Ethics, Social Responsibility and Innovation in Corporate Governance

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Edited by

Jernej Belak and Mojca Duh

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FOREWORD

Due to the requirements for a requisitely holistic approach to governance and management, researchers and practitioners have been working on contemporary solutions for governance and management. Certain efforts have led to the development of integral management and governance, meaning that the process of management and governance in a certain enterprise has to be integrated and consistent with culture, credibility, entrepreneurial spirit, ecology, ethics, innovation, and social responsibility. Therefore, in the process of an enterprise’s management and governance, the key stakeholders have to achieve the (corporate) integrity of their enterprise’s functioning. The integrity of such an enterprise’s functioning (considering the culture, ethics, innovation, social responsibility, etc.) is currently treated as the precondition for an enterprise’s success in the long run.

The presented book has to be read in a broader context of the MER Model of Integral Management and Governance, which is based on the multi-layered integration of governance and management with an enterprise and its environment, considering the fundamental aspirations (desires) for the enterprise’s existence and, thus, its quantitative as well as qualitative changes. The MER model is based on both horizontal and vertical integration of an enterprise’s governance and management processes, instruments, and institutions into a consistently operating unit. The process, instrumental, and institutional integrability and integrity of the governance and management are also the initial conditions for the implementation of all other integration factors. The mentioned model also deals with and argues the need for equal consideration of an enterprise’s key success factors, such as its competitiveness, internal and external compatibility, credibility, entrepreneurship, synergy, culture, philosophy, ethics, ecology, and efficiency. In the presented book, the importance of some of these key success factors for enterprises is addressed and argued.

Due to rapid changes and difficult competitive conditions, enterprises find it difficult to build and sustain a competitive advantage for longer periods. Therefore, achieving dynamics should be the major orientation of any enterprise where the constant sensing and seizing of business opportunities require a positive attitude towards innovations.

Innovations, creative environments, and cultures which support innovative behaviour are important constituents of a dynamic enterprise. Innovative behaviour and innovations should not be limited to technological ones only. Indeed, the 2008 global economic and social crisis occurred in the most developed and innovative countries which emphasize technological innovations in particular. Consequently, the recent crisis shows that innovations should also consider an enterprise's needs, habits and values, culture, ethics, and norms.

Unfortunately, the official international documents on innovation (launched by the OECD in 1971 and the EU in 1995) draw no distinctions between technological and non-technological innovations, except in the statistical coverage of data about them. The socio-economic crisis that emerged in 2008 in the most technologically advanced and democratic countries demonstrates the need to pay much greater attention to non-technological innovation, especially the most influential one: the governance and management style on which all other innovations essentially depend.

If we want to survive as humankind and as a society, we have to consider wider social interests than just our own (individual) interests and profits. Therefore, social responsibility is a socio-economic innovation aimed at humankind's survival.

Considering the work of various globally recognized authors, social responsibility is a tool to prevent the pending third world war to which the world is being led by monopolies of corporations, resulting from the neoliberal economic theory under its excuse that the totally free market is the best for humankind. The present book argues that the totally free market could be the best, but it is disappearing due to monopolistic organizations that do not practice social responsibility.

In addition to unethical behaviour, the economic crisis of 2008 brought about a chance to reflect on good corporate governance and management. The legal and ethical scandals of Enron, WorldCom, Tico, Volkswagen, and many other companies initiated a wave of mistrust. After discussions about how to escape the occurring situations, various initiatives for doing business on different foundations were undertaken. It is not surprising that the business world has realized that a new era of corporate governance and management must (finally) begin. Companies' governance and management processes must be much more grounded in the implementation of business ethics, the reviewing and monitoring of corporate strategy implementation, and the evaluation of board performance.

The principles of corporate integrity have become an essential part of corporate governance and management today. Enterprises with a high level of corporate integrity have become more successful, showing better business results. Therefore, enterprises need to be governed and managed properly (read: with a high level of integrity) in order to survive and prosper. With the separation of ownership of the enterprise and its management, where managers have become owners' agents, self-interested managers have the opportunity to take actions that benefit themselves, with shareholders and stakeholders bearing the costs of such actions. This is referred to also as agency problem, and the costs resulting from this problem are described as agency costs. Therefore, some type of control and monitoring is needed in the organization, which is referred to as corporate governance.

Research in this field is concentrated around the main question of good governance, which considers interests of different groups of stakeholders as much as possible. Therefore, this book presents a way to measure the quality of corporate governance, which is still a relatively new concept. One of the recently developed indices is the South East Europe Corporate Governance Academic Network (SEECGAN) Index, which was created for former socialist countries in south-east Europe and is the result of joint work of members of the SEECGAN network.

We hope the reader will enjoy reading this book with the passion and concern that the above-mentioned behaviour and functioning of today's enterprises are not only plausible but also needed for us in order to survive as economies, countries, enterprises, individuals, society, and humankind.

We would also like to thank all the authors and reviewers of the present scientific monograph for their valuable contributions, comments, and suggestions.

