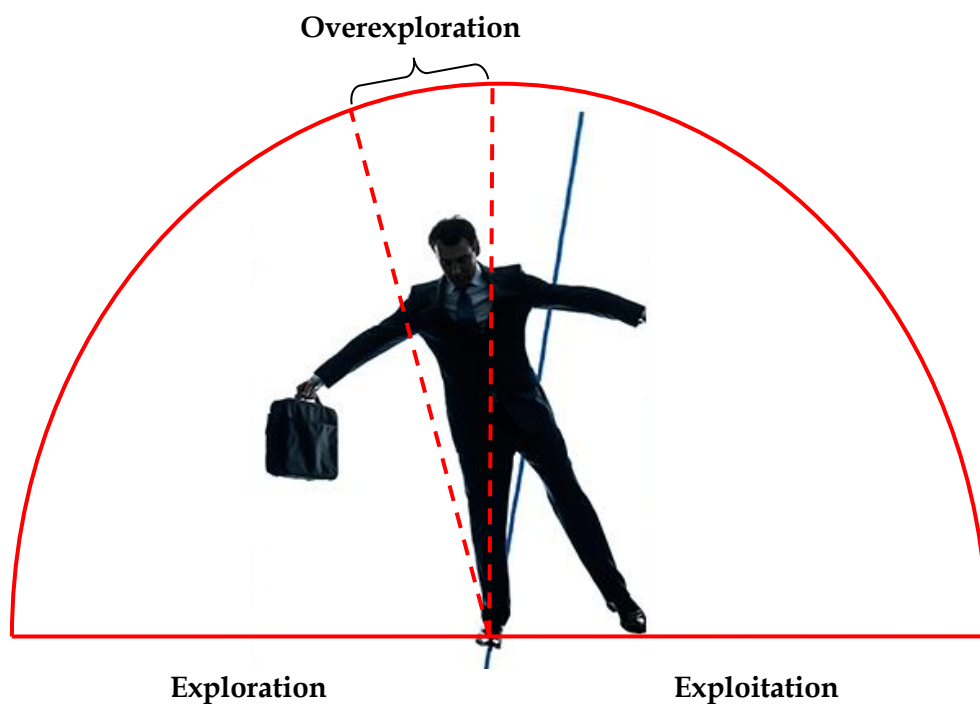


The influence of slack resources on the financial performance of ambidextrous firms

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Life is an inverted U-shape.

– Laurent Lokhorst

Summary

In this study it is tried to explain the performance differences of ambidextrous firms by taking a resource-based perspective. Literature shows that ambidextrous firms are more capable to perform well in changing environments and that unabsorbed slack resources can lower the costs of ambidexterity. Accordingly, it is hypothesized that financial and customer relational slack can – individually as well as combined – increase the financial performance of ambidextrous firms. Based on qualitative comparative analyses of twenty-four Dutch car leasing firms, this study shows that customer relational slack is detrimental for a firm's financial performance as the organizational inertia it creates are difficult to overcome. Financial slack was not found to explain financial performance and neither was a combination of slack resources. These findings contradict the hypotheses, and undermine the relationship between the possession of slack resources and the performance of ambidextrous firms. Meanwhile, ambidexterity and aging were found to improve financial performance. This supports the related hypotheses and proves the importance of ambidexterity and aging for firms dealing with changing market conditions.

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1 Introduction

Increasing technical innovation, globalization and entrepreneurial action cause that firms have to accelerate their corporate decision-making and enable continuous organizational change (Schreyögg & Sydow, 2010; Eisenhardt et al., 2010).

Ambidexterity, as a unique capability to successfully execute both exploration and exploitation activities, has therefore gained increasing interest among scholars (O'Reilly & Tushman, 2013). However, the relationship between ambidexterity and firm performance is “still not straightforward” and needs more empirical research (Martini et al., 2013: p. 6).

Exploration entails processes of organizations by which they create variety in experience through experimentation, trialling and free association (Holmqvist, 2004). Exploitation is about processes by which organizations create reliability in experience through refinement, production and focused attention (Holmqvist, 2004). To illustrate the contrast: the digitalization of declarations is an exploitation activity, which is innovative but certainly not explorative (Van Roey.be, n.d.). Together, exploration and exploitation can help a firm to capitalize on its existing skills while maintaining its flexibility to adapt to environmental changes (Goossen et al., 2012). Moreover, a balance between them – i.e. balanced ambidexterity – is often crucial for a firm's financial performance as it keeps associated coordination costs low (Martini et al., 2013), and prevents overexploration and overexploitation to occur (Goossen et al., 2012; Lin et al., 2007; Wang & Li, 2008).

Ambidextrous firms with a large resource base can more easily sustain balanced ambidexterity (Jansen et al., 2012) or permit to deviate from it (Goossen et al., 2012). For instance, resources can help firms to deal with failed exploration attempts (Yu & Khessina, 2013). Subsequently, the performance of ambidextrous firms is influenced by firm resources in general (Goossen et al., 2012; Lin et al., 2007; Kyriakopoulos & Moorman, 2004; Yu & Khessina, 2013) and slack resources in particular (Jansen et al., 2012; Cao et al., 2009). Slack is defined as “excessive utilizable resources [...] firms possess for further investment” (Sok & O’Cass, 2015: 141), and can facilitate firms to experiment with new strategies or become a resource for conflict resolution (Tan & Peng, 2003).

A distinction of slack based on its properties – i.e. absorptivity and rarity – is useful to make as it may indicate its influence on the exploration and exploitation orientation of a firm (Tan & Peng, 2003; Lavie et al., 2010; Voss et al., 2008). For example, unabsorbed slack can be readily allocated to exploration activities and thereby stimulate an exploration orientation. Since these orientations together represent the balance of exploration and exploitation, slack properties are likely to determine a firm's financial performance. To address both slack properties, this study is aimed at answering the following research question:

How do slack resources influence the financial performance of ambidextrous firms?

