

# **The Influence of Quality Ambidexterity on Cost Leadership, Differentiation, Focus, Dynamic Capabilities and Its Implications on Financial Performance (Empirical Study on Oil Drilling Companies in Indonesia)**

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## **Abstract**

*This research aims to investigate about the effect of the Quality Ambidexterity on Cost Leadership, Differentiation, Focus, Dynamic Capability, and their implication to Financial Performance. The methodology of this research was explanatory research with hypothesis testing for examining ten hypotheses. Populations were the Oil Drilling Companies in Indonesia, with sample size were 200 companies. Data for this study were collected using questionnaires and SEM (Structural Equation Modeling) was employed for data analysis techniques. The results of this research were as follows: (1) Quality Ambidexterity positively and significantly influenced Cost Leadership; (2) Quality Ambidexterity positively and significantly influenced Differentiation; (3) Quality Ambidexterity positively and significantly influenced Focus; (4) Quality Ambidexterity positively and significantly influenced Dynamic capability; (5) Cost Leadership positively and significantly influenced Financial Performance; (6) Differentiation positively and significantly influenced Financial Performance; (7) Focus, positively and significantly influenced Financial Performance; (8) Dynamic Capability, positively and significantly influenced Financial Performance; (9) Quality Ambidexterity positively and significantly influenced Financial Performance; (10) Ambidexterity, Cost Leadership, Focus, Dynamic Capability positively and significantly influenced Financial Performance, and the most significant is the influence of Quality Ambidexterity to Cost Leadership. All of ten hypotheses which proposed in this research were being given can be accepted. Quality Ambidexterity as an independent variable was the strongest influence on Cost Leadership, and Cost Leadership was the strongest influence on Financial Performance. This dissertation also provides discussion on the findings as well as limitations, theoretical and practical contribution, theoretical and managerial implications of the study, and suggestions for future research.*

**Keywords:** *Quality Ambidexterity, Cost Leadership, Differentiation, Focus, Dynamic capability, Financial Performance.*

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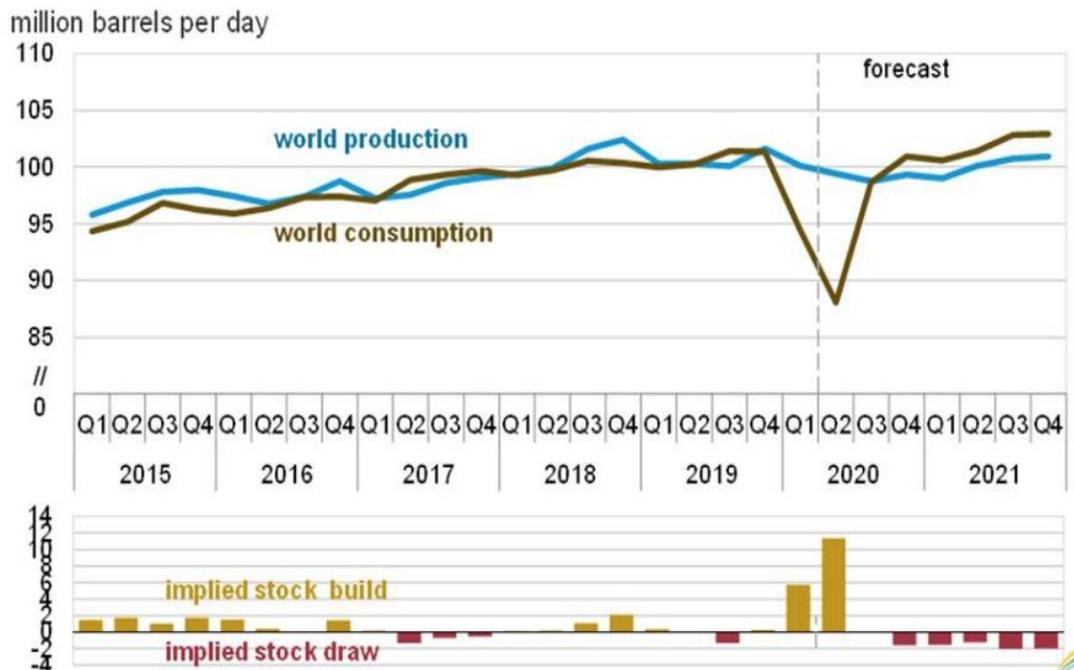
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## **I. INTRODUCTION**

During the Covid-19 pandemic in 2020 the oil and gas industry was affected by falling demand, falling prices, but still experiencing excess production, even though production decreased. Millions of people have to stay at home; homeschool online; work from home (WFH), shop online from home, cannot travel domestically, let alone abroad. The activity of hotels, offices, exhibition venues, meeting halls, conference venues has decreased drastically, as well as in the manufacturing industry and micro, small and medium enterprises. This causes the demand for fuel for transportation activities to decrease considerably. Likewise, the demand in the industrial sector, both in small and medium industries, which use fuel is very reduced and in large industries which use a lot of fuel. The demand for fuel in the transportation sector experienced the most drastic decline. Lock-down policies implemented to prevent Covid-19 in various countries have a direct impact on decreasing demand for fuel (<https://www.forbes.com/sites/gauravsharma/2020/03/26/global-oil-demand-could-fall-20-with-billions-of-people-in-lockdown/#31abef4f5800>).