Jernej Belak and Mojca Duh
In Maribor, April 2016

CHAPTER ONE

ENTERPRISE'S DYNAMICS, INNOVATIVENESS, AND CULTURE

MOJCA DUH, JERNEJ BELAK

1 Introduction
2 The main features of a dynamic enterprise
3 Dynamic capabilities and requisite ambidexterity of an enterprise
4 Enterprise's innovativeness and dynamics—how are they related?
5 Organizational culture and requisite dynamics of an enterprise
6 Conclusions

1 Introduction

Nowadays, enterprises must be able to respond effectively to rapid changes and increasing globalization in their environment. Several authors have suggested that enterprises should become dynamic (e.g., Pümpin and Prange 1995, 1991; Duh 2013) by developing dynamic capabilities (Danneels 2010; Teece et al. 1997; Teece 2007, 2009), where ambidexterity is recognized as one of the most important dynamic capabilities (Gibson and Birkinshaw 2004, 209-210; O'Reilly and Tushman 2007, 40). Enterprises in dynamic environments should successfully pursue exploration and exploitation (Tushman and O'Reilly 1996, 12) and address conflicting demands for alignment and adaptability (Gibson and Birkinshaw 2004, 209-210). The dynamic capabilities approach and the concept of a dynamic enterprise as well as the concept of an ambidextrous organization all address the same question, which Teece (2007, 1347) described as "an extremely seminal and complicated issue: how a business enterprise and its management can first spot the opportunity to earn economic profits, make the decision and institute the discipline to execute on that opportunity, and then stay agile so as to continuously refresh the foundations of its early success, thereby generating economic surpluses".

Due to rapid changes and challenging competitive conditions, enterprises find it difficult to build and sustain a competitive advantage for longer periods (e.g., Sirmon et al. 2010; Wiggins and Ruefli 2005). Therefore, achieving dynamics should be the major orientation of any enterprise where the constant sensing and seizing of business opportunities require a positive attitude towards innovations (Mugler 1993, 131; Phan 2006). Innovations, creative environments (Ženko and Mulej 2011), and cultures which support innovative behaviour are important constituents of a dynamic enterprise. Innovative behaviour (Thommen 2003) and innovations should not be limited to technological ones only. Indeed, the 2008 global economic and social crisis occurred in the most developed and innovative countries which emphasize technological innovations in particular (Mulej et al. 2002; Ženko and Mulej 2011). Consequently, the recent crisis shows that innovations should also consider an enterprise's needs, habits and values, culture, ethics, and norms (Duh and Štrukelj 2011; Mulej 2010; Ženko and Mulej 2011).

Organizational culture has often been seen as a precondition for an enterprise's competitive advantage (Tushman and O'Reilly III 1996, 23), a key factor of the enterprise's innovativeness (e.g., Detert et al. 2000, 850; Tellis et al. 2009, 4), and crucial for the enterprise's success (Ralston et al. 2006, 840). Several authors (Bock et al. 2012, 299; Tushman and O'Reilly III 1996, 24) have called attention to the positive association between cultures supporting creativity and innovation and a firm's ability to respond effectively to internal and external forces. Due to its crucial role for an enterprise's existence, organizational culture should be managed correctly (Tushman and O'Reilly III 1996, 23). If not, it can create obstacles to the innovation and become a reason for an enterprise's failure (Tushman and O'Reilly III 1996, 23). Cultural inertia that can present an obstacle to the enterprise's dynamics is especially characteristic of older, larger, and successful firms (e.g., Majumdar 2000, 60; Tushman and O'Reilly III 1996, 18-19). In such firms, norms and values are strongly institutionalized and, therefore, hard to change; when confronted with incremental and discontinuous change, such a culture can create a barrier to change.

In this contribution, we discuss three concepts that address the requisite dynamics of an enterprise: the dynamic enterprise construct, the dynamic capabilities approach, and the concept of an ambidextrous organization. The main features of a dynamic enterprise are explained in the second section. The third section provides insights into the complexity of the dynamic capability concept and ambidexterity. The fourth section examines the role of innovations and an enterprise's innovativeness in dynamic environments as well as their effects on an enterprise’s innovativeness. Due to the major role that innovations play in the dynamic orientation of an enterprise, in the fifth section we discuss enterprises’ innovativeness and dynamics in relation to an organizational culture that builds a precondition for creativity, innovation, and consequently an enterprise’s dynamics. We end this contribution with major findings related to the researched topic, which are presented in the final section.

2 The main features of a dynamic enterprise

Pümpin and Prange (1995, 1991) developed the concept of a dynamic enterprise within their model of an enterprise’s development. Their model describes the process of quantitative and qualitative growth of enterprises by introducing four stages of growth that the authors describe as typical enterprise configurations (i.e., a pioneer, a growing, and a mature enterprise and an enterprise in turnover). The authors built their idea of an enterprise’s growth on the life cycle concept of products and business opportunities. In particular, business opportunities (internal and external ones) are found to be a driving force of an enterprise’s growth and development. Because business opportunities follow their own life cycle and eventually reach the maturity stage, it is of crucial importance that enterprises constantly seek out new business opportunities. Namely, the maturity stage of an enterprise is a consequence of the maturity of the majority of the enterprise’s products and opportunities, which according to Pümpin and Prange (1995, 244) is a crucial stage in an enterprise’s life cycle. Although at the beginning of the maturity stage an enterprise shows many strengths (e.g., competent management, the economy of scale and resulting low costs, knowledgeable and experienced employees, established technologies and distribution channels, good relationships with major stakeholders [i.e., customers, suppliers, and the government], and good and stable financial outcomes), eventually the weaknesses (e.g., insufficient flexibility and several innovations’ barriers, including culture, lack entrepreneurially oriented employees, bureaucracy, unproductive conflicts among the members of top management) become evident if not managed in a proper manner. Therefore, Pümpin and Prange (1995, 244) stressed the dangers of an enterprise’s tendency to pursue the maturity stage and call attention to the requisite revitalization and dynamics of an enterprise.