The research question is answered by measuring how unabsorbed slack resources, that are common or rare, influence the financial performance of ambidextrous firms. This is done for firms in the Dutch car leasing industry because they are expected to offer new mobility concepts in order to deal with changing market conditions (Rabobank, n.d.). For instance, successfully entering the car sharing business would require exploration (Alphabet, 2014; Enrich, 2013; PricewaterhouseCoopers, 2015) as it is radically different from the traditional car leasing business (e.g. different revenue model; KPMG, 2009). Exploration is, however, uncertain and inefficient by nature due to an unavoidable

number of bad ideas (O'Reilly & Tushman, 2013). This is why Dutch car leasing firms are expected to also invest in exploitation, and thereby increase certainty of short term financial success (O'Reilly & Tushman, 2013), in order to cope with the (price) competition present in the market (Erich, 2013). As they are assumed to focus on both innovation orientations, they could be characterized as ambidextrous firms.

Answering the research question illustrates the importance of slack resources for the financial success of ambidexterity. Hereby this study contributes to research on organizational ambidexterity; it clarifies the relationship between ambidexterity and financial performance by revealing one of its moderating factors (Martini et al., 2013). Furthermore, it exemplifies the successful alignment of firm resources with ambidexterity practices, which creates possibilities for managers to profit (more) from these practices (Goossen et al., 2012). Thereby it provides insights into effective management of ambidextrous organizations, which may increasingly determine competitive advantage in the future as a result of a more global, fast-paced and hypercompetitive world (Smith et al., 2010).

The remainder of this paper is organized as follows. To start with, the concept of slack resources is theoretically explained after briefly reviewing the ambidexterity paradox and balancing mechanisms. Second, it is predicted how the possession of slack resources, level of ambidexterity and firm age influence an ambidextrous firm's financial performance. Hereafter, the data collection method and measurements are described. Fourth, the hypotheses are tested with the data and the results of the analysis are shown. Finally, the findings are discussed and avenues for further research are identified.

2 Theory

Ambidexterity is a dynamic capability (O'Reilly & Tushman, 2013; Martini et al., 2013) as it supports firms to adapt to new opportunities and capture high-value opportunities (Eisenhardt et al., 2010). It literally means "the ability to use both hands equally well" and thereby refers to a combination of exploration and exploitation (Martini et al., 2013). Due to the opposing nature of exploration and exploitation – caused by resource-allocation constraints, organizational inertia and desirable organizational outcomes – balancing exploration and exploitation is difficult (Smith & Lewis, 2011). For instance, organizational inertia are caused by a strong positive feedback loop that comes with either an exploration or exploitation orientation (Goossen et al., 2012). This is the reason why ambidexterity can deliver a sustainable competitive advantage to firms (Martini et al., 2013).

Ambidexterity is often achieved by developing structural mechanisms to cope with the competing demands of exploration and exploitation (Rasch & Birkenshaw, 2008). The known structures are temporal and structural separation (Lavie et al., 2010). Their main difference (in their purest forms) is that temporal separation entails switching between periods of exploration and exploitation whilst structural separation requires effectuation of both simultaneously (Goossen et al., 2012). Both structures have in common that they are associated with increasing coordination costs caused by their opposing nature evoking inertial forces that generate a negative reinforcing cycle of tensions (Martini et al., 2013). This means that by suppressing exploration, the pressure from exploitation gets intensified – and vice versa – (Lewis, 2000), which may increase their competition for resources (Smith & Lewis, 2011). Despite that temporal separation may overcome difficulties of a simultaneous trade-off, it might result in high costs of mode switching

(Goossen et al., 2012). For instance, these costs could be losses from abandoning built search-oriented routines or specialized networks (Sasson & Minoja, 2010). Furthermore, temporal and structural separation are both susceptible for overexploration and overexploitation, which impose costs due to inefficient use of valuable corporate resources (Wang & Li, 2008). Overexploration may lead to chaotic organization and search deviation whilst overexploitation can impose core rigidities (Lin et al., 2007). Altogether, it is argued that organizational difficulties can lead to a financial burden and influence the financial performance of ambidextrous firms.

A resource-based perspective is taken to explain the financial performance differences between ambidextrous firms. Resource-based theory (Mahoney & Pandian, 1992) can be particularly helpful in explaining this diversity since resources and ambidexterity are inextricably linked (Hodgkinson et al., 2014). Resources are “those assets, which are tied semi permanently to the firm” (Wernerfelt, 1984: p. 172) and can, in combination with dynamic capabilities, form the success formula for effective organizations in dynamic environments (Eisenhardt et al., 2010).

2.1 Slack resources

According to the “Resources as Facilitators” argument (Kraatz & Zajac, 2001), slack resources can provide a firm with the ability to redeploy and reallocate activities according to dynamic market needs, thereby stimulating the efficient use of resources (Jansen et al., 2012). Furthermore, they can cut coordination costs as they may help dealing with the paradoxical tensions that come with ambidexterity (Jansen et al., 2012; Smith & Lewis, 2011) and permit mode switching (Goossen et al., 2012).

Voss and colleagues (2008) make a useful distinction based on the absorption and rarity of slack resources. Absorption describes the extent to which they are committed to ongoing firm activities whilst rarity covers their value for firms’ competitive advantage (Voss et al., 2008; Lavie et al., 2010; Hodgkinson et al., 2014). As unabsorbed slack could be more easily redeployed, it allows for greater managerial discretion compared to absorbed slack (Tan & Peng, 2003). This makes unabsorbed slack – containing financial slack and customer relational slack (see figure 1) – likely to be beneficial for balancing exploration and exploitation (Tan & Peng, 2003). Consequently, only financial and customer relational slack are elaborated in this study.

		Resource Absorption	
		Low	High
Resource Rarity	Low	Financial Slack	Operational Slack
	High	Customer Relational Slack	Human Resource Slack

Figure 1 Slack resource types based on absorption and rarity (Voss et al., 2008)

Financial slack covers the level of liquid assets available to a firm while representing no particular stakeholder (Voss et al., 2008). It can allow, for instance, a firm's management to spend more time and effort on switching (Goossen et al., 2012), and help it to increase the perceived controllability of uncertain and complex behaviors (Jansen et al., 2012). This is the reason why it is associated with increased financial performance of ambidextrous organizational units (Jansen et al., 2012). The assumption that this also goes for a whole firm is represented in the first hypothesis:

H1: Ambidextrous firms that possess much financial slack perform better financially than ambidextrous firms that possess little financial slack.

