# Diligence-Based Strategy, Strategic Marketing Ambidexterity, and the Resource-Based View: Informing the Exploitation/Exploration Mode and Valuing Capabilities

OUTSTANDING PAPER – Marketing Strategy

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## Abstract

Powell (2017) introduced diligence-based strategic management (DBS) as an approach to strategic management that addresses managerial bias in the planning process. Behavioral approaches to strategic management have recognized unintended managerial biases in the planning process. While Powell presents DBS as a planning paradigm, it may offer value for other theoretical approaches to marketing strategy. This paper will demonstrate the value of DBS for marketing strategy development within the context of strategic management ambidexterity (SMA) and the resource-based view (RBV). The decision process within DBS to evaluate relative capability with respect to relative priority is a bias-reducing framework for strategic planners. Marketing strategy development, specifically, may benefit from deploying this DBS mechanism within SMA and RBV approaches. This paper will review DBS, SMA, and RBV to provide context. The formulaic approach of DBS is highlighted with respect to its approach to comparing a firm's relative capabilities against management-determined priorities. This formula is discussed within the SMA framework as a method for guiding strategic marketing management with respect to the exploration/exploitation orientation. The formula is discussed relative to the RBV with respect to assisting marketing management with valuing capabilities and resources.

## Introduction

Powell (2017) introduced diligence-based strategic management (DBS) as an approach to strategic management that addresses managerial bias in the planning process. The concept descends from the behavior school. Behavioral approaches to strategic management have recognized unintended managerial biases in the planning process (Fay & Montague, 2015; Hoskisson et al., 2018; Mangaliso & Ndanga, 2017). While Powell presents DBS as a planning paradigm, it may offer value for other theoretical approaches to marketing strategy. This paper will demonstrate the value of DBS for marketing strategy development within the context of strategic management ambidexterity (SMA) and the resource-based view (RBV). The decision process within DBS to evaluate relative capability with respect to relative priority is a bias-reducing framework for strategic planners. Marketing strategy development, specifically, may benefit from deploying this DBS mechanism within SMA and RBV approaches. This paper will review DBS, SMA, and RBV to provide context. The formulaic approach of DBS is highlighted with respect to its approach to comparing a firm's relative capabilities against management-determined priorities. This formula is discussed within the SMA framework as a method for guiding strategic marketing management with respect to the exploration/exploitation orientation. The formula is discussed relative to the RBV with respect to assisting marketing management with valuing capabilities and resources.

## Theoretical Frameworks

### Diligence Based Strategy

Research suggests that managers are subject to biases that may be systematic (Changwei et al., 2017). Addressing marketing managers' cognitive processes that contribute to these biases should reduce bias within the strategic management process for marketing (Gavetti, 2012). Formal structures to concentrate management perspectives on marketing activities, their relative capabilities, and relative priorities is one approach to addressing the biases found in strategic management research. DBS offers one approach to addressing these biases.

DBS focuses on the important activities of a firm: These activities are analyzed with respect to the firm's capability to execute that activity and the relative priority the firm places on that activity (Powell, 2017). The activities are then analyzed as to whether the relationship between them is additive or multiplicative. Activities that are additive in nature are not the focus of DBS because investing in any activity raises the overall productivity of the firm equally as any other object of investment. For example, assume there are three activities with capabilities evaluated to be 7, 4, and 8. 7 + 4 + 8 generates a total strategic capability of 19. Increasing the capability in any activity by one unit will give the firm a total capability level of 20: Thus, the decision makers would be indifferent (ceteris paribus) to where the investment is made from the perspective of increasing overall strategic capability. For activities that are multiplicative in their relationships, the decision makers can effect substantially higher improvement in capability by investing in areas of weaker capability. For the same evaluated capabilities discussed above, a multiplicative relationship would equate to the following: 7 X 4 X 8 = 224. Investing to improve the capability evaluated as a 7 or 8 by one unit, the overall output increases to either 256 or 252 respectively. Moving the 4 to a 5 however, will increase the total capability of the firm to a level of 280. Much of the objects of marketing strategy are arguably multiplicative and not additive. For example, creative design and copywriting are inherently interrelated. Increasing capabilities in one or the other will have a multiplicative result.