The Department of Energy (DOE), United States shows a decline in world oil demand, and the supply that accompanies it, as a result of Covid-19 as shown in Figure 1. Below.



**Figure 1. The development of world oil supply and demand.**

Source: Short-Term Energy Outlook, April 2020.

In Figure 1 above, the blue line depicts world oil production from 2015 to 2021, while the gray line shows world oil consumption in the same year. Since 2015 the first quarter of world oil production as represented by the blue line has increased from 95 million barrels per day to above 100 million barrels per day in the third quarter of 2018 and fluctuated with a downward trend in the fourth quarter of 2020. Meanwhile, world oil consumption which represented by a gray line in the first quarter of 2015 was still below 95 million barrels per day, rising sharply in the 3rd quarter of 2019 which was above 100 million barrels, before falling below 90 million barrels in the 2nd quarter of 2020. However, the problem with oil crude oil and fuel, not only the demand for which fell sharply, but also the prices plunged drastically, even reaching the lowest prices the world's oil industry has ever faced. The price of West Texas Intermediate (WTI) crude oil, which is already the benchmark for oil prices in North America, even had to be sold in the futures market at a price below US\$ -36.67 on delivery in May 2020 (<https://www.worldoil.com/news/2020/4/20/wti-crude-price-goes-negative-for-the-first-time-in-history>).

Although world crude oil prices often face declines and increases, even in a fairly wide range, the phenomenon of oil prices being sold below US\$ 0 as happened in the case of WTI is the first time this has happened. In Figure 2, it can be seen that oil prices during 2020 continued to drop drastically. The price of oil being sold at a price of Minus US\$ 37.63 is a new phenomenon that is difficult for many to understand (<https://www.npr.org/sections/coronavirus-live-updates/2020/04/20/838521862/free-falling-oil-prices-keep-diving-as-demand-disappears>). The decline in oil prices was not only due to the impact of Covid-19 but was also driven by conflicts in the oil industry itself. The dispute, especially in the producer group, started by Saudi Arabia and Russia, over a mutual agreement on how much crude oil should be produced. In 2014 United States shale oil and gas production continued to grow.

Meanwhile, other oil producers in the world also continue to produce oil, which is enough to disturb the United States as they are trying to develop their independence in energy supply through the implementation of the Shale Revolution oil and gas projects. As a result, oil prices fell drastically from an average of US\$ 114 per barrel in 2014 to US\$ 27 in 2016, greatly reducing the economy of shale oil & gas projects. Figure 2 shows the development of world crude oil prices, which are represented by three crude oils which are the reference traded on the oil exchange, namely the OPEC Basket represented by a black line, WTI represented by a gray line, and Brent represented by a blue line. All three saw drastic declines starting in 2019, and WTI declined sharply in April 2020 (<https://www.statista.com/statistics/326017/weekly-crude-oil-prices/>).

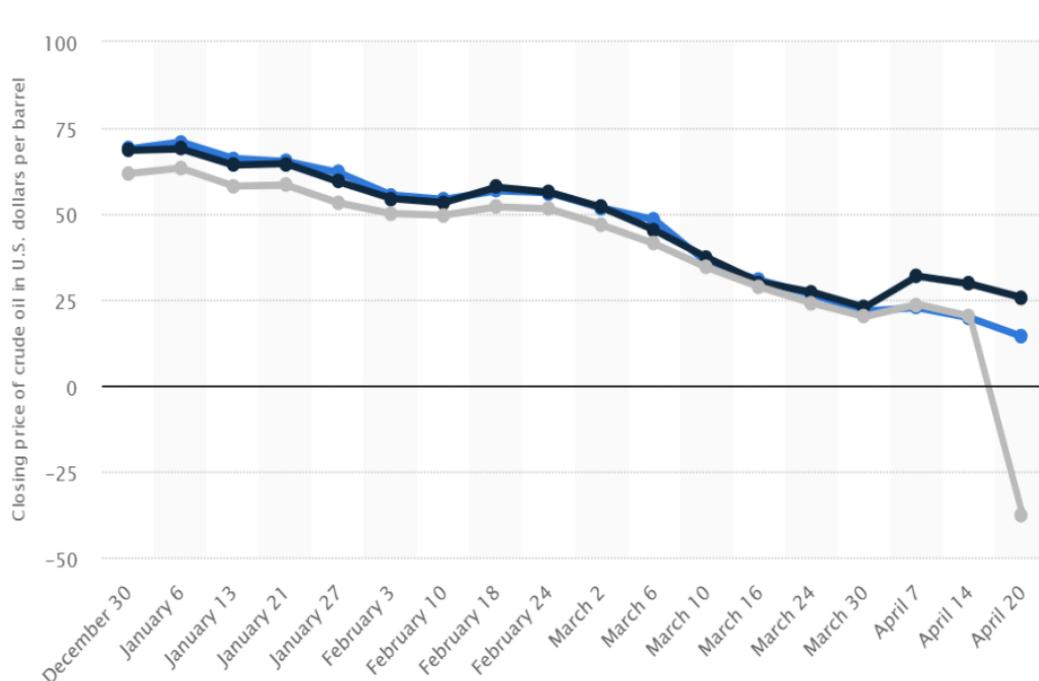


Figure 2. Crude oil prices (Dec. 2019 – April 2020).