Customer relational slack originates from committed customers – i.e. relationships –, who are valued resources providing a predictable revenue stream to a firm (Voss et al., 2008). Predicted revenues may create inertia (Smith & Lewis, 2011) and subsequently may prevent firms from risky exploration while increasing their investments in safe exploitation (Voss et al., 2008). This would create inefficient resource usage in environments that require exploration orientation, such as environments that are threatening – i.e. are hostile, and lack opportunities and economic promise (Voss et al., 2008). However, as an environment becomes more threatening, customer relational slack becomes less negatively associated with exploration orientation (Voss et al., 2008). This is the reason why it is argued that customer relational slack is associated with increased firm performance, as it facilitates exploitation but does not hamper exploration when needed. Therefore, the second hypothesis is as follows:

H2: Ambidextrous firms that possess much customer relational slack perform better financially than ambidextrous firms that possess little customer relational slack.

In peaceful – or opportunity-laden – environments, customer relational and financial slack do not conflict with each other (Voss et al., 2008) and could even be complementary (Cao et al., 2009). As an environment becomes more threatening, financial slack becomes associated with exploration and dissociated from exploitation (Voss et al., 2008; Zona, 2012). At the same time, customer relational slack becomes less negatively associated with exploration orientation (Voss et al., 2008). The described relationships between slack and innovation orientation are displayed in table 1. The table values do not one on one correspond to the quantitative results generated by Voss and colleagues (2008); they illustrate a way of thought rather than an exact determination.

Type of environment / type of slack	Exploration		Exploitation	
	Financial slack	Customer relational slack	Financial slack	Customer relational slack
Peaceful	0	-	0	+
Threatening	+	0	-	0

Table 1 Relationships between slack and innovation orientation per type of environment

Financial and customer relational slack would stimulate balanced ambidexterity as they match exploration or exploitation to supporting environments. As previously argued, balanced ambidexterity is often crucial for firm performance by lowering costs due to organizational difficulties. Therefore, ambidextrous firms may improve their financial performance by possessing both types of slack resources. This argument is embodied in the third hypothesis:

H3: Ambidextrous firms that possess much financial slack and much customer relational slack perform better financially than ambidextrous firms that possess no slack, much financial slack or much customer relational slack.

2.2 Level of ambidexterity

The execution of both exploration and exploitation can be essential for firm performance because they positively affect short and long term performance respectively (Sasson & Minoja, 2010). This means that firms ensure steady performance through replication and optimization, and at the same time generate innovations in order to meet or create future demands (Martini et al., 2013). In line with this, ambidexterity has been shown to have a positive effect on firm performance – e.g. financial performance and survival –, typically in uncertain and changing markets (O’Reilly & Tushman, 2013). This induces the fourth hypothesis:

H4: Ambidextrous firms that are very ambidextrous perform better financially than firms that are less ambidextrous.

2.3 Firm age

The effect of firm age on financial performance is all but unchallenged, which has led to an inconclusive debate (Ilaboya & Ohiokha, 2016). Despite that some scholars argue that older firms should have higher valuations because they have more experience (e.g. Goossen et al., 2012), others show that the development of organizational rigidities and rent-seeking behaviour over time are detrimental for these valuations (e.g. Loderer & Waelchli, 2009). The same inconsistency is found among studies on firm size and financial performance. Some evidence shows that firm size and profitability are positively correlated due to economies of scale (e.g. Pervan & Višić, 2012) and high amounts of resources (Zhiang et al., 2007; Yu & Khessina, 2013; Cao et al., 2009). Other research highlights the structural inertia theory; increasing firm size leads to increasing bureaucracy and this may cause stiff resistance to change, which ultimately leads to profit decrease (Ilaboya & Ohiokha, 2016).

Raja and Kumar (2005) offer an explanation by making a distinction between manufacturing and service firms. They show that these two different firm types rely on capital and reputation respectively. Since reputation growth depends on a firm’s aging rather than on its increase in size, they found a significant effect of firm age on financial performance but only for service firms. Since the sample of this study exclusively contains service firms, the fifth and final hypothesis is formulated accordingly:

H5: Old firms perform better financially than young firms.

3 Methodology

3.1 Sample

The sample consists of car leasing firms that operate in the Netherlands. Currently, the Dutch mobility market changes under the influence of changing consumer interests regarding sustainability, social media and ownership (Rabobank, n.d.). This results in a highly dynamic and uncertain market (Rabobank, n.d.) in which firms are likely to offer new mobility concepts, such as car sharing and private lease contracts (Trends in Autoleasing, 2014a; Trends in Autoleasing, 2014b). Adopting new mobility concepts requires exploration as it involves discovery, novelty and innovation (Holmqvist, 2004).

Meanwhile, the Dutch car leasing market is ruled by price competition (Erich, 2013) that asks for efficiency improvement instead – i.e. exploitation (Holmqvist, 2004). This is because a car leasing firm that focuses on pursuing given goals more effectively is likely to increase the certainty of short term financial success (O'Reilly & Tushman, 2013; Porter, 1979). Therefore, it is argued that car leasing firms are likely to become ambidextrous in order to satisfy both market conditions.

3.2 Data collection

Questionnaires were spread among sales middle managers, chief executive officers (CEO's) and chief financial officers (CFO's) from 154 car leasing firms. The decision to contact these particular firms was based on the availability of contact details on the internet. For instance, some associations mention such details about their members on their website (Association of Dutch Car leasing firms, 2016; Auto Alliance, 2016). Questioning sales middle managers was particularly useful since they possess information about a firm's customer base and often control the strategic resources necessary for ambidexterity (Hodgkinson et al., 2014). Moreover, CEO's and CFO's are likely to have accurate knowledge of their company's actual performance (Dawes, 1999). In the questionnaire, questions were asked about objective data such as balance values and contract numbers (see appendix I). Besides, there was asked for subjective data: an innovation's proximity to exploration and exploitation orientation, and the importance and satisfaction of financial performance criteria. Furthermore, a firm's financial slack was revealed after the investigation of its balance sheet. A firm's income statement clarified its financial performance. The latter information was retrieved from the Bureau van Dijk Amadeus database and industry research performed by a Dutch consultancy firm (Aumacon, 2015).

