emerging customers or markets (Benner & Tushman, 2003, p.243; Jansen et al., 2006). Exploitative innovations are incremental, are built upon existing knowledge and extend existing products and services for existing customers (Benner & Tushman, 2003, p.243).

According to Jansen et al. (2008) *“exploration and exploitation may require fundamentally different and inconsistent architectures and competencies that can create paradoxical challenges.”* Exploration refers to search, variation and experimentation that result from decentralization, loose cultures, and less formalized processes. Exploitation, on the contrary, captures refinement, efficiency, and improvement that succeed by reducing variance and increasing control and formalization (Benner & Tushman, 2003; March, 1991).

Smith and Tushman (2005) define *“exploration as a sum of changes that mean revolutionary, developing or already existing, but for the firm a new market and also a new opportunity”*. On the contrary they describe exploitation as an incremental development and changing process focusing on the existing customers. So exploration raises the complications and exploitation tries to reduce uncertainty and a routine problem solving process.

According to Wales (2011) the ambidextrous model can be spatially heterogeneous but temporally homogenous. In the following chapter authors introduce the different aspects of ambidexterity regarding space and time.

## The structural approach of organisational ambidexterity

Researches in the field of organisational ambidexterity can be categorized into two different groups. First one is basically a group of researches that examines the structure and certain structural elements and the role of top management in ambidexterity. Main representatives of this approach are Tushman and O'Reilly (1996). According to them outstanding organisational performance is based on structural mechanisms and solutions as decentralization, common culture and vision, supporting and flexible management. According to Smith and Tushman (2005) the top management embodies the integration of exploration and exploitation. Gibson and Birkinshaw (2004) also take the creation of the appropriate organisational context for the tasks of the senior managers. Jansen et al. (2008) examine top managers, their characteristics and managerial behaviour with that they can cope with the conflicts coming from ambidexterity. This approach focuses on the question of structural separation regarding ambidexterity.

### **Temporal aspects of ambidexterity**

Prior literatures have defined organisational ambidexterity as the ability of firms to pursue and synchronize exploratory and exploitative innovation simultaneously (He & Wong, 2004; Jansen et al., 2008; Tushman & O'Reilly, 1996).

The simultaneous creation of exploration and exploitation is hindered by several discrepancies. According to March (1991) that is advantageous in the short run is not sure that it is also advantageous in the long run. Burgelman (1991) calls attention to the paradox between the adaptation to the existing environmental circumstances and the preparing for the future changes. He thinks that concentrating on the present reduces the ability of the organisation in preparing for the challenges in the future. That means it is very difficult to manage the different focus and temporal aspects of exploitation and exploration simultaneously in the organisation while these two compete for the same resources.

There are also hints of exploration and exploitation in organizational growth literature, however these researches takes the ambidextrous capabilities for a sequential process (Szabó, 2012). Greiner (1972) describes that organizational growth can be characterized by changes between external, market focus and internal, organizational management focus. This means a series in change between focusing on internal and external problems and solutions, and between flexibility and control (Quinn & Rohrbaugh, 1983). Therefore growth literature also investigates exploration and exploitation activities but as a sequential and not a simultaneous process.

### **Relation between exploration and exploitation**

Management problems are routed in time (Greiner, 1972). As organization is getting older, the natural consequence is to grow. According to Greiner, companies go through a series of different evolutionary periods. Growth will usually continue at a steady pace until a revolutionary stage is reached. Each evolutionary stage is challenged by a crisis period, when practices and routines become outdated. Without developing new management solutions, organization will not be able to grow again. The pressure to change most of the times does not come from external threats to survival but more of the time from the managerial desire to grow and be more successful (Volderba, 1996).