Pümpin and Prange (1995, 244) introduced “a dynamic enterprise” as an enterprise’s special (i.e., fifth) configuration based on the cognitions about the problems connected with a mature enterprise. They described this type of enterprise as one that combines the strengths of a pioneer and a growing enterprise and is able to respond dynamically to challenges in a firm's environment. In the opinion of the authors, such an enterprise should possess the following attributes: the ability to seek out and gain new and attractive business opportunities, the multiplication of systems and processes, dual cultures, flexible regulations, dynamics promotors, the development of strategic origins of success, the flexible adaptation of structural and process organization, limitation of the leadership system to reasonable optimum, orientation towards individuals, and time orientation.

One of the most important features of a dynamic enterprise is its ability to constantly seek and gain new and attractive business opportunities in the enterprise's internal or external environment. This is also one of the attributes of a pioneer enterprise. In this respect, setting up a clear vision of future development directions is, according to the authors (Pümpin and Prange 1995, 247), an important precondition for efforts of the enterprise's key stakeholders.

However, it is important not only to seek and attain new business opportunities, but also to multiply these opportunities. This is an attribute of a growing enterprise, which is capable of exploiting new business opportunities to the greatest extent. Multiplication in a dynamic enterprise requires undertaking several measures, such as standardization and efforts to reduce costs (Pümpin and Prange 1995, 247).

The management of a dynamic enterprise should be able to justify and support the simultaneous development of two cultures of different orientations. A culture which encourages creativity and innovativeness is a precondition for effectively seeking out and searching for new business opportunities. The main attributes of this type of organizational culture are individualism and entrepreneurship. However, when the multiplicative exploitation of attractive business opportunities is called into question, then a culture that supports efforts in realizing goals, objectives, and strategies should be at the forefront. Because these two (dual) organizational cultures are different in many ways, it is hard to avoid escalating conflicts while implementing both of them. Therefore, the management of a dynamic enterprise plays an important role in justifying and explaining the necessity of the co-existence of these two different cultures in the same enterprise (Pümpin and Prange 1995).

Pümpin and Prange (1995, 248-249) suggested simple and flexible legal regulations of an enterprise where its statute as a basic document plays an important role. An enterprise should be flexible regarding changes in ownership, governance, and management of an enterprise, which are sometimes needed in order to dynamically respond to challenges in its environment.

An important role in a dynamic enterprise is attached to promotors of dynamics, which should come from the external environment in order to prevent "entrepreneurial blindness". The promotors of dynamics are individuals who possess entrepreneurial values such as self-initiative, competitive spirit, constant dissatisfaction with the achievements, focus on achievements, stakeholders, and profitability. This so-called "fresh blood" launch changes an enterprise, thereby preventing the increase of comfort in thinking about and handling issues (Pümpin and Prange 1995, 249).

An important precondition for the enterprise's dynamics is the special capabilities that need to be developed (so-called strategic origins for success). Among several requisite capabilities, Pümpin and Prange (1995, 250) emphasized in particular capabilities for sensing new opportunities, capabilities for the prompt seizing of attractive business opportunities in a planned manner, capabilities for developing dual cultures, and capabilities for establishing flexible structures within the flexible legal framework. The development of these capabilities is closely linked with the employee base, meaning the training and selecting of skilled co-workers are of crucial importance.

According to Pümpin and Prange (1995, 250) only enterprises with a decentralized organizational structure are able to develop the flexibility required for responding dynamically to rapid and complex changes in market conditions and global technological trends. Small and flexible units with responsible management that reduces the probability of establishing kingdoms and principalities are important attributes of a dynamic enterprise.

The leadership system of a dynamic enterprise should be as simple as possible. As for the organizational structure, the leadership system should also be conceptualized and implemented as a flexible system that can be simply adjusted to particular situations. The information system of a dynamic enterprise should provide up-to-date information to decision makers (Pümpin and Prange 1995, 250-251).

Qualified and skilled employees are highly motivated to accomplish their tasks, are flexible and creative, and are an important part of striving towards requisite dynamics. Pümpin and Prange (1995, 251-252) described this important feature of a dynamic enterprise as "an orientation towards the individual". This important precondition for dynamics should be accomplished by applying the modern concepts of human resource management, an innovative and flexible reward system, and open communication between employees throughout the organization.

The last, but not least, important characteristic of a dynamic enterprise is its time orientation. One of the most critical success factors in seeking and gaining new attractive business opportunities is time in terms of "being first". Only an enterprise that succeeds in entering the market first and rapidly multiplies in the growth stage will be able to gain superior business results. To be able to realize the "being first" concept, an enterprise and its management should follow several fundamental principles, such as a clear definition of priorities, personal time management, and an organizational culture with strong time orientation (Pümpin and Prange 1995, 252).

3 Dynamic capabilities and requisite ambidexterity of an enterprise

The dynamic capabilities approach (Teece et al. 1997; also Teece 2007) has been developed as an extension of the resource-based view (RBV) to dynamic environments. Several authors have referred to this concept when discussing the importance of ambidextrous organizations (e.g., Tushman and O'Reilly III 1996; Gibson and Birkinshaw 2004; Simsek et al. 2009) and recognize ambidexterity as one of the most important dynamic capabilities (Gibson and Birkinshaw 2004, 209-210; O'Reilly and Tushman 2007, 40).