3.3 Data analysis

Given the deductive approach and the limited number of cases, qualitative comparative analyses (QCA) – developed by Ragin (1987) – were most appropriated to assess the data collected. QCA is a method based on Boolean algebra and allows for the systematic analysis of causal variables within one model in a small-N study. It involves the construction of a truth table that consists of all the possible combinations of variables and outcomes, including those not present in the data. Four causal variables produce a truth table with sixteen (2^4) rows, i.e. configurations. These configurations can be logically simplified – through a bottom-up process of paired comparisons – in order to distil the causal variables that explain the outcomes. A commonly used software tool to perform QCA is Tosmana (Cronqvist, 2004), which was also used in this study.

The simplest type of QCA involves dichotomous variables (Ragin, 1987). This led to that the continuous variables in this study had to be transformed by using a threshold. Using a good threshold is essential for the reliability and the theoretical applicability of the solutions found using QCA (Cronqvist, 2004). The considered thresholds were the variables' mean, median and cluster values. The median was finally chosen because it delivered the most parsimonious results based on a comparatively high number of cases.

3.4 Measures

Financial performance

The dependent variable under study is *financial performance*, measured as the ratio of a firm's net income and sales. This is also known as the net profit margin (NPM) and was chosen because it is found to represent a firm's performance – i.e. return on equity and

return on assets – the best (Delen et al., 2013). Additionally, a subjective measure was included to ensure that the performance of firms was exposed, despite its confidential character. Therefore, an instrument was used by which respondents indicate on a five-point Likert-type scale, ranging from ‘of little importance’ to ‘extremely important’, the degree of importance their firm attaches to each of the following financial performance criteria: sales level, sales growth rate, cash flow, gross profit margin, net profit from operations, profit to sales ratio, return on investment, and ability to fund business growth from profits. Thereafter, the respondents were asked to indicate a second time – for the same criteria – whether they were satisfied with their firm’s performance, ranging from ‘highly dissatisfied’ to ‘highly satisfied’. The ‘importance’ scores were multiplied by the ‘satisfaction’ scores to compute a weighted average performance index for each firm. This instrument was entirely replicated from Lubatkin and colleagues (2006) with the exception of the performance criterion ‘return on shareholder equity’. The latter was excepted because not all firms in the sample are listed. The questions were asked with respect to FY 2015.

Slack resources

The first type of slack is *financial slack*. Following other scholars (e.g. Gral, 2013), it was measured as firms’ current ratio at the year end, which was calculated by dividing a firm’s current assets by its current liabilities in FY 2013 or 2014 (NB. information about FY 2015 was expected to be too confidential to share). Since “this ratio measures a firm’s ability to pay its short term obligations, it captures the unabsorbed nature of available financial slack” (Gral, 2013: p. 11). The second type is *customer relational slack* and was measured as the ratio between the number of long term contracts and the total number of contracts in portfolio. Long term contracts represent excess resources in the same manner as waiting lists or oversubscriptions for capacity-limited organizations (Voss et al., 2008). A contract was considered long term as it equalled or exceeded the average contract term, which is (approximately) three years (Association of Dutch car leasing firms, 2013).

Level of ambidexterity

The independent variable is *level of ambidexterity*, measured as the multiplication of exploration and exploitation orientation. As ambidexterity entails a mix of exploration and exploitation, this measure seems to be valid (Gibson & Birkenshaw, 2004). This is also stipulated by its frequent use (e.g. Jansen et al., 2012; Sasson & Minoja, 2010). Following Lubatkin and colleagues (2006), a firm’s orientation was assessed for the past three years using a 5-point scale ranging from 1 (strongly disagree) to 5 (strongly agree). The mean scores on both orientations were multiplied to determine a firm’s ambidexterity level and should contain at least one 4-point score in order to indicate ambidexterity. *Exploration* should be determined by a measure that implies an increase of internal variation, discovery and risk-taking (Sasson & Minoja, 2010; Holmqvist, 2004). Therefore, the six items consistent with an exploratory orientation described the firm as one that (a) looks for novel technological ideas by thinking “outside the box”, (b) bases its success on its ability to explore new technologies, (c) creates products or services that are innovative to the firm, (d) looks for creative ways to satisfy its customers’ needs, (e) aggressively ventures into new market segments, and (f) actively targets new customer groups. *Exploitation* can be characterized by a measure that implies productivity and refinement (Holmqvist, 2004). The six items consistent with an exploitative orientation described the firm as one that (a) commits to improve quality and lower cost, (b) continuously improves the reliability of its products and services, (c) increases the levels of automation in its operations, (d) constantly surveys existing

customers' satisfaction, (e) fine-tunes what it offers to keep its current customers satisfied, and (f) penetrates more deeply into its existing customer base. Altogether, this design entails exploration and exploitation differences along an innovation's proximity to the firm's current technological/product trajectory, and to the firm's existing customer/market segment (Lubatkin et al., 2006). The latter, also called position innovation, is particularly important for car leasing firms, as they mainly cope with uncertainties originating from customer demand (Schroeders, 2015).

Firm age

Firm age was measured as the number of years since the firm was established – i.e. the difference between the current year (2016) and the year of establishment. Despite that the listing age – from the moment that a firm goes public until now – would also be a useful measure to investigate firm age (Loderer & Waelchli, 2009), it was not suitable for this study as the sample also contained non-listed firms.

For the sake of clarity, the operationalization of all variables is displayed in table 2.

Variable	Indicator	Unit	Level	Value
Financial performance	Net income / sales	Thousands of euros / thousands of euros	Scale	0...1
Financial slack	Current assets / current liabilities	Thousands of euros / thousands of euros	Scale	0...
Customer relational slack	Number of long term contracts / total number of contracts in portfolio	Number of contracts / number of contracts	Scale	0...
Level of ambidexterity	Exploration * exploitation	Mean of six 5-point-scale ratings * mean of six 5-point-scale ratings	Ordinal	1...25
Firm age	Period since establishment	Number of years	Scale	0...