The strategic decisions made early in a firm's history generally affect its strategy for years afterward (Sandberg, 1992). Not only do such decisions lock a firm into a strategy, but they also affect its structure and systems (Dobák, 1999). The structures and processes have become part of an integrated whole over the years in which it is difficult to change one element without unraveling the whole (Eisenhardt, 1988). In line with that, Fauchart and Keilbach (2009) have shown that the routines create an "exploitation trap": as more are introduced, the less an organization is capable to adapt to changing requirements and rejuvenate itself. The pressure for stability is not just inertia, there are short-term forces that require organisation to maximize and fully utilize their existing competencies and capabilities (Volderba, 1996).

### **Methodology**

Researchers applied qualitative case study research. According to Yin (1994), case study method is recommended when the researcher tries to find answers for "how" and "why" type of questions about a present occurrence. The applied case study research is based on semi-structured interviews, document analysis and observation in three organisations. Several interviews were made within each organisation: the middle and top managers, as well as frontline employees. The sample of companies was selected in order to meet the following criteria:

- Size – annual turnover between 10 and 30 M €.

- Age – age is a critical factor in growth (Greiner, 1972), so authors decided to choose at least 20-year-old organisations.
- Growth – steady growth rate.
- Structure – at least 3 organisational levels and 2 managerial levels.
- Diversification – product diversification and/or geographical expansion.

In summary, 43 interviews were recorded within three organisations. The average length of an interview was two to three hours. All the recordings were converted into text files word for word. Researchers invested a great effort to capture each word as well as pausing in typing the text. Consequently, the context in which every interview was made (location, atmosphere, including the perceived mood, emotions, and gestures of interviewees) was also recorded. Researchers applied QSR NVivo software for analysing the data. During the analysis, the primary codes were the dimensions of management functions (strategy, organisation, control, motivation and leadership); structural factors such as division of labour and authority, coordination and configuration.

## Results

Flamholtz and Hua (2002) use the construct of growing pains as crisis-symptoms. The authors provided evidence in their quantitative research that there is strong relationship between financial performance and growing pains. In the following section, authors will introduce the three examined organisations by the classic set of growing pains in order to demonstrate the critical status of these companies. All firms were founded in the early '90s in Hungary (after the regime change) by an entrepreneurially oriented expert – all of them were young engineers with masters degree. Their stories show great similarities: aggressive growth, strong industrial and technological focus, constant product and/or market diversification. In the recent years all of them went through a radical restructuring process which focused on structure, processes, coordination and control, and managerial knowledge and skills as well.

The companies grew too big and became unmanageably complex. For instance, the automotive company - in order to compensate the extreme effects of the global crisis - had three major strategic revenue source in 3 brands before 2007 - now it has more than 10 critical source in each of its 8 brands and has expanded extremely, now it has 4 branches! The agricultural company's core competence is in special seed corn production - after two acquisitions it is interested in stock-raising, industrial and food crop production and special drying and cleaning services – in these days the holding has branches. The baking company invested 4 M € in new production technologies in order to meet the requirements of its multinational customers – new robots and machines needed new organisation and control solutions, but the managerial answer wasn't so "obvious" than the technological development. It is also hard to synchronize the operation of its two factories.

Authors noticed common crisis-symptoms: firstly, the top-management became overloaded. A natural consequence of this process was the emerging need for an autonomous middle-management, but they perceived this new expectation as a strain rather than an opportunity. Conflicts were encoded in this operation – overall perception of growth problems was that *"there are not enough hours in the day"* and middle-managers identified themselves as fire-fighters, not wise creators. The increasing complexity led to impenetrable relations and processes, people were not aware of what other people do. *Fire fighters*, who were in constant conflict with their principals, sabotaged structural coordination tools like meetings and projects which resulted in intensifying isolation and task avoidance (poor plan follow-up, inefficient meetings). At the end of this process, insecurity in jobs created a vicious circle that constantly increased the distance between top- and middle-management. Every organisation interpreted the situation as a (partly) moral crisis, but this diagnosis was wrong: malformed structures, missing control mechanisms and lack of management skills led to this situation, not personal conflicts. As Flamholtz and Hua (2002) state: *"This set of classic growing pains are not only*