Source: OPEC Basket – Brent – WTI.

During the Covid-19 pandemic in 2020 the oil industry faced a decline in demand, falling prices, and overproduction because production cannot be stopped immediately even though oil prices are already too low. From the producer side, the very low price of crude oil is certainly disappointing. Several oil companies have reduced exploration activities, including canceling drilling for new oil fields. It is feared that the bankruptcy of oil producers which has already begun will have a Domino effect. At a price level of US\$ 30/barrel, 170 US oil exploration and exploitation companies will go bankrupt in 2021.

Companies engaged in the oil and gas sector themselves can be divided into 2 types:

1. Oil & Gas Company (oil and gas producer company)
2. Services Company (oil and gas contractor company)

Oil & Gas Company (oil and gas producing company)

Oil & Gas Company (oil and gas producer company) is a company engaged in the oil and gas sector where the company produces oil and/or gas. Activities in producing oil and gas are carried out in several stages of work, namely; Seismic, Drilling and Production.

In this study, I will discuss companies with drilling activities, where the drilling activities themselves are divided into two activities, namely: Exploration and Exploitation.

Oil and gas exploration or hydrocarbon exploration is an activity that aims to find hydrocarbon reserves such as oil and gas through obtaining information on geological conditions from oil experts and geophysicists or geoscientists. The process of oil exploration can be carried out by going through various stages, including:

Stages of Preparation and Prospect Assessment

Is a series of general field survey activities and preparation and offer of work areas that have been trusted based on preliminary geological studies of potential oil and gas reserves such as source rock, migration, reservoirs, overburden, and reservoir traps to prospective contractors (KKKS) by the government.

Early Exploration Stage

Consists of geological studies, geophysical studies, exploration drilling. In geological studies, detailed geological mapping of the surface is carried out which can be done if there are outcrops. It aims to map the distribution of rocks and rock formations, age of rocks, mineral content, fossils, geochemistry, stratigraphy and sedimentology as well as geological structures, and describe subsurface conditions and be more effective in exploration. further supporting the completeness and accuracy of G & G data (Geology & Geophysics / Geoscience).

Another activity from the initial exploration stage is geophysical studies. It is an exploration carried out before drilling, the study covers a wide area. The results of this study will obtain an overview of the rock layers in the earth through seismic surveys, magnetic surveys, and gravity surveys.

Exploration Drilling. The aim is to know for sure the type of rock in more detail between layers and to take rock samples for further analysis in the laboratory. In addition, wireline logging is carried out to retrieve data. using a logging tool with the help of radioactive materials that emit gamma rays. All data obtained are integrated in a G&G study (geology & geophysics) to ascertain the presence of hydrocarbons and their possibility to be exploited.

Advanced Exploration Stage/Detail Stage

At this stage, the activities are almost the same as the previous exploration but carried out in more detail and technology applications that produce more detailed data but overall include detailed Surface Geology, Structural Drilling, 2D and 3D Detailed Seismic, Detailed Gravity, Stratigraphic Drilling. The results of the advanced exploration stage are in the form of detailed subsurface geological data including reservoirs, as well as evaluation of prognostic prospects for planning to the drilling appraisal stage to determine reserves, and further preparation for the development phase if any wells are found to recover hydrocarbon reserves.

Meanwhile, exploitation is a continuation of exploration activities. Exploitation is a series of activities aimed at producing Oil and Natural Gas from a defined Working Area, which consists of drilling and completion of wells, construction of transportation, storage, and processing facilities for the separation and purification of Oil and Natural Gas in the field as well as other activities that support it. Where this exploitation activity focuses on depleting oil and gas reserves in the earth.

Examples of Oil & Gas Companies (oil and gas producing companies): Pertamina, Exxon, Total Oil, Conoco Phillips, Chevron, Vico, China National Offshore Oil Corporation (CNOOC), Medco, Energi Mega Persada.

Services Company (oil and gas contractor company)

In an oil and gas drilling activity, whether in Exploration or Exploitation activities, there is a company in charge of the drilling activity, the company is referred to as a Services Company (oil and gas contractor company). Where this company provides equipment, workers and supporters for oil and gas well drilling activities.

Examples of Services Company (oil and gas contractor): Elnusa, Pertamina Drilling Service Indonesia (PDSI), Halliburton, Schlumberger, Baker Hughes, Weatherford, China Oilfield Service Limited (COSL), Great Wall Drilling Company (GWDC), Asia Petrocom Services, Andromeda Fluid Engineering.

The oil drilling industry in Indonesia has been similarly affected, and has not seen significant new developments for several years, with many contractors having lost interest in further exploration in Indonesia due to regulatory instability and an uncertain investment climate, and few new players. entering the market, exacerbated by the COVID-19 pandemic. Based on the description of the background above, this study wants to analyze more deeply the factors that can cause oil drilling contractor companies to maintain a positive financial performance, even though the external environmental conditions are turbulent and there is no visible improvement in conditions.