Table 2 Operationalization of the variables

4 Results

4.1 Descriptive statistics

Twenty-five managers (partly) filled in the questionnaire, resulting in a response rate of approximately 16 percent. Combining the information from all three sources – i.e. questionnaire and databases – resulted in complete results for eleven firms. The remaining firms missed information on either financial or customer relational slack. However, the latter data could still be used to validate hypothesis 1, and 2 or 3. Furthermore, two observations missed one sub-score on ambidexterity. Since these missing data occurred in a non-random fashion and were smaller than 10%, they were ignored (Hair et al., 2006). Besides, two firms seemed at first sight not ambidextrous due to a low level of ambidexterity (< 10). However, a closer look at the answers dictated by each firm showed at least one 4-point score on both exploration and exploitation, which ensured ambidexterity. Consequently, all firms in the sample were characterized as ambidextrous by their managers.

Table 3 gives an overview of the descriptive statistics of the sample. It shows, for instance, that the average firm in the sample is 23 years old. Beforehand, one extraordinary response – a so called outlier – was eliminated because it caused a high standard deviation with respect to financial slack (see appendix II). This explains the highest number of observations being equal to 24.

	Number of observations	Minimum	Maximum	Median	Mean	Standard deviation
Objective performance	12	0.017	0.17	0.041	0.059	0.041
Subjective performance	24	11	24	16	17	3.7
Financial slack	12	0.10	1.2	0.25	0.41	0.37
Customer relational slack	19	0.0	1.0	0.85	0.76	0.27
Level of ambidexterity	24	8.7	23	16	16	3.5
Firm age	23	6.0	44	18	23	13

Table 3 Descriptive statistics per variable

Because of that for only half of the observations the objective and subjective performance are coherent with respect to their averages, it would be interesting to analyze both variables. However, because the number of observations of subjective performance is twice as high as that of objective performance, there was chosen to only analyze subjective performance in order to heighten validity. From now on, when speaking about financial performance, there is meant subjective financial performance.

4.2 Analysis

The first step was to assign each configuration of scores on the four independent variables to a row on the truth table (see table 4). Firstly, this involved coding the raw values (see appendix III) dichotomously based on a threshold. Consequently, raw values lower or higher than the variable's median value (see table 3) were transformed into zero or one values respectively. Secondly, if multiple firms had the same configuration of scores, they were treated as one case. For instance, cases 4 and 19 both deliver configuration 1011, and therefore represent one row. Finally, independent variables for which no score could be observed are called 'missing values'. They were treated in two ways. First, some of them were substituted by a zero or a one value, which led to the configuration of additional configurations (e.g. configuration 1110). It is also possible that such a substitution led to two different configurations for the same case (e.g. case 14). The substitutions are indicated by the variables between brackets in the first column of the truth table. Second, cases that contained missing values were excluded as soon as a replacement of the missing value(s) by either a zero or one value would lead to contradictory configurations – i.e. configurations with the same scores on the independent variables but different outcomes. This explains the absence in the truth table of eight cases, namely: 10, 13, 15, 16, 18, 21, 22 and 23. Since five configurations were not present in the dataset – even after substitution of the missing values – the truth table contains only eleven instead of sixteen configurations.

Firm	Causal configurations				Outcome
	Financial slack	Customer relational slack	Level of ambidexterity	Firm age	Financial performance
1	0	0	1	0	1
2, 11(Customer relational slack:1), 14(Financial slack:0)	0	1	1	0	1
4, 19(Financial slack:1)(Customer relational slack:0)	1	0	1	1	1
5	1	0	1	0	1
6, 3(Customer relational slack:0), 17(Financial slack:1)	1	0	0	1	1
7	1	0	0	0	0
8	1	1	1	1	1
9	0	0	0	0	0
12, 20(Financial slack:0), 24(Financial slack:0)(firm age:1)	0	1	0	1	0
14(Financial slack:1)	1	1	1	0	1
17(Financial slack:0)	0	0	0	1	1

Table 4 Translation of continuous data to truth table format

The next step required the use of Boolean algorithms to reduce the eleven configurations into the simplest logical combinations of variables. As reported in table 5, QCA reduced the configurations into two conjunctural conditions for low financial performance and three for high financial performance. Uppercased variables indicate high degree of the condition; roman indicates low degree of the condition.

<p>Low financial performance =</p> <ol style="list-style-type: none"> 1. customer relational slack, level of ambidexterity, firm age 2. financial slack, CUSTOMER RELATIONAL SLACK, level of ambidexterity, FIRM AGE <p>High financial performance =</p> <ol style="list-style-type: none"> 1. LEVEL OF AMBIDEXTERITY, firm age 2. FINANCIAL SLACK, LEVEL OF AMBIDEXTERITY 3. customer relational slack, level of ambidexterity, FIRM AGE
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Table 5 QCA minimization results

The results for low financial performance are twofold. The first condition shows that little customer relational slack is associated with low financial performance for firms that are less ambidextrous and young. Secondly, it is shown that less financial slack in combination with much customer relational slack leads to low financial performance for old firms that are less ambidextrous.

The results for high financial performance are based on three conditions. The first shows that very ambidextrous firms that are young perform financially well. Also the second condition emphasizes the importance of high ambidexterity for financial performance, but only in combination with much financial slack. The last condition implies that little customer relational slack and a low level of ambidexterity are important for the financial performance of old firms.

Thereafter, the five remaining configurations – i.e. logical remainders – were included in the model in order to confine the results from table 5. By ascribing the logical remainders to specific outcomes, so called ‘simplifying assumptions’ were produced. As double simplifying assumptions would lead to contradictory results, each of them had to be unique. Including logical remainders and formulating simplifying assumptions led to four conditions: two explaining low financial performance and two explaining high financial performance (see table 6). As every simplifying assumption was unique, contradictory results were out of question. Again, uppercase variables indicate high degree of the condition; roman indicates low degree of the condition.