According to the RBV, strong and close competitors differ among each other in important ways; these differences stem from their resources and capabilities, which are valuable, rare, imperfectly imitable, and not substitutable and are therefore a source of a competitive advantage (Barney et al. 2001; Helfat and Peteraf 2003). However, several authors have questioned the applicability of the RBV in rapidly changing environments and emphasized the importance of an enterprise's ability to change and quickly develop new capabilities as a prerequisite for a competitive advantage (Schreyögg and Kliesch-Eberl 2007, 914). The "dynamic capabilities approach" developed by Teece, Pisano, and Shuen (1997; also Teece 2007) explicitly acknowledges that enterprises need to adjust to the environmental changes; therefore, they need to reallocate resources and learning new skills (Harreld et al. 2007). According to Teece (2007), this approach should "provide an umbrella framework that highlights the most critical capabilities management needs to sustain the evolutionary and entrepreneurial fitness of the business enterprise" (p. 1322). Some authors (e.g., Schreyögg and Kliesch-Eberl 2007, 914) have suggested that the notion of "dynamic" is devoted to addressing the continuous renewal of organizational capabilities, thereby matching the demands of changing environments. Others (Ambrosini and Bowman 2009, 30) believe that "dynamic" refers to the environment rather than the capability. We believe that both understandings are correct and should be considered simultaneously. On one hand, the enterprises' environments are characterized by rapid and complex changes; on the other hand, enterprises are exposed to the maturity problems emphasized by Pümpin and Prange (1995) within their life cycle approach to the development of an enterprise.

Recent research on dynamic capabilities calls attention to the weaknesses of an enterprise that occur because of the enterprise's maturity. For example, Schreyögg and Kliesch-Eberl (2003, 916-919) argued that, in rapidly changing environments, an enterprise's capabilities may easily become an obstacle due to path dependency (i.e., "history matters") and lock-in, structure inertia, and resource commitment. For this reason, enterprises face a dilemma. On one hand, they have to develop reliable patterns of selecting and linking resources in order to attain a competitive advantage; on the other hand, this attempt presents a considerable risk of becoming locked into exactly these capabilities. Similarly, Teece (2007, 1335) argued that, as the enterprise grows, it has more assets to manage. Over time, successful enterprises develop hierarchies, rules, and procedures that begin to constrain interactions and behaviours unnecessarily. According to the authors, except in very stable environments, such hierarchies, rules, and procedures are likely to require constant renovation in order to sustain superior performance. Teece (2007, 1327) called particular attention to the very common phenomena of the mature enterprises that tend to eschew "radical competency-destroying innovation in favor of more incremental competency-enhancing improvements". Standard procedures, established capabilities, complementary assets, and administrative routines can have negative effects on enterprises' innovativeness.

Dynamic capabilities are defined as the enterprise's ability to "integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece et al. 1997, 516) and include "difficult-to-replicate enterprise capabilities to adapt to changing customer and technological opportunities" (Teece 2007, 1319-1320). The essence of an enterprise's competences and dynamic capabilities, according to Teece and co-authors (1997, 522), lies in its processes, which are in turn shaped by the firm's assets and its revolutionary path. For analytical purposes, dynamic capabilities can be "disaggregated into the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and when necessary, reconfiguring the business enterprise's intangible and tangible assets" (Teece 2007, 1319-1320).

Several other definitions of dynamic capabilities have been introduced, many of them being adaptations of Teece et al.'s (1997) original definition (e.g., Eisenhardt and Martin 2000; Zollo and Winter 2002; Zahra et al. 2006). An extensive overview of different definitions was provided by Barretto (2010) and Ambrosini and Bowman (2009). For example, Barreto (2010, 271) defined a dynamic capability as “the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base”. Ambrosini and Bowman (2009, 33) identified dynamic capabilities as intentional efforts to change the firm’s resource base. Wang and Ahmed (2007, 35) defined dynamic capabilities as “a firm’s behavioral orientation constantly to integrate, reconfigure, renew and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage”. The authors pointed out that dynamic capabilities are not simply processes, but are embedded in processes. According to Wang and Ahmed (2007, 35-36), a firm’s resources and capabilities have a “hierarchical” order. Resources are the “zero-order” element and capabilities are the “first-order” element of a hierarchy. Core capabilities are a “second-order” element and are a bundle of the firm’s resources and capabilities that are strategically important to its competitive advantage at a certain point. Dynamic capabilities are the “third-order” element of hierarchy, where considerable weight is placed on a firm’s constant pursuit of the renewal, reconfiguration and re-creation of resources, capabilities, and core capabilities to address the environmental changes. Zollo and Winter (2002, 340) defined a dynamic capability as “a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness”. According to Zollo and Winter (2002, 340), dynamic capabilities arise from learning and constitute the firm’s systematic methods for modifying operating routines (operating routines are geared towards the operational functioning of the firm). According to Hong and co-authors (2008), the dynamic capabilities view considers “the firm essentially as a knowledge creating, upgrading, and applying entity”.

Schreyögg and Kliesch-Eberl (2007) identified three different theories of dynamic capabilities. The first one is the radical dynamisation approach that treats the dynamic capabilities as a functional equivalent to the classical capabilities in dynamic environments (developed by Eisenhardt and Martin 2000). The second one is the integrative approach, which fosters the idea of amending by adding a dynamic dimension (developed by Teece et al. 1997). The third one is the innovation routine approach, which assigns the tasks of dynamisation to a special type of routine called innovation routine (developed by Zollo and Winter 2002).