## **II. THEORY BASIS AND HYPOTHESES DEVELOPMENT**

### **Financial Performance**

Financial performance can be measured through analysis of financial statements in the form of interpretation of financial data summarized in financial statements as a first step to meet the information needs of internal and external parties of the company (Rhamadana&Triyonowati, 2016). According to Subramanyam (2014), Financial Performance is a condition that reflects the financial condition of a company based on predetermined objectives, standards, and criteria. Financial Performance Companies that have been listed in the Capital Market play a major role, this is also seen as a platform to attract capital while reducing the company's cost of capital. Companies that have high financial performance will actually create a good status in the eyes of investors. Financial performance is said to be a multi-faceted concept (Santos & Brito, 2012).

Hall and Weiss (1967), Shepherd (1972), Dalton and Penn (1976), Bothwell et al. (1984), Amato and Wilder (1990) studied financial performance with respect to profitability and discussed the components of return on assets and their relationship to firm size. Gangadhar (1982) studied the possible reasons for fluctuations in profitability of large-scale publicly traded cement companies in India. The result of the research is that during periods of low interest rates, fluctuations in profitability are high. Asset turnover shows a positive upward trend, while profit margins decrease. Chandrasekaran (1994) also conducted research on the performance of cement companies in India measuring aspects of profitability, efficiency and growth. The cement company in India found positive financial performance. Furthermore, cement companies in India identified that cash flow and external finance are the main determinants of investment factors in the cement industry. Goel and Nair (1978) have studied the productivity aspects of the Indian Cement industry. This study emphasizes that cement as a construction material occupies a strategic place in the Indian economy. Gokarn and Vaidya (1993) evaluated the performance of the cement sector after decontrolling and found that the performance of the cement industry was characterized in terms of profit and price performance.

Based on the concept stated by Pike and Roos (2004), the definition of financial performance is the company's ability to operate efficiently, profitably, to survive, grow and react to opportunities and threats in the

environment. In general, Financial Performance is a general measure of a company's overall financial health over a certain period of time, and can be used to compare similar companies in the same industry or to compare industries or sectors in an industry in aggregate (Bititci, et al., 2007). Although Financial Performance has been widely used as the main output measure of Financial Performance (Bender, 1986; Boyer, 1999; Boyer et al., 1997), many studies have shown limitations in relying solely on Financial Performance measures in supply chain studies (Eccles and Pyburn, 1992; Hall, 1983; Johnson and Kaplan, 1987). For example, a numerical performance measure used as a simple qualitative evaluation may not adequately describe Financial Performance.

In a typical commercial bank setting, Financial Performance has often been weighed against measures using the attributes of profitability, loan portfolio and liquidity. Based on the concept of thought by Samiloglu and Demirgunes (2008), corporate profitability is generally considered important as a prerequisite for the long-term survival and success of the company; In addition, the Financial Performance variable significantly affects the achievement of other company's financial goals. Loan portfolio as another attribute, refers to the total amount of money given in various loan products, to various types of borrowers. According to Heracleous (2001), the survival of most financial institutions depends entirely on the success of any loan program that revolves around funding and repaying loans made by clients to them. This is because it is the main asset and main source of income for financial institutions. Loan portfolio performance is necessary among companies because it increases the company's ability to become more profitable by attracting more investors. On the other hand, liquidity measures the company's ability to pay off its short-term obligations. Liquidity is very important to financial institutions because they are very vulnerable to unexpected immediate payments. There are many approaches adopted by many researchers in the measurement of Financial Performance. In this study, financial performance will be measured based on the company's profitability. Profitability is always measured as the proportion of pre-tax income to shareholder equity (Chen & Chen, 2011). Profitability is measured in various ways, such as Return on assets (ROA), and Return on equity (ROE).

**Quality Ambidexterity**

Ambidexterity was introduced by Duncan (1976) in his important work on organizational learning. Based on research from Tushman and O'Reilly (1996: 24) defines Ambidexterity as the ability to simultaneously pursue both incremental and discontinuous innovation from hosting multiple contradictory structures, processes, and cultures within the same firm. The concept has spurred renewed interest in the research community mainly due to improvements in environmental dynamics (Tushman& O'Reilly, 1996) and the rapid acceleration of digitization. To highlight the long-term corporate viability that organizations seek to achieve by being ambidextrous, Gibson and Birkinshaw (2004, p. 209) define organizational ambidexterity as being “aligned and efficient in their organization's management of current business demands, while also being moderately adaptive to changing environments.” that they will still be around tomorrow. The definition refers to the element of Ambidexterity which is exploitative and explorative. Exploitation is associated with continuous improvement, efficiency, automation, and stability, whereas exploration is associated with radical improvement, flexibility, innovation, and agility (March, 1991). Table 1 summarizes the key definitions for ambidexterity.

**Table 1. An Overview of definitions for Ambidexterity.**

Author(s)	Definition
Tushman & O'Reilly (1996, p. 24)	“The ability to simultaneously pursue both incremental and discontinuous innovation...from hosting multiple contradictory structures, processes, and cultures within the same firm.”
Gibson & Birkinshaw (2004, p. 209)	“[An entity] aligned [with] and efficient in their management of today's business demands, while also adaptive enough to changes in the environment that they will still be around tomorrow.”
Rothaermel & Alexandre (2009, p. 759)	“[The] ability to simultaneously balance different activities in a trade-off situation.”