Low financial performance =

1. CUSTOMER RELATIONAL SLACK, level of ambidexterity
2. level of ambidexterity, firm age

Simplifying assumptions:

1. level of ambidexterity, financial slack, CUSTOMER RELATIONAL SLACK, firm age = financial performance
2. level of ambidexterity, FINANCIAL SLACK, CUSTOMER RELATIONAL SLACK, firm age = financial performance
3. level of ambidexterity, FINANCIAL SLACK, CUSTOMER RELATIONAL SLACK, FIRM AGE = financial performance

High financial performance =

1. LEVEL OF AMBIDEXTERITY
2. customer relational slack, FIRM AGE

Simplifying assumptions:

1. LEVEL OF AMBIDEXTERITY, financial slack, customer relational slack, FIRM AGE = FINANCIAL PERFORMANCE
2. LEVEL OF AMBIDEXTERITY, financial slack, CUSTOMER RELATIONAL SLACK, FIRM AGE = FINANCIAL PERFORMANCE

Table 6 QCA minimization results including logical remainders

The results obtained for low financial performance show that a low level of ambidexterity and little possession of customer relational slack together form a significant condition. Also, young firms that are less ambidextrous are shown to perform financially worse.

High financial performance is found to be obtained by firms that are very ambidextrous. Furthermore, firms that are old and possess little customer relational slack perform financially well according to the results.

As the results including logical remainders are the most parsimonious, there is chosen to only elaborate on these in the discussion (see chapter 5) and the conclusion (see chapter 6).

5 Discussion

In general, the results contradict previous findings regarding slack resources and financial performance (e.g. Goossen et al., 2012) while they support other studies on ambidexterity (e.g. O'Reilly & Tushman, 2013) and firm age (Raja & Kumar, 2005).

The findings suggest that the key for a high financial performance is amongst other things a high level of ambidexterity. This means that firms that are very ambidextrous were found to perform better financially than firms that are less ambidextrous. This finding supports a frequently found phenomenon (O'Reilly & Tushman, 2013) and is in line with hypothesis 1, which was thus supported. Secondly, firm age was found to explain financial performance but only in combination with customer relational slack; old firms that have little customer relational slack were found to perform financially well. Including this side note, hypothesis 2 is supported. This validates existing theory on the relation between firm age and financial performance (Raja & Kumar, 2005).

Generally, the lack of influence of slack resources is puzzling because resources and ambidexterity were expected to be inextricably linked (Hodgkinson et al., 2014). Financial slack was not present in the causal conditions that explained financial performance, despite that others found a significant effect among organizational units (Jansen et al., 2012). This leads to a rejection of hypothesis 3 that stated that high financial slack is associated with high financial performance. This finding could be explained by the fact that the sample of this study largely contains firms with a low current ratio – i.e. lower than one (Martin, 2010). Another explanation could be that service firms are – unlike manufacturing firms – more likely to perform sequential ambidexterity, which may not be as resource intensive as Goossen and colleagues (2012) claim. On the contrary, customer relational slack explains the financial performance of ambidextrous firms but not in the way it was expected to do. For less ambidextrous firms, high customer relational slack was found to be financially harmful. It was also found that old firms perform better financially when they possess little customer relational slack. Both results contradict hypothesis 4 – they even indicate an opposite effect –, which is therefore rejected. This finding could be explained by the fact that customer relational slack may create inertia (Smith & Lewis, 2011) that still bear in environments that require flexibility – e.g. threatening environments. Finally, it was hypothesized that a combination of financial and customer relational slack would financially benefit ambidextrous firms. Since there is no such a combination present in the results, one can conclude that it is insignificant in explaining the financial performance of ambidextrous firms. Therefore, hypothesis 5 is rejected. Because financial and customer relational slack neither individually deliver the hypothesized effects on financial performance, it seems logical that nor their combination does.

5.1 Limitations

The limitations of this study are related to its methodology. Firstly, there is used a subjective measure for financial firm performance, which was shown to be different from objective performance for half the number of cases (N=12). Meanwhile, Dawes (1999) found a positive correlation between the two in the context of market orientation, and Lubatkin and colleagues (2006) propose similar findings in the context of ambidexterity. Richard and colleagues (2009), however, emphasize that measures should be appropriate to the research context. For example, measures should be relevant to focal stakeholders and take heterogeneity of strategies into account. Accordingly, a subjective measure was beneficial for this study because managers would have been reluctant to disclose actual performance data as they would consider it commercially sensitive (Dawes, 1999).

A second limitation involves the missing values present in the dataset. Tosmana eliminated some of the related cases for the sake of corresponding results. This meant that eight cases were eliminated because they did not fit the bill. Despite that this may be undesirable, QCA – including its limitations – were necessary in order to analyse the data due to an insufficient number of cases necessary to perform a statistical analysis.

5.2 Managerial implications

Since a high level of ambidexterity is found to be important for car leasing firms to enhance financial performance, car leasing managers may stimulate ambidexterity in order to deal with changing market conditions. Furthermore, it was found that managers of car leasing firms do not rely on unabsorbed slack resources to let their firms benefit from ambidexterity. The latter may be disappointing as slack resources apparently do not provide means for strategic management. Until now, only environmental conditions are found to influence the profitability of ambidexterity, leaving managers clueless about how to consciously increase the profits from ambidexterity.

5.3 Future research

Researchers should continue their quest in explaining the performance differences among ambidextrous firms in order to provide insights into effective management of ambidextrous organizations. According to this study, the focus should be less on firm resources because unabsorbed slack resources are found to be of little importance as moderating factors. Therefore, it is suggested to further validate and look for other explanatory factors, such as environmental uncertainty (O'Reilly & Tushman, 2013). Particularly, data about service firms is now lacking (with exception of Geerts et al., 2010). This is striking as just service firms are particularly vulnerable for competing innovation due to their generally weaker appropriability regimes compared to those of manufacturing firms (Dolfsma, 2011).