In many definitions, the dynamic capabilities are understood and described as constructs (e.g., Ambrosini and Bowman 2009, 33; Barreto 2010, 270), and some authors have even distinguished between different levels of capabilities (e.g., Drnevich and Kriauciunas 2011; Winter 2003). Many authors (e.g., Winter 2003, 992) have emphasized that dynamic capabilities should not be seen as ad hoc problem solving or crisis fighting. For example, Zollo and Winter (2002, 340) stated that dynamic capabilities are structured and persistent. However, some researchers have even questioned the term "dynamic capability" itself as being built on "two contradictory notions of logic at the same time: reliable replication and continuous change—two dimensions that hardly mix" (Schreyögg and Kliesch-Eberl 2003, 922-923). Other authors have linked definitional problems within the dynamic capabilities approach with similar problems within the RBV (Wang and Ahmed 2007, 32-33), calling attention to the limited empirical support of both concepts (Ambrosini and Bowman 2009, 37; Barreto 2010, 257; Wang and Ahmed 2007, 31-32).

Several scholars (for references, see Güttel and Konlechner 2009, 154; Lubatkin et al. 2006) have explored the relationships that exist between the dynamic capabilities and ambidexterity. O'Reilly and Tushman (2007, 12) explained dynamic capabilities as being "at the heart of the ability of a business to be ambidextrous—to compete simultaneously in both mature and emerging markets—to explore and exploit". The authors argued that enterprises should be ambidextrous and find their "characteristics" as a critical element of a sustainable competitive advantage (O'Reilly and Tushman 2007, 9). Their argument is based on the adaptive process of an enterprise, which is of great importance to the firm's ability to exploit existing assets and positions in a profitable way and to explore new technologies and markets (O'Reilly and Tushman 2007, 10). According to O'Reilly and Tushman (2007, 13), the required capabilities for enterprises to be successful at ambidexterity are "a coherent alignment of competencies, structures and cultures to engage in exploration, a contrasting congruent alignment focused on exploitation, and a senior leadership team with cognitive and behavioral flexibility to establish and nurture both".

Simsek et al. (2009) proposed four generic ambidexterity types (i.e., partitional, harmonic, cyclical, and reciprocal ambidexterity) by applying two dimensions. The first dimension is a temporal dimension that captures the extent to which ambidexterity is pursued either simultaneously or sequentially. The second dimension is a structural dimension that captures whether or not ambidexterity is realized within an independent unit (e.g., business unit or a small to medium-sized enterprise [SME]). When enterprises establish structurally independent units specializing in either exploration or exploitation and where each unit has “its own strategies, structures, cultures, and incentives systems”, we talk about partitional ambidexterity (Simsek et al. 2009, 884). When the simultaneous pursuit of exploration and exploitation is achieved within a single business unit, we talk about harmonic ambidexterity. Harmonic ambidexterity is sometimes referred to as contextual ambidexterity (Gibson and Birkinshaw 2004, 209). Recent research studies have shown that harmonic ambidexterity is not only possible (Bierly III and Daly 2007, 508), but also crucial for short-term business success and long-term sustainability (e.g., Wang and Rafiq 2014, 2; Gibson and Birkinshaw 2004, 221; Bierly III and Daly 2007, 508) and has positive effects on stakeholder satisfaction (e.g., Simsek et al. 2009, 881).

Cyclical ambidexterity is described as the sequential pursuit of ambidexterity within a single unit and is characteristic of enterprises engaged in long periods of exploitation and sporadic periods of exploration. It is a common phenomenon in business units with a strong technological orientation. The fourth type of ambidexterity is reciprocal ambidexterity, which is characterized by the sequential pursuit of ambidexterity across units. This type of ambidexterity assumes reciprocal interdependence between exploration and exploitation units. This type of ambidexterity has received the least attention as a subject of research interest (Simsek et al. 2009).

4 Enterprise’s innovativeness and dynamics—how are they related?

Our previous discussion indicates that enterprises must be dynamic if they want to survive and prosper in dynamic environments. It means that they must be able to resolve tensions between innovation and adaptation as well as replication and optimization that represent antagonistic modes of enterprises’ development (e.g., Güttel and Konlechner 2009, 150). The dynamic enterprise construct and the dynamic capabilities approach both emphasize the role of innovations and innovativeness of enterprises as an important element for building and sustaining their requisite dynamics. Pümpin and Prange (1995) perceived innovations and innovativeness as an important differentiating feature of a pioneer enterprise that should be built and sustained in a dynamic enterprise as well. The authors suggested that the strategic origins of success should be developed, where the creation of knowledge and learning are of crucial importance. Similarly, Teece (2007) and O’Reilly and Tushman (2007) emphasized the importance of knowledge and learning for sensing and seizing opportunities. The creation and sharing of knowledge are likely to influence an enterprise's ambidexterity positively and are recognized as a key (micro) foundation of dynamic capabilities.

Several studies have confirmed that innovations are enterprises' effective answer to rapid changes in external environment (e.g., Craig and Moores 2006; Nonaka et al. 2000). According to Kim (1997), individuals' innovativeness can be understood as the abilities and knowledge required for effective absorption, management, and improvement of existing and new technologies, products, and processes. Hurt and Teigen (1977) asserted that innovativeness is a stage in which an individual, in comparison with others in a social system, adopts something new relatively early.