*problems in and of themselves, we believe that they are symptoms of a deeper problem, and a 'signal' or warning that the organisation needs to make a fundamental change in its infrastructure."*

The last warning sign was similar in each of the introduced companies: financial problems and/or high fluctuation. In the darkest days, it wasn't sure that the automotive company's largest branch can open its workshop because of the extreme fluctuation. The baking company's profit disappeared in 2013 and became a well-known unattractive workplace in its region. The co-founder of the agricultural company started his own firm and started to headhunt the key employees. In Table 1 Readers can find a detailed description of how managers perceived and interpreted their organisations situation and what symptoms their growth crisis create.

Table 1. Crisis symptoms interpreted by Flamholtz & Hua's (2002) growing pains classification

Growing pains (Flamholtz & Hua, 2002)	Agricultural company – 13 M €, 80 employees	Automotive company – 25 M €, 125 employees	Baking company – 12 M €, 150 employees
People feel that 'there are not enough hours in the day.'	Overladen administrative workforce and managers due to the unclear division of labour.	High workload on account of organisational diversity.	Even the CEO spends its nights in the factory.
People spend too much time 'putting out fires.'	The managers of all companies described themselves as "fire fighters" but didn't understand classical leadership functions as essential parts of their tasks - industrial expertise was more acknowledged. Organisational dysfunctions was reckoned as personal conflicts and –in extreme cases– it was considered as positive consequences of growth.		
There are too few good managers.			
People are not aware of what other people are doing.	The managers couldn't summarize 8 managers' tasks properly during the interviews.	This ratio was 6 out of 10 in this case.	The sales manager hasn't visited the factory for 5 years. Due to the constant restructuring, every job description was uncertain.
People lack understanding about where the firm is headed.	Managers felt that the owner/top-manager never shares his plans with them. But just as he did it, they opposed everything because every new project meant new tasks and responsibility for them.	Annual financial and sales plan was made by the top management - middle managers described themselves as victims of a centralized planning procedure.	The uncertainty about job descriptions, real tasks and authority led directly to low willingness in taking responsibility.
People feel that 'I have to do it myself if I want to get it done correctly.'	Being a "guerrilla fighter" was a common role perception among middle-managers - solving problems alone was rather an honour than dysfunction.	Organisational diversity resulted in high number of projects, which led to responsibility and task avoidance.	
Most people feel that 'our meetings are a waste of time.'	Insufficient responsibility taking resulted in never ending projects and long meetings whose only aim was to hide problems and maintain the status quo. Managers weren't motivated in new projects and tasks. Meetings were ironically described as <i>top managers' hobby</i> .		
When plans are made, there is very little follow-up, things don't get done.			
Some people feel insecure about their place in the firm.	The co-founder (who was also the best sales representative) started his own company in secret.	Bargaining power of key employees radically increased in the past 3 years; fluctuation was extremely high.	Firing managers and open intimidation was a widely used "coordination tool".

## Discussion

In the following section, authors introduce their results and interpret their findings using Greiner's (1972) model and his suggested organisational practices in the five phases of growth. Using Greiner's definition, authors interpret a phase's dominant growth scheme as an exploration activity (new product and market, sustained growth with efficiency focus, expansion and diversification) and the solution of crises as exploitation (management, functional organisation, divisional organisation with developed control techniques), which can enable the next exploration phase.

Authors analyse exploitation solutions by Dobák and Antal's (2010) management functions in order to understand the reasons of the differences. These functions are strategic planning and target setting, organisation, motivation and control. The top-management's organisational activity creates the structure, which can be described and analysed by the division of labour, division of authority and coordination.

### Creativity phase and leadership crisis

In the first phase of an organisation's life-cycle a new product and/or market is its only growth catalyst. This innovation is induced by an entrepreneur leader, who is deeply involved in everyday activities. The communication and organisation is informal, but this "disorganisation" makes the company able to react extremely fast to feedbacks and exploit the products and markets. In the creativity phase a make and sell strategic approach dominates with informal structure and strong personal management presence and control.