6 Conclusion

By investigating the slack resources and financial performance of ambidextrous firms, it was aimed to explain the difference in their performance. Literature shows that financial and customer relational slack can lower the costs of being ambidextrous both individually as well as combined. Financial slack can provide managers with more time and effort to control ambidexterity while customer relational slack may deliver a predictable revenue stream. Combined, they could create balanced ambidexterity that can resolve tensions between exploration and exploitation. Therefore, it was hypothesized that both types of slack resources positively influence a firm's financial performance. Second, ambidexterity was also expected to increase financial performance by affecting both short and long term performance. Finally, because aging often goes with increased reputation, old firms were assumed to show higher financial performance than young firms.

In order to validate the hypotheses, data regarding the variables were collected by sending out questionnaires to managers of Dutch car leasing firms. These data were analysed by using qualitative comparative analyses. This led to four causal conditions that explain the financial performance of the car leasing firms. First of all, it became clear that ambidexterity is indeed an explanatory variable with respect to financial performance because a positive correlation was found. The expectation that the financial performance of service firms increases with aging was also met as aged car leasing firms that possess much customer relational slack were found to perform well. Regarding slack

resources the outcomes did not live up to the expectations. Only customer relational slack seemed important to explain financial performance differences but oppositely to what was expected. The possession of much customer relational slack was found to be detrimental for ambidextrous car leasing firms as it led to low financial performance.

One can conclude that the level of ambidexterity, firm age and customer relational slack are significant factors in explaining performance differences among ambidextrous firms. Just as manufacturing firms, service firms show a similar need for ambidexterity in order to perform financially well in a threatening environment. However, ambidextrous firms do not perform better by possessing (much) financial and/or (much) customer relational slack. Apparently, the link between the resources and financial performance of ambidextrous firms is not that extricable.

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Appendix I Questionnaire

Autolease en innovatie

Vriendelijk bedankt dat u wilt meewerken aan de enquête. Alle data zullen vertrouwelijk worden behandeld en enkel voor dit onderzoek gebruikt worden. In uitgewerkte stukken zullen geen bedrijfs- of persoonlijke gegevens verwerkt worden; deze data worden geanonimiseerd. De enquête zal ongeveer 15 minuten duren.

De enquête dient mijn onderzoek naar innovatie bij autoleasemaatschappijen dat wordt uitgevoerd in het kader van de masteropleiding Innovatiewetenschappen van de Universiteit Utrecht, onder begeleiding van dr. A.M. Herrmann. Mocht u vragen hebben over een van de enquêtevragen, neem dan contact met mij op.

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Exploratie

Geef aan in welke mate u de onderstaande uitspraken VAN TOEPASSING vindt op uw autoleasemaatschappij gedurende de afgelopen drie jaar (2013 t/m 2015).

1 = sterk mee oneens; 2 = mee oneens; 3 = neutraal; 4 = mee eens; 5 = sterk mee eens

1. Zoekt naar nieuwe ideeën voor producten en diensten door “out-of-the-box” te denken.

1 2 3 4 5

2. Baseert haar succes op basis van haar vermogen tot het ontdekken van nieuwe producten en diensten.

1 2 3 4 5

3. Creëert producten en diensten die nieuw zijn voor het bedrijf.

1 2 3 4 5

4. Zoekt naar creatieve manieren om te voorzien in de behoeften van haar klanten.

1 2 3 4 5

5. Betreedt agressief nieuwe marktsegmenten.

1 2 3 4 5

6. Richt zich actief op nieuwe klantengroepen.

1 2 3 4 5

Exploitatie

Geef aan in welke mate u de onderstaande uitspraken VAN TOEPASSING vindt op uw autoleasemaatschappij gedurende de afgelopen drie jaar (2013 t/m 2015).

1 = sterk mee oneens; 2 = mee oneens; 3 = neutraal; 4 = mee eens; 5 = sterk mee eens

1. Is vastbesloten haar kosten te verlagen.

1 2 3 4 5

2. Verbetert continu de betrouwbaarheid van haar producten en diensten.

1 2 3 4 5

3. Verhoogt de mate van automatisering in de bedrijfsvoering.

1 2 3 4 5

4. Monitort voortdurend haar klanttevredenheid.

1 2 3 4 5

5. Verfijnt haar aanbod om haar huidige klanten tevreden te houden.

1 2 3 4 5

6. Vergroot de verkoop aan haar bestaande klanten.

1 2 3 4 5

Financiële bedrijfsprestatie (1/2)

Geef aan in welke mate uw autoleasemaatschappij WAARDE HECHTTE aan de onderstaande criteria gedurende het afgelopen boekjaar (2015).

1= onbelangrijk; 2 = niet zo belangrijk; 3 = redelijk belangrijk; 4 = belangrijk; 5 = zeer belangrijk

1. Omzetniveau

1 2 3 4 5

2. Omzetgroei

Ten opzichte van het boekjaar 2014.

1 2 3 4 5

3. Cashflow

1 2 3 4 5

4. Brutowinstmarge

1 2 3 4 5

5. Bedrijfsresultaat

1 2 3 4 5

6. Nettowinstmarge

1 2 3 4 5

7. Rendement op investeringen

1 2 3 4 5

8. Het vermogen om bedrijfsgroei uit de winst te financieren

1 2 3 4 5

Financiële bedrijfsprestatie (2/2)

Geef aan in welke mate u TEVREDEN bent met de prestaties van uw autoleasemaatschappij op basis van de onderstaande criteria gedurende het afgelopen boekjaar (2015).

1 = zeer ontevreden; 2 = ontevreden; 3 = neutraal; 4 = tevreden; 5 = zeer tevreden

1. Omzetriveau

1 2 3 4 5

2. Omzetgroei

Ten opzichte van het boekjaar 2014.

1 2 3 4 5

3. Cashflow

1 2 3 4 5

4. Brutowinstmarge

1 2 3 4 5

5. Bedrijfsresultaat

1 2 3 4 5

6. Nettowinstmarge

1 2 3 4 5

7. Rendement op investeringen

1 2 3 4 5

8. Het vermogen om bedrijfsgroei uit de winst te financieren

1 2 3 4 5

Contracten

Beantwoord alle onderstaande vragen voor hetzelfde boekjaar. Wanneer u de gevraagde gegevens van het boekjaar 2014 niet paraat heeft, mag u deze van het boekjaar 2013 invullen.