According to several authors, the innovativeness of enterprises as well as individuals strongly depends on their intellectual resources and knowledge (Marcati et al. 2008; Amar and Juneja 2008; Delgado-Verde et al. 2011). Nonaka and von Krogh (2009) emphasized the processes of knowledge creation being of crucial importance for enterprises' creativity, change, and innovation. The dynamic processes of organizational knowledge creation (Nonaka et al. 2006; Nonaka and von Krogh 2009) provide companies with the ability to adapt to changes in the environment and develop dynamic capabilities (Nonaka et al. 2006), which Zheng et al. (2011, 048) conceptualized as "a series of processes handling knowledge resources". Organizational knowledge creation theory, a special theory, aims to explain organizational creativity, change, and innovation based on the concept of four modes of knowledge conversion (for references, see Nonaka and von Krogh 2009). The concept of knowledge conversion is of a fundamental importance for the organizational knowledge creation theory because "it explains how new ideas come forth in innovation" (Nonaka and von Krogh 2009, 645).

In this way, learning and the conversion of knowledge are recognized as factors that positively affect enterprises' innovativeness and competitiveness (e.g., Craig and Moores 2006; Nonaka et al. 2000; Schulze and Hoegl 2006). Learning ability is recognized as one of the most important abilities that an enterprise can possess (Barney et al. 2001; Easterby-Smith et al. 2000). According to several authors, learning plays an important role in the creation of dynamic capabilities through the co-evolution process of past experiences, knowledge articulation, and codification (e.g., Eisenhardt and Martin 2000; Zollo and Winter 2002). Therefore, the governance and incentive structures should be developed in a way that enables learning and the creation and sharing of new knowledge

(Teece 2007). In this respect, Senge (1990, 4) discussed learning organizations, which "discover how to tap people's commitment and capacity to learn at all levels". In the opinion of the author, only such organizations are able to become flexible, adaptive, and productive in rapidly changing environments.

5 Organizational culture and requisite dynamics of an enterprise

Considerable research efforts have been oriented towards discovering the effects of organizational culture on enterprises' innovativeness and dynamics while taking into consideration the cultural particularities of different types of enterprises (e.g., Laforet 2012). Organizational culture has often been understood as a precondition for an enterprise's competitive advantage (Tushman and O'Reilly III 1996, 23), a key factor of enterprise's innovativeness (e.g., Detert et al. 2000, 850; Tellis et al. 2009, 4), and therefore an important factor in an enterprise's success (Ralston et al. 2006, 840). Several authors (Bock et al. 2012, 299; Tushman and O'Reilly III 1996, 24) called attention to a positive association between culture that supports creativity and innovation and a firm's ability to respond effectively to internal and external forces. Organizational culture influences the processes of knowledge creation, and care is found to be a key enabler of organizational relationships; when organizational relationships are characterized by care, it positively influences the process of knowledge creation (Lee and Choi 2003). Some authors (e.g., Litz and Kleysen 2001; Ženko and Mulej 2011) have emphasized the importance of maintaining creative environments in families, especially in childhood, thereby making it a prerequisite for creativity and innovation in businesses. These findings further indicated that roots of organizational culture that stimulates, facilitates, and enhances innovations are based in families and creative family environments.

Although numerous research studies on the dynamic capability concept, ambidexterity, and a dynamic enterprise's construct (e.g., Pümpin and Prange 1995; Tushman and O'Reilly III 1996; for an overview of the research, see Raisch and Birkinshaw 2008; Simsek et al. 2009; Barreto 2010) are theoretical, they provide useful insights into the role of culture when building and sustaining enterprises' dynamics and innovativeness. No universal definition of organizational culture exists (e.g., Detert et al. 2000; Schein 1992). Very often organizational culture is defined as consisting of a set of beliefs, values, and behaviour patterns that shape the behaviour of members of an organization and build an organization's core identity (e.g., Tuan 2012). A review of the organizational culture research studies revealed eight common dimensions of organizational culture (Detert et al. 2000, 854): the basis of truth and rationality in the organization; the nature of time and time horizon; motivation; stability versus change/innovation/personal growth; orientation to work, task, and co-workers; isolation versus collaboration/cooperation; control, coordination, and responsibility; and orientation and focus-internal versus external.

Several organizational culture models exist (for references, see Ralston et al. 2006, 829), and numerous typologies of organizational culture have been developed. Among the most cited and applied typologies are those of Schwartz and Davis (1981), Deal and Kennedy (1982), Hofstede (2000), Schein (1992), Sathe (1984), and Cameron and Quinn (1999; 2004). We shortly present two typologies: those developed by Deal and Kennedy (1982) and Cameron and Quinn (1999; 2004).

Deal and Kennedy (1982) distinguished among four types of enterprise culture (i.e., a macho culture, a "bread and games" culture, a risk culture, and a process culture) by applying to two criteria. The first criterion refers to risk-taking during decision-making while the second criterion considers how fast the feedback information on the successful or unsuccessful realization of a decision reaches a decision-maker. According to the authors, a macho culture is a type of culture whose main features are a high level of risk and fast feedback information about the success of realization. In enterprises that display characteristics of such a type of culture, success is often overly celebrated and failure perceived as personal defeat. Examples of enterprises with macho culture are advertising agencies, movie production agencies, cosmetics producers, and fashion designers.

A "bread and games" culture is characterized by a low level of risk in decision-making and fast feedback on success. Teamwork does not present an issue and is usually combined with pleasure at unofficial celebrations and award events. Examples of enterprises that display characteristics of such a type of culture include, for example, automobile dealerships, computer enterprises, and sales departments of large companies. A risk culture is found in enterprises' main activities connected with large and long-term projects that also incorporate very demanding financial aspects. In the majority of cases, such enterprises are large enterprises.

The characteristics of a process culture are a relatively low level of risk and slow feedback regarding the successful or unsuccessful realization of goals. Such enterprises usually develop clear and formal hierarchical structures with well-defined rules, rights, obligations, and responsibilities. They establish rules regarding the look of the workplace, dress code, etc. In such enterprises, spontaneous celebrations are unusual; the only important role is played by formal celebrations for special occasions.