Source: Werder & Heckmann (2019).

Many empirical studies show that organizational ambiguity affects performance (eg, Gibson & Birkinshaw, 2004; Lin, Yang, & Demirkan, 2007). Most studies show a positive effect (Junni, Sarala, Taras, & Tarba, 2013; O'Reilly & Tushman, 2013). However, this effect varies depending on the chosen method, performance measure, and unit of analysis (Junni et al., 2013). Furthermore, the effect is stronger for large firms with more resources (e.g., Cao, Gedajlovic, & Zhang, 2009) and for firms under high environmental and technological uncertainty (e.g., Jansen, Volberda, & Van Den Bosch, 2003). Several studies have identified

different antecedents for organizational ambiguity, such as IT capabilities (Pavlou & El Sawy, 2010), factors that moderate organizational impact (e.g., dynamic environment) (Jansen, Van Den Bosch, & Volberda, 2006), and structural differentiation (Jansen, Tempelaar, van den Bosch, & Volberda, 2009). Other studies have extended this contribution by adapting Ambidexterity to the context of organizational technology resources and defining it more generally as The ability to simultaneously balance different activities in trade-off situations (Rothaermel & Alexandre, 2009). This definition forms the basis for how we conceptualize and apply Ambidexterity in this study.

When describing strategies for resolving trade-offs, the literature distinguishes between structural, temporal, and contextual ambiguity. Structural ambiguity achieves a trade-off between the two activities or goals by assigning two distinct subunits to each activity or goal (Gibson & Birkinshaw, 2004; Tushman & O'Reilly, 1996). Temporal ambiguity achieves a trade-off by performing two activities or goals at different points in time and switching between them periodically (Duncan, 1976; Gibson & Birkinshaw, 2004; Turner, 2011). Contextual ambiguity relies on the organizational context to provide the ability to achieve two activities or goals simultaneously (Gibson & Birkinshaw, 2004). While researchers often analyze temporal and structural ambiguity across organizations, subunits, or groups, they also investigate contextual ambiguity at the individual level (Papachroni, Heracleous, & Paroutis, 2015). Despite these differences, researchers continue to argue about how to resolve the trade-off as some assume that ambiguity involves conflict, while others argue that opposing elements form part of the same continuum (e.g., Cao et al., 2009).

Ambidexterity refers to a trade-off situation that tends to generate tension. Often, scholars use suspense as a narrative tool to communicate their theory-building research in management and organizational research (Poole & Van de Ven, 1989), Building on areas of suspense:

- 1) make it stand out to the reader that a phenomenon requires research effort (Naidoo, 2016),
- 2) help authors articulate their theoretical contributions, and
- 3) suggest that the writer investigates the problem comprehensively by taking multiple perspectives. Field tensions often breed paradoxical research.

Quality Management is defined as a holistic management philosophy that seeks continuous improvement in all organizational functions (Kaynak and Hartley, 2005). This philosophy has been applied to improve activities and performance in terms of quality, productivity, customer satisfaction, and profitability (Kaynak and Hartley, 2008). Described in the management literature by Sitkin et al., (1994); Wu et al., (2011; and Zhang et al., (2012), this study distinguishes two orientations of Quality Management - Quality Exploitation and Quality Exploration - and uses four Quality Management practices to describe the two orientations - Customer focus, process management, work team, and training (Zhang et al., 2012). To solve problems, various studies use different practices to measure Quality Management (eg Ahire et al., 1996; Kaynak, 2003; Saraph et al., 1989), Zhang et al., al. (2012) conducted a comprehensive literature review and proposed that these four practices be linked to the three main principles of Quality Management – Customer focus, Process focus, and teamwork – and are therefore relevant to both theory and practice. defines Quality Ambidexterity as the ability of a company to simultaneously engage in exploration and exploitation practices of quality.

### **Competitive Strategy**

In the Harvard Business review, Porter (1996:64), defines competitive strategy as: “Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value”. Competitive Strategy is all about being different. This means deliberately choosing something different to give it a unique value. Basically, Porter concludes that strategy is about competitive positioning, differentiating the company from the perspective of the customer, leading in low costs (cost leadership), focusing on customer satisfaction (focus program), about adding value through a combination of activities that are different from those used by competitors.

Benjamin Tregoe and John Zimmerman (1980:17), define strategy as follows:

“The framework which guides those choices that determine the nature and direction of an organization”. Strategy is a framework that leads to choices that determine the nature and direction of the organization. It is hoped that this boils down to choosing the product or service to offer, or the market in which to offer the product or service. Tregoe and Zimmerman (1980) urged executives to base these decisions on a business "driving force", of which there are nine driving forces, only one of which can serve as the basis for strategy for a given business. The nine drivers are (Tregoe & Zimmerman, 1980: 43):

1. Products offered.
2. Production capability.
3. Natural resources.
4. Market needs.

5. Method of sale.
6. Size/growth.
7. Technology.
8. Method of distribution.
9. Return/profit.

This study uses the concept of Porter (1985) to identify three generic competitive strategies: Cost Leadership, Differentiation, and Focus.