Powell (2017) then argues that strategists should compare the relative capability of each activity to the relative priority for that activity. Figure 1 displays the decision logic for this comparison. Assume that the marketing function for a firm has identified three critical activities: creative design, copywriting, and social media deployment. Management assesses marketing's capability to be six out of ten for graphic design, seven out of ten for copywriting, and five out of ten for social media.

| | Capability | Relative Capability | Relative Priority |
|---|---|---|---|
| Graphic Design | 6 | 6/18 = 0.33 | 0.40 |
| Copywriting | 7 | 7/18 = 0.39 | 0.30 |
| Social Media | 5 | 5/18 = 0.28 | 0.30 |
| Total Capability | 18 | Total Priority | 1.00 |

*Figure 3: Example of assessing activity capability relative to priority*

Management also assesses that the priority for marketing to achieve the firm's strategy is priorities of 40%, 30% and 30%. DBS suggests that investment priority should be allocated to those capabilities that have relative capabilities less than the (relative) priority for a particular activity or object. The rationale for this process is that it would mitigate management bias because management tends to over invest in activities perceived to have higher capabilities. For activities where the relative capability is less than the relative priority, DBS suggests that this activity should receive more investment and attention than other capabilities. The value in utilizing this approach is that it signals where possible biases lie for decision makers. Typically decision makers will over invest in areas where they have higher capabilities (Powell, 2017). This paper contends that such a framework is helpful for decision makers in determining the SMA posture of a firm and in valuing capabilities under the RBV.

## Strategic Marketing Ambidexterity

Strategic management ambidexterity (SMA) relates to the tension between the need for firms to expand through exploration into new markets and the need for firms to harvest more return from existing markets and products (Birkinshaw & Gupta, 2013). A firm's ability to navigate between the tensions in terms of strategic priority has an influence on overall firm performance (D'souza, Sigdyal, & Struckell, 2017). Within the marketing context, SMA materializes as the tension between consistency and relevance: Brands must maintain consistency with respect to brand image while expanding the brand to maintain relevance with a marketplace that is dynamic (Beverland, Wilner, & Micheli, 2015).

Research suggests that the two primary drivers of how a firm dedicates resources between exploration and exploitation are the firm's position in its lifecycle and financial slack (Josephson, Johnson, & Mariadoss, 2016). Newer firms tend to focus on exploitative initiatives after their initial launch into their marketplace. Longer-tenured firms, that have achieved a level of market penetration within existing markets, tend to behave in a more exploratory fashion to enter into new markets or release new products. Financial slack is a mediator of the exploration/exploitation decision because the resources required to enter new markets generally require higher levels of financial slack (Kortmann, 2015). When firms have less financial slack they generally focus on exploiting existing markets with existing product lines rather than expending the resources and risk with venturing out into markets with higher levels of uncertainty (Jin, Zhou, & Wang, 2016).

Part of the bias within a firm's decision to engage in either more exploratory initiatives or exploitative ones arises from management's risk tolerance: Incentive programs and financial targets may encourage the selection of one orientation over another in addition to the drivers of financial slack and firm life cycle (Swift, 2016). A firm's resources and capabilities relative to exploration may be a driver as well. Risk management and tolerance will be affected by the resources and capabilities a firm has to manage the risk involved with exploitation and the efficiency-oriented approach needed to maximize current market exploitation. Thus, another theoretical paradigm that would be related to the SMA decision is the resource-based view of the firm.

### Resource Based View

The RBV of a firm suggests that a firm's competitive advantage descends from its use of resources and capabilities (Kellerman et al., 2016). For resources to drive competitive advantage they must be of value to the firm, rare in the marketplace, difficult to imitate, and leveraged by the organization (Priem & Butler, 2001; Wiengarten et al., 2013). A RBV approach to marketing strategy would focus on how the marketing function within an organization utilizes its resources to promote the firm's competitive advantage, gaining rents from the marketplace (Kaufman, 2015)

Kellermanns et al. (2016) has raised criticism of the RBV because of the vagaries involved in valuing resources and capabilities. Not only can the identification of resources and capabilities be subjective, but their valuation will be judged differently by different managers and researchers. The objective determination and their measurement are in question.