Cameron and Quinn (1999) developed four types of culture, which are distinguished for audit and comparison purposes (see also Ralston et al. 2006, 831-832): the clan (consensual) culture, the adhocracy (entrepreneurial) culture, the market (competitive) culture, and the hierarchical (bureaucratic) culture. Enterprises displaying the clan culture characteristics are family-type ones characterized by flexibility and internal orientation. Such organizations are held together by interpersonal loyalty, trust, commitment, and tradition. In particular, they encourage participation, teamwork, and consensus. Enterprises with the adhocracy culture, which is characterized by flexibility and external orientation, are dynamic and entrepreneur organizations. In such organizations, employees are highly committed to experimentation and innovation. Individual initiative, freedom, and continuous improvement are emphasized as the key elements for achieving the market leadership. The market culture with control and an external orientation is especially present in competitive and hard-driving organizations. Their major goals are the increase of market share and the maximization of productivity. In such organizations, employees are expected to be aggressive and goal-oriented producers. The hierarchical culture characterized by control and internal orientation is found in formalized and structured organizations. The main orientation in such organizations can be described as smooth functioning, stability, and efficiency. Cameron and Quinn (1999) emphasize that theoretically these four cultural typologies may exist simultaneously in all enterprises. For analytical purposes, they developed the Organizational Culture Assessment Instrument (OCAI) using methodology to analyse the culture within organizations.

However, both the type and strength of the organizational culture play a crucial role in establishing conditions for enterprises' dynamics and innovativeness (Steinmann and Schreyögg 2005; Thommen 2003). Often a differentiation between strong and weak organizational cultures is emphasized (Thommen 2002), where a strong culture is recognized to have positive effects (e.g., Huczynski and Buchman 2007; Tushman and O'Reilly 1996) as well as negative effects on an enterprise's performance (e.g., Steimann and Schreyögg 2005).

Steinmann and Schreyögg (2005) identified several positive effects of a strong culture, including behavioural orientation. A strong culture supports a clear picture of reality and provides employees with a clear orientation; without such a clear focus, many situations could have been interpreted differently. This effect is especially important in enterprises lacking formal rules or, if they exist, are not followed properly. Another effect is untroubled communication. A strong culture encourages a complex network of informal communication, which supports simple, direct communication. In such cases information is usually less deformed. An important effect is fast decision-making, which is enabled by common values that exist within an enterprise with a strong culture. Harmonization and adjustment between employees are achieved quickly, and compromises are made in an atmosphere of mutual understanding. Steinmann and Schreyögg also considered prompt implementation as one of the positive effects of a strong culture. If any doubts or ambiguities occur, a strong enterprise culture helps by providing orientation. Therefore, fast reactions to decisions, plans, and projects are made possible and are evaluated and supported by other co-workers as well. Low control is also an important positive effect of a strong culture. Control is limited because of its indirect way of implementation. Because of the strong orientation, there is no need to look for any other direct ways to strengthen control. Motivation and team spirit are higher in enterprises with a strong culture. The common focus and the firm's common responsibilities within common business norms stimulate employees towards higher efficiency and stronger personal identification with an enterprise. Stability is also an important positive effect of a strong culture, where clear behavioural orientation reduces an individual employee's fear. It gives employees safety and stimulates their self-esteem, thereby influencing their satisfaction with the workplace and working conditions.

However, Steinmann and Schreyögg (2005) called attention to possible negative effects of a strong culture. One negative effect of a strong culture stems from the tendency towards a closed system. Too strong anchoring of values can lead to one dominant power. Arguments set against such authority are then overlooked or denied. There is a danger for such an enterprise to become a closed system. Another negative effect of a strong culture comes from blocking any new orientation of an enterprise. Strong cultures support resistance to new ideas, which threaten the enterprise's identity. New proposals and solutions are therefore often refused. In enterprises with a strong culture, confidence exists only in well-known developmental and success patterns that proved effective in the past and built upon present values. Implementation obstacles are recognized as the negative effects of strong cultures as well. Considering all the negative effects of a strong culture, a conclusion can be made that enterprises with such a culture have the potential to become rigid and inflexible. These can present serious obstacles, especially if an enterprise finds itself in an environment that changes quickly. When a business is not able to adapt to new challenges and redefine its strategy, it has a high probability of failure.

Thommen (2002) defined four sets of criteria for analysing and measuring the strength of organizational culture. The first set of criteria refers to the level of anchoring indicating the level at which employees accept values and norms. A higher level of anchoring suggests a stronger impact of organizational culture on employees' behaviour. The second set of criteria refers to a level of agreement indicating a collective character of cultural norms and values. When the majority of employees share the same values and norms, this indicates a stronger culture. The third set of criteria refers to a system compatibility that describes a level of harmonization of organizational culture with all other systems of an enterprise. When the impact of cultural values and norms on these systems is greater, their implementation will be easier and better performed. The fourth set of criteria refers to the compatibility of an enterprise with its external environment. An enterprise should build its culture in harmony with the culture of its environment. An enterprise that possesses a strong culture has a higher level of anchoring of values and norms, a higher level of agreement, and significant system and environmental compatibility.