### **Cost Leadership**

Cost Leadership Strategy refers to an integrated set of actions taken to produce goods or services with features that are acceptable to the customer at the lowest cost, compared to competitors (Hitt et al., 2011). This strategy aims to achieve the minimum possible costs in the industry while avoiding defects and waste (Belohlav, 1993; Chung et al., 2010) by reducing production and operational costs and increasing organizational capacity and efficiency (Fuentes et al., 2006; Porter, 1980).

### **Differentiation**

Differentiation is defined as “a concerted set of actions taken to produce goods and services – at an acceptable cost – that customers perceive as different in ways that are important to them” (Hitt et al., 2011, p. 109). Differentiation aims to provide a better product or service to meet customer needs (Belohlav, 1993; Chung et al., 2010) and includes producing a different product or service that differentiates the company from its competitors. Such products and services must be accepted by customers as unique, special and distinct from similar products or services that serve the same purpose in the marketplace.

(Porter, 1980). Differentiation has two dimensions: innovation and marketing (Miller, 1986). Innovation in Differentiation relies on appearance to differentiate new products and technologies and direct competitors in innovation; it may charge a high price (Miller, 1986). The marketing dimension, on the other hand, offers an attractive package – a good product or service and product image, and a suitable location (Miller, 1986). This study covers both dimensions of differentiation strategy.

### **Focus**

Focus aims to meet the needs of specific customer groups. It concentrates on serving a subset of customers, market segments, and geographic areas (Porter, 1980). When using this strategy, an organization defines its marketing objectives precisely and fulfills market satisfaction and needs, either through low cost, Differentiation, or both. This strategy is based on the organization's potential to achieve its objectives or strategy - a narrow market - more efficiently than its competitors while still reaching the entire market (Porter, 1980; Yamin et al., 1997).

### **Dynamic Capabilities**

Teece et al. (1997:516), defines Dynamic Capabilities as:

“Firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments”.The company's ability to integrate, develop, and rearrange internal and external competencies in order to provide solutions to how rapidly the environment changes. Next, the theory of Dynamic Capability is concluded by Helfat et al. (2007:4) as:

“A dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base.”Dynamic Capability is the capacity of an organization that has a goal to create, expand, modify its resources.The phrase capacity denotes a set of capabilities of the company to do jobs 'capably'. Meanwhile, for Zollo and Winter (2002) Dynamic Capabilities are all activities based on capabilities that can be seen as activities or jobs that have a pattern and are regularly repeated. While the word 'purposefully' refers to having the capability and intention naturally (Dosi et al. 2000). Dynamic Capabilities are always built to achieve certain goals. Dynamic capabilities can be broadly categorized as learning, absorbing capacity, adaptation, integration, although in reality they get different attributes in different organizations, and exist in strategic contexts (Zahra et al. 2006). In empirical studies, for example, Dixon et al (2014) conclude that Dynamic Capabilities are on adaptation and innovation capabilities to achieve transformation in the petroleum business in an economic transition, while Lampel and Shamsie (2003) state that Dynamic Capabilities mobilize and transform capabilities in the Hollywood film industry. , absorbent capacity as a dynamic capability in product development activities (Pavlou and El Sawy, 2011), or according to Pablo et al (2007) as a learning dynamic capability in public health management organizations.

According to Teece (2007), Dynamic Capabilities can be divided into three basic categories, where each capacity is based on specific activities, namely:

1. Sensing capacities. In this capacity includes organizational activities to identify, detect, identify and

interpret strategic opportunities and threats in the environment such as, for example, relating to new technologies, target segmentation, changing customer requirements, new innovations, and new business models.

2. Seizing capacities. In this capacity it leads to the ability to seize the opportunities received, by making timely decisions, such as on business models, investments, and resource allocations (Teece, 2012). In addition, this capacity also includes how to design effective decision-making procedures and build organizational structures that are able to achieve decision-making and achieve competition in the cognitive area, as well as reach the structural dependency path that underlies decision-making activities (Teece, 200; 2007).

3. Reconfiguring capacities. At this capacity are essentially patterned activities that enable renewal, orchestration, and rearrangement of resources – assets, routines, and capabilities – in order to keep key resources in sync with changes in the environment. operational environment (Stadler et al, 2013). In addition, this capacity includes how to learn new skills, build and adopt new processes and organizational structures, effectively apply knowledge management activities, such as sharing knowledge within the organization.

These three capacities are important in bringing about change, because they form a logical chain of interrelated activities (Helfat and Peteraf, 2009) where sensing connects the organization with the external environment, with the task of detecting new information relevant to the organization. Other capacities – seizing and reconfiguring – focus more on intra-organizational renewal, by integrating new information within the organization.