1. Wat was het totaal aantal autoleasecontracten in portefeuille in het boekjaar 2014?

2. Wat was het aantal autoleasecontracten met een looptijd van MINIMAAL DRIE JAAR in portefeuille in het boekjaar 2014?

3. Wat was het percentage autoleasecontracten met een looptijd van MINIMAAL DRIE JAAR ten opzichte van het totaal aantal autoleasecontracten in het boekjaar 2014? (in procenten)

N.B. Wanneer u vraag 1 én 2 reeds beantwoord heeft, kunt u deze vraag onbeantwoord laten.

4. Bovenstaande gegevens zijn van toepassing op:

2014

2013

Activa en passiva

Beantwoord alle onderstaande vragen voor hetzelfde boekjaar. Wanneer u de gevraagde gegevens van het boekjaar 2014 niet paraat heeft, mag u deze van het boekjaar 2013 invullen.

1. Wat was de waarde van de vlottende activa* in het boekjaar 2014? (in euro's)

* Alle activa met een looptijd korter dan een jaar, zoals voorraden, vorderingen, effecten en liquide middelen.

2. Wat was de waarde van het kort vreemd vermogen* in het boekjaar 2014? (in euro's)

* Betalingsverplichtingen met een looptijd korter dan een jaar.

3. Wat was de current ratio* (= algemene liquiditeitsratio) in het boekjaar 2014? (in procenten)

* Vlottende activa gedeeld door het kort vreemd vermogen. N.B. Wanneer u de vragen 1 én 2 reeds beantwoord heeft, kunt u deze vraag onbeantwoord laten.

4. Bovenstaande gegevens zijn van toepassing op:

2014

2013

Bedrijfs- en persoonlijke gegevens

1. Voor welke autoleasemaatschappij werkt u?

2. Hoeveel werknemers telde uw autoleasemaatschappij in 2014?
(in Fte's)

3. In welk jaar is uw autoleasemaatschappij opgericht?

Afronding

Hartelijk dank voor uw bijdrage aan het onderzoek. Mocht u de resultaten van het onderzoek (inclusief innovatie ranglijst) willen ontvangen, dan kunt u dat hieronder aangeven door het vermelden van uw e-mailadres. Overige opmerkingen en suggesties zijn eveneens van harte welkom.

E-mailadres:

Opmerkingen/suggesties naar aanleiding van de enquête:

Appendix II Outlier

An outlier is an extreme value in a distribution of values and can distort the mean of these values (Bryman, 2012). Since the number of observations in this study is considerably low, the outlier found for financial slack (see figure 2) can even be more problematic as it comparatively influences the mean a lot. Therefore, it was decided to eliminate this complete observation.

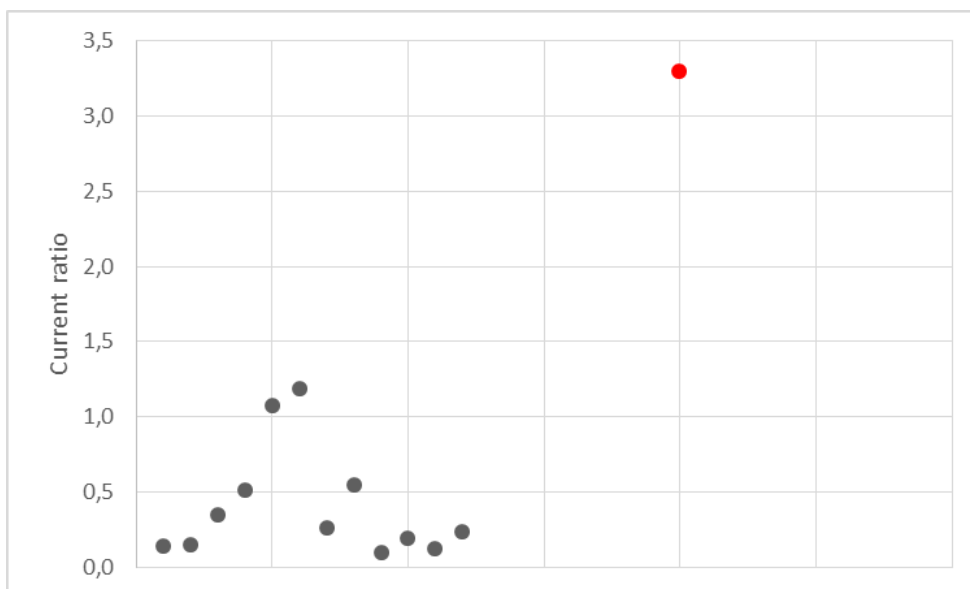


Figure 2 Scatterplot of financial slack measurements with in red the outlier (N=13)

Appendix III Raw data

Firm	Financial performance	Ambidexterity	Financial slack	Customer relational slack	Firm age
1	20.25	16.11	0.1430	0.8000	14
2	20.63	19.44	0.1480	0.9000	8
3	20.11	14.67	0.3500	-	24
4	18.86	17.33	0.5080	0.5000	19
5	22.46	19.50	1.074	0.7000	18
6	20.00	14.67	1.187	0.8494	41
7	13.50	14.06	0.2600	0.2222	16
8	23.77	20.25	0.5500	0.9767	44
9	14.06	14.69	0.1000	0.7568	11
10	15.50	16.61	0.1940	-	38
11	17.00	17.25	0.1200	-	12
12	11.86	14.50	0.2360	0.9667	19
13	20.23	15.28	-	-	8
14	23.13	22.56	-	1.000	16
15	15.02	16.33	-	0.9091	43
16	15.91	17.36	-	0.9615	28
17	16.00	10.56	-	0.0000	37
18	13.00	11.50	-	0.5455	17
19	19.13	17.89	-	-	36
20	13.13	9.50	-	0.9610	42
21	10.83	11.50	-	0.8000	9
22	14.53	15.33	-	0.8947	14
23	15.31	18.78	-	0.8333	6
24	14.53	8.67	-	0.8571	-

Table 7 Raw data