In our discussion thus far, we have explained the idea of dual organizational culture as one of the features of a dynamic enterprise (Pümpin and Prange 1995) that should prevent the progress of an enterprise in a maturity stage. This duality of organizational culture lies in a culture that supports creativity and innovativeness as well as the realization of goals, objectives, and strategies. The enterprise's management plays a crucial role in explaining the need for such culture(s). Similarly, within the dynamic capability approach, Teece (2007, 1334) addressed the role of culture by assigning an important role to top management, who "through its action and its communication has a critical role to play in garnering loyalty and commitment and achieving adherence to innovation and efficiency as important goals". Tushman and O'Reilly III (1996) also emphasized the importance of actively managing organizational culture in order to handle incremental and discontinuous change. Culture is crucial for short-term success, but when it is not managed correctly, it can become a reason for long-term failure (Tushman and O'Reilly III 1996, 23).

Tushman and O'Reilly III (1996, 18-19) emphasized the dangers of structural and cultural inertia, especially in older and larger firms, that can become an obstacle for an enterprise's dynamics. According to Tushman and O'Reilly III (1996, 18-19), significantly more pervasive than structural inertia (i.e., a resistance to change rooted in the size, complexity, and interdependence in the organization's structure, systems, procedures, and processes) is cultural inertia that comes from age and success. Over time, larger and established enterprises' culture becomes "sticky and hard to change because of commitments to particular ways of doing things," (Majumdar 2000, 60) and presents a significant barrier to innovativeness and the change required for success.

Therefore, an organizational culture should be flexible and adaptable (Tuan 2012, 463), and successful enterprises should rely on "a strong, widely shared corporate culture to promote integration across the company and to encourage identification and sharing of information and resources—something that would never occur without shared values. The culture also provides consistency and promotes trust and predictability. ... Yet at the same time, individual units entertain widely varying subcultures appropriate to their particular businesses" (Tushman and O'Reilly III 1996, 26). A widely shared corporate culture complemented by (sub)culture(s) differentiated between evolutionary and revolutionary parts of an enterprise is recognized as one of the most important conditions for ambidexterity (Tushman and O'Reilly III 1996). The "tight–loose" aspect of organizational culture should be considered a crucial precondition for the required ambidexterity of an enterprise (Tushman and O'Reilly III 1996, 26-27). It is "tight" when an enterprise's culture is broadly shared and emphasizes norms required for innovations such as openness, autonomy, initiative, and risk-taking. The culture is "loose" when common values vary according to the type of innovation required. This tight–loose aspect of culture has to be supported by a common vision and by supportive leaders who both encourage the culture and know enough to allow appropriate variations to occur across business units.

Simsek and co-authors (2009, 869) recognized harmonic (or contextual) ambidexterity as the type of ambidexterity strongly tied to organizational culture. This can be attained through the creation of a set of processes and/or systems enabling and encouraging employees to make their own judgement on how to divide their time between the conflicting demands for alignment and adaptability (Gibson and Birkinshaw 2004, 209). Meanwhile, formal structures and processes are always embedded and conditioned by a broader organizational context of culture (Adler et al. 1999 47; Simsek et al. 2009, 870). Contextual ambidexterity is grounded in such a type of organizational culture that succeeds in promoting creativity and discipline (e.g., Wang and Rafiq 2014, 2; Simsek et al. 2009). An internal environment that supports the continuous and balanced performance of exploration and exploitation and where commonly shared values and norms are an important dimension of the contextually ambidextrous organizations should be created (Güttels and Konlechner 2009, 158). An "ambidextrous mindset ... that favors exploration and exploitation in an equal balance, a shared language, and mutual understanding" should be developed (Güttel and Konlechner 2009, 162).

Wang and Rafiq (2014, 5) conceptualized "ambidextrous organizational culture" as consisting of "organizational diversity" and "shared vision", which facilitate contextual ambidexterity (Wang and Rafiq 2014, 62). Organizational diversity is defined as "the set of organizational values and norms that encourage and tolerate differences, and recognize and reward individuals' different viewpoints, skills and knowledge" (Wang and Rafiq 2014, 62). According to these authors, organizational diversity "embodies such values that encourage individuals to think originally, behave autonomously and innovatively, and generate multiple perspectives and viewpoints. ... Diversity helps the organization to avoid the tendency of favoring familiar solutions over unfamiliar ones" and is fundamental for exploration. Shared vision is defined as "the set of organizational values and norms that promote the overall active involvement of organizational members in the development, communication, dissemination and implementation of organizational goals" (Wang and Rafiq 2014, 62). According to Wang and Rafiq (2014, 62) shared vision "gives organizational members a sense of purpose and a rationale to be good agents, increasing their willingness to subordinate their individual goals and actions for collective goals and actions ... The congruence of individual values with organizational values creates a 'bonding effect'—the foundation of trusting relationships among organizational members ... shared vision encourages collective behavior, which in turn creates team efficiency valuable in translating diverse ideas into focused actions required for exploitation".

One recent research examined the association between the type and strength of culture and the level of enterprises' dynamics (Duh et al. 2016). The authors applied Cameron and Quinn's (1999) previously discussed culture typology. The research results showed that the adhocracy culture is the type of culture that positively influences the level of enterprises' dynamics. Enterprises with the prevailing adhocracy type of culture are a very flexible, dynamic, entrepreneurial, and creative place to work; individuality is supported, and employees are ready to take risks. Leaders are visionaries who support innovativeness and the production of unique and original outputs. The strength of culture also proved to be an important factor influencing the level of enterprises' dynamics. Strong culture was found to have positive effects on the level of enterprises' dynamics. The results of Duh and co-authors' study showed that more than half of enterprises with a high level of dynamics and with "developed" dual cultures (as conceptualized by Pümpin and Prange 2995) display a