## Exploitation/Exploration Decision

As a firm moves between the exploitative activities and exploratory activities of SMA, it will begin to identify areas of weakness for the firm relative to its strategic priorities. Although research suggests that resource and investment allocation are the drivers of whether the firm is in an exploitative or exploratory paradigm (Jin, Zhou, & Wang, 2016), the behavior-school paradigm suggests that biases arise in strategy formulation and will affect the strategic decisions regarding strategic management ambidexterity. The diligence-based approach to strategy would offer an elegant mechanism for guiding firms as they navigate ambidexterity. When managers decide on their priorities and relative capabilities for critical activities over their strategic time windows, they have a sense of where their capabilities lie with respect to their identified priorities. By using the DBS method of comparing relative capabilities to relative priorities, firms would be able to identify investment foci based on where the relative capabilities are lower than their priorities. The outcome of those assessments will guide management toward whether the firm should be oriented towards an exploitative or an exploratory posture over the strategy time window.

Taking Figure 1 as an example, assume marketing management has completed a strategic assessment of the firm and conditions are favorable for an exploratory positioning: financial slack is high with a firm that is well within its life cycle. If the graphic design capability is not aligned with an exploratory footing, but the firm is new to social media, then then marketing management might consider lowering the priority for graphic design and raising the priority for social media. The capabilities will be unchanged; however, when a firm is well positioned for exploratory efforts it should intentionally review whether the present fiscal cycle is the time to embark on exploration. Cognitive theory would suggest that management makes priority decisions frequently out of habit or biases toward strong capabilities. The DBS approach can raise questions for strategic marketing management that may go unconsidered under different SMA paradigms.

## Valuing Capabilities

Often the measurement of firm capabilities are qualitative and subjective (Reddy & Rao, 2014). The level of spend may indicate higher levels of capabilities for some managers. This challenges the DBS approach where areas of lower capability (relative to priority) would receive higher levels of investment than areas where the capability is equal to or greater than the priority placed by management on that capability. The resource-based view places priority on acquiring and leveraging resources that are valuable, rare, inimitable, and organizational (VRIO). While rareness and inimitability are generally objective in nature, how the firm assesses value and the role the resources will play for the organization are subject to managerial discretion. The DBS approach can offer guidance for both of these elements of the VRIO paradigm. Regardless of the value a resource has been historically, the value a resource will have in future strategy is heavily reliant on the role the resource will play in the forward-looking strategy of the firm. A review of capabilities, or activities, of a firm relative to its strategic priorities will provide guidance on both the value and the role of a resource in fulfilling the firm's strategy.

For example, if a firm chooses to prioritize social media in its future strategy, it must review current capabilities, or activities that apply. If the firm assesses social media as a priority with low relative capability; using the DBS approach, the firm would invest in the capability. To further evaluate the social media capability, the firm should apply the RBV to determine the capability's value and rarity. This process assists in creating a future valuation of capabilities.

## Implications for Theory

The SMA decisions of exploitation and exploration may be better formalized through the use of DBS. Investigations should be undertaken which test whether context-specific strategies are achieved when firms deploy DBS and the concomitant emphases for investment. DBS challenges one of the theoretical underpinnings of the RBV in that firms can identify and value capabilities by the financial resources allocated for those capabilities. DBS suggests that firms may over invest in areas where capabilities are strongest and underinvest in resources and capabilities which are weaker but have higher priority with respect to the relative capability of that resource. This suggests that valuing capabilities based on a firm's investment may include biases which over/under value a given resource. The RBV of the firm should be tested by investigating whether a DBS orientation would alter that foundation.

## Implications for Practice

Using the DBS framework may enhance a firm's decision-making process and limit the degree to which bias affects decision making. The DBS approach may inform the firm's strategic balance between exploitation and exploration within a given market. The available financial slack may be used to over invest in areas where the firm is strong with respect to the relative priorities placed on strategic activities. A review of the firm's capabilities relative to priorities could generate intentional efforts to become exploratory or exploitative when controlling for financial slack and firm life cycle.

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## Relevance to Marketing Educators, Researchers, and Practitioners:

The interaction between the concepts of diligence-based strategy, strategic marketing ambidexterity, and the resource-based view may enhance curriculum development for marketing education. Utilizing the framework of diligence-based strategy within other marketing-strategy paradigms may influence the research agenda for marketing strategy. Practitioners may find the mechanisms provided by diligence-based strategy and strategic marketing ambidexterity valuable in their planning processes.

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