When the number of employees constantly increase and operation becomes more and more complex, need for new management functions emerge. This is the first time, when the organisation faces a growth crisis: the company outgrows its previously successful informal framework. According to Greiner (1972), the optimal solution of this situation is a "*strong manager who has the necessary knowledge and skills to introduce new business techniques*", but none of the examined companies made this decision. In every case the founders remained the firm's CEO, preserved their strong market and technological focus and continued their active participation in everyday operation:

- The baking company's CEO was informally the real production manager.
- When the automotive company couldn't meet the car importers requirements, always the CEO sold the last missing ones.
- Although the agricultural company had a plant manager, he was a functional specialist not a real leader because it was never allowed to him to make an own decision.

This is the first growth failure: in the CEE region it is quite impossible for a small venture to hire an educated manager – the real problem is, that founder doesn't feel the importance to acquire this knowledge and skills. The reason for this phenomenon lies in market feedback. The company is growing extremely and it has a working, proved "recipe": make and sell focus and informal operation, where management duties are stigmatized as unwanted, because "making and selling" creates the value. The excessive exploration focused management pattern distracts the founders attention from a correct exploitation answer, but there aren't financial warning signs in the short term, only positive market feedbacks.

### Direction phase and autonomy crisis

According to Greiner (1972), a strong and educated manager has to build a centralised functional organisational structure, which main strength lies in technocratic and structural coordinating tools: with work standards, incentives and budgets the organisation becomes able to radically improve its efficiency and grow in quantity.

But a “make and sell” focused entrepreneur leader who doesn’t understand the importance of professional management is not able and –more importantly– not willing to build a centralised structure, because it limits his freedom too. In this phase, all of the examined company diversified dramatically its product portfolio, but this direction wasn’t in line with the “instinctively” emerging functional organisational structure. As a consequence of this process and the founders missing management knowledge, the evolved organisations had serious problems. On the surface, every company had a proper functional structure, but the division of labour and authority was mixed:

- At the automotive company, the relationship between real functions (accounting, IT, marketing) and business units (car trade, service stations, rent’a’car, car fleets) was unclear.
- The agricultural company had many sales representatives, but it hasn’t got a real sales manager. Additionally, its division of labour was an evolutionary mix of product and regional based separation, which caused serious conflicts in that department.
- In the case of the baking company, handling and coordinating geographically distant factories within a functional structure was a hard to solve problem for a long time and caused significant costs.

The operation was slowing down, but the theoretical solution for the emerging autonomy crisis wasn’t feasible. Instead of educating autonomous managers, the system created a wide range of egoistic functional specialists, because –as a consequence of the first phase and the first failure– the technological knowledge was overrated in the culture. However there was a lack of proper organisational structure and professional management the firms’ overall financial performance were still positive (although the speed of growth was slowing down), and this feedback put the managements to sleep. They interpreted the symptoms as personal conflicts and weaknesses, not system-level results of a range of serious management failures.

### **Delegation phase and control crisis**

The extremely overloaded top-management was motivated but wasn’t able to create a decentralised organisational structure, which is the key enabler of growth in Greiner’s (1972) delegation phase. The system “created a monster”, problems accumulated: lack of management knowledge on top- and middle level, which is conserved by a structure filled with functionally egoistic experts with low willingness to take responsibility, and a “make and sell”-focused culture.

In the delegation phase, management wanted firstly to “outgrow” the problem. It proved to be impossible with the following symptoms: uncontrollable units had been established with high fluctuation, frustrated top-management who were afraid of the future of their life’s work, and –last but not least– shrinking profitability. Efficiency was poor and new ideas -created generally by the top-management- weren’t transformed to products because of middle-managers’ incapability and resistance.





The moment, where the vicious circle broke was the point, where the crisis became financially sensible. This was the focal point, where top-management understood that the previously successful recipe is not working anymore. The examined organisations in the last 3-5 years had to make up for every missed organisational development:

- Firstly, they came through a radical restructuring and process development. Work standards were rationalised, coordination tools (structural and technocratic) were introduced.
- Top-management went through a shocking period, when they were extremely motivated to become real CEO’s who are able to understand and use corporate coordination and governance tools.
- Balanced Scorecards strongly integrated with work standards and performance management systems were introduced.
- Centralised middle-management education programs were started in order to help and make them able to use coordination tools and manage their branches with responsibility.



To summarize, problems accumulated and reached a critical level during the control crises. In Table 2 authors identify the 3 main growth management failures, analyse the reason of them and explain the results of the wrong decisions using Dobák and Antal's (2010) management functions.

**Table 2. Analysis of management solutions, failures and reasons in Greiner's (1972) first three growth phases**

	<b>Creativity</b>	<b>Direction</b>	<b>Delegation</b>
Failure	Founder doesn't become an educated manager.	Founder fails to build an appropriate organisational structure.	Founder can't transform functional specialists to qualified managers.
Reason	The informal organisational and leadership style and market success distracts founders attention from management issues.	Market feedback of explorative activities are faster and more perceptible than benefits of organisational development. The firm's overall financial performance is still positive.	The founder's management and leadership pattern as a role model is misleading and his constant operative involvement prevents the development of autonomous middle-management.
Strategy	Make and sell	Make and sell instead of efficiency focus 	Make and sell - expansion 
Organisation	Informal	Centralized, functional - Problems in division of labour, authority and coordination 	Decentralised - "hybrid" division of labour (mixed elements of functional and divisional organisational form), conflicts in authorities 
Motivation	Creativity, new challenges, ownership	Salary and bonuses	Bonuses
Control	Personal control	Bureaucratic elements, financial control, but the real control mechanism is still the founders personal power and symbol	Control is still financial and personal - lack of process- and customer-oriented control.

### Conclusions and implications

Authors carried out a qualitative case study research based on a longitudinal examination of three middle-sized companies. Authors interpreted ambidexterity as a sequential process, where –based on Greiner (1972) – intensive exploration and the fitting exploitative solutions (structure, processes, management and leadership) result in aggressive growth. At the end of a growth period a crisis forms where management has to recognize the misfit between exploration activities and exploitative elements: only new structure and management methods can enable the company to continue its aggressive growth trend (Greiner, 1972). To summarize, the solution of a growth crisis (exploitation) is the catalyst of the next, explorative growth-period.

The article provides a deep understanding of how organisations led by an entrepreneur founder-manager grow; what challenges and solutions they have and how the previously successful entrepreneurial focus and market success can divert their attention from managerial and organisational development.

The research revealed that it is possible to survive crises with 'quasi solutions', but wrong decisions accumulate: the first step is that the founder doesn't become an educated manager. This problem directly leads to inappropriate organisational development solutions. As a consequence of this process, middle-management "inherits" founders are not professional and market/technology focused

management and leadership pattern. This complex set of problems makes control crises unsolvable in itself: organisations have to solve all the previous crises correctly, otherwise they can't cope with control issues. The answer for the question, why control crisis is the crucial point in this process, is the following: this is the first stage where organisational problems become financially perceptible. This shocking recognition breaks that previously dominant view that only external, make and sell focused growth can lead to market success.

The reason for this phenomenon is that explorative activities distracts management's attention from organisational development. The cause of this strategic problem lies in feedback-asynchrony: market's reaction time is much faster, more direct and more tangible than current effects of long-term organisational development. But another factor is also strengthening this problem: lack of organisational development doesn't occur directly in form of costs – it only limits future growth prospects. This asynchrony misleads managers and motivates them to repeat previously successful explorative (make and sell) and exploitative (informality, active operative engagement, expert role) patterns. It's important, that authors absolutely agree with the content of Greiner's (1972) model – the focus of this research is to provide new results to the relationship and sequence of crises and introduce that misleading force that makes difficult to follow the theoretical growth pattern.

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