## **Hypothesis Development**

### **Relationship between quality ambidexterity and cost leadership**

Firms implementing a Cost Leadership strategy concentrate on tight cost control and efficiency at all stages of operations (Porter, 1980). This focus requires exploitative and exploratory behaviour. First, the exploitative activities of Quality Management focus on understanding and responding to customer needs (Wu et al., 2011). Customer Focus Quality Exploitation can tailor existing products and services to customer and client expectations, while increasing satisfaction and reducing complaints, rework, product defects and waste to reduce manufacturing costs. Quality Exploitation process management uses statistical process control techniques to reduce variance, keep scrap costs, spoilage, rework, re-inspection, and warranty costs to a minimum (Patel et al., 2012; Zairi and Baidoun, 2003). Quality Exploitation training focuses on the skills that employees need in their current jobs, increasing their work efficiency by helping them understand the requirements of their jobs (Adler et al., 2009; Zhang et al., 2014). Teamwork encourages employees to engage in collaboration to improve process efficiency and reduce waste (Ravichandran and Rai, 2000). Quality Exploitation Cooperation encourages employees within the function to work closely together as a team to reduce problems (Zhang et al., 2012), thereby reducing costs. Second, developing new products to meet customer needs is one of the main tasks of exploration. Customer Focus Quality Exploration aims to involve customers in the product design process and to identify new customers and needs (Salvador et al., 2014; Zhang et al., 2014). Correctly identifying this new aspect of product development will reduce unnecessary costs. Furthermore, to ensure that firms do not remain static but learn from their manufacturing process experiences (Adler et al., 2009; Zhang et al., 2014), Quality Exploration process management explores how to improve new products and processes (Zhang et al., 2012) which can lead to cost reductions. Quality Exploration training fosters multi-task training in which employees learn actively from one another, increasing the knowledge and skills available to each other (Wu et al., 2011). Such training increases employee productivity and reduces defects and waste, which in turn reduces costs (Asif and de Vries, 2014). Finally, Quality Exploration teamwork enhances cross-functional collaboration. By considering different opinions, team members reach more creative solutions (Zhang et al., 2014) that can increase employee productivity, reduce work problems, and reduce costs. To summarize, companies that combine Quality Exploitation and Quality Exploration practices – in other words, develop Quality Ambidexterity – will increase process efficiency and employee productivity, thereby reducing total costs and supporting a Cost Leadership strategy. Based on the information above, the following hypothesis is proposed as follows:.

### **H1. Quality Ambidexterity has a positive effect on Cost Leadership strategy.**

### **Relationship between Quality Ambidexterity and Differentiation Strategies**

When implementing a differentiation strategy, information from customers is very important (Porter, 1980), as it allows the firm to identify any factors and product features that give high value to customers (Dean and Bowen, 1994; Fuentes et al., 2006). The exploitative orientation in Customer Focus allows companies to take input on their preferences regarding existing products and services. Since Differentiation is based on issues such as efficiency and quality (Fuentes et al., 2006), Quality Exploitation process management aims to exploit

and improve the control and consistency of current processes and resources (Zhang et al., 2014) to define processes with great potential. to manufacture different products and services. Furthermore, Quality Exploitation training for existing skills and Quality Exploitation cooperation in the function of increasing employee efficiency. As their knowledge increases through training and on the job training, they become more efficient in their tasks, develop skills, exchange opinions, and solve problems (Ahire et al., 1996; Cole, 1993). These benefits can result in improved, high-quality products that differentiate the company's products from those of its competitors. Second, an important task of the exploratory orientation is to develop new products that meet customer needs (March 1991). To identify new customer needs, Customer Focus Quality Exploration tries to consult with customers at the beginning of product design (Zhang et al., 2014). Customers who are involved in product design will satisfy their needs by obtaining a unique product. To achieve a consumer-based orientation, Quality Exploration process management aims to improve new products and processes that enhance the company's ability to offer customers high quality and differentiated products or the best service (Zhang et al., 2012). Quality Exploration training focuses on multi-task and multi-task training to increase the variety of employee skills and help employees solve problems that arise (March 1996). Some skills can be utilized, for example, to develop innovative products (Asif and de Vries, 2014). Employees must work interactively and coordinate their activities so that they find diverse opinions that enable them to come up with more creative solutions (Wu et al., 2011). Cross-functional collaboration exemplifies the type of teamwork that focuses on Quality Exploration. All of these practices increase employee knowledge, encourage the development of new products that meet customer needs, and differentiate the company from its competitors. In summary, Quality Exploitation and Quality Exploration practices are needed to improve processes, differentiate products, and meet market and customer needs (Chandrasekaran et al., 2012; Gupta et al., 2006; March, 1991). In view of the foregoing, the hypothesis is constructed as follows:

## **H2. Ambidexterity of Quality has a positive effect on differentiation strategy.**

### **Relationship between Quality Ambidexterity and Focus.**

Multi-tasking training for Quality Exploration allows employees to learn from each other and to deal better with elite customers (Wu et al., 2011). Such training enhances employees' ability to perform various tasks related to specific customers and enables employees to gather information about customers and markets (Zhang et al., 2014). Finally, Quality Exploration collaboration helps employees cooperate between functions (Zhang et al., 2014), increasing the possibility of developing new solutions (Ahire et al., 1996). In short, Quality Exploitation practices encourage companies to improve current products and services for specific customers, while Quality Exploration practices explore new methods that generate new solutions and identify new target customers. Based on the explanation above, the following hypothesis is proposed as follows:

### **H3. Quality Ambidexterity has positive effect on Focus.**

### **Relationship between Quality Ambidexterity and Dynamic Capabilities**

Capabilities refer to a firm's ability to use resources, usually in combination, and encapsulate explicit processes and silent elements (such as knowledge and leadership) embedded in processes. Therefore, capabilities are often firm-specific and developed over time through complex interactions between firm resources (Amit and Schoemaker 1993). For example, quality control is a process that can be easily adopted by companies, while Total Quality Management (TQM) is not just a process, but requires the company's ability to develop organizational vision, empower employees and build customer orientation. culture. TQM requires companies not only to install quality management processes, but most importantly to harness the silent 'energy' of the company. In view of the foregoing, the following hypothesis is proposed:

### **H4. Quality Ambidexterity has positive effect on Dynamic Capabilities.**

### **Relationship between Cost Leadership and Financial Performance**

Cost Leadership emphasizes production efficiency and can be achieved by eliminating defects and waste (Prajogo and Sohal, 2006). The lowest-cost strategy increases the likelihood of larger profit margins (Yamin et al., 1997), while also offering consumers good products and services at competitive prices in order to lower prices, to match or beat competitors, and still make a profit (Li and Li, 2008). In view of the foregoing, the following hypothesis is constructed as follows:

### **H5. Cost Leadership has positive effect on Financial Performance.**

### **Relationship between Differentiation and Financial Performance**

Differentiation strategy relies on innovative products and a differentiated brand image to create customer value, enabling the company to set the best price (Li and Li, 2008). Innovative firms that offer differentiated products achieve higher sales and profits (Hurley and Hult, 1998), because increasing the firm's perceived value by

offering products that attract customers' attention can increase profits, reduce customer acquisition costs, and reduce the likelihood of customers fleeing to the market. competitors (Morgan et al., 2004). In view of the foregoing, the hypothesis is proposed as follows:

**H6. Differentiation has positive effect on Financial Performance.**

**Relationship between Focus and Financial Performance**

The Focus Strategy is based on the idea that efforts to gain a certain market position lead to higher performance (Yamin et al., 1997; Parnell, 2011), companies that implement a Focus Strategy select a narrow range of consumers in a particular sector and establish specific strategies to serve them. they. Such companies enjoy a high level of customer loyalty, which keeps other companies from competing directly with them and thus enables them to achieve high returns by targeting specific segments (Hsieh and Chen, 2011). In view of the foregoing, the hypothesis is constructed as follows:

**H7. Focus has positive effect on Financial Performance.**

**Relationship between Dynamic Capabilities and Financial Performance**

Dynamic Capability is an internally focused process that allows an organization to reconfigure its resources and allow it to adapt and grow, in this case it is used to evaluate the company's financial performance. Based on the reasons above, the hypothesis is constructed as follows:

**H8. Dynamic Capabilities has positive effect on Financial Performance.**

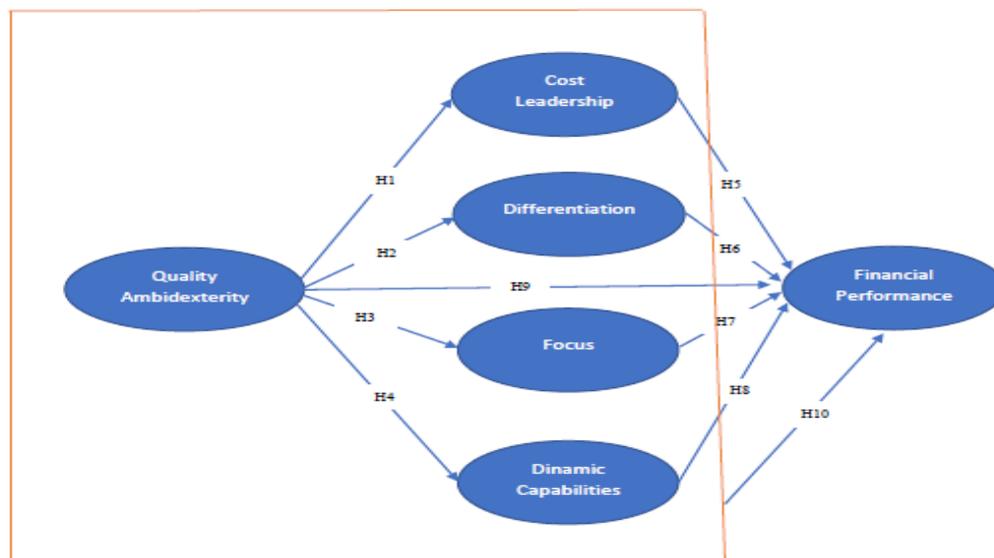
**Relationship between Quality Ambidexterity and Financial Performance**

The findings of Herzallah et al. (2017) found a positive and significant relationship between Quality Ambidexterity and Financial Performance in technology-based industrial companies in Palestine. Based on the reasons above, the hypothesis is constructed as follows:

**H9. Quality Ambidexterity has positive effect on Financial Performance.**

The effect of Quality Ambidexterity on Financial Performance is positive and significant. It means that the higher/positive Ambidexterity of Quality, the higher/positive Financial Performance means that the more respondents feel that management always conducts training on various new skills/skills and management always involves cross-functional teamwork, sharing knowledge and learning with colleagues on something new. in the work environment, the more respondents feel the company's equity performance has improved well.

**H10. There are positive and significant influences simultaneously of Quality Ambidexterity, Cost Leadership, Differentiation, Focus, and Dynamic Capability on Financial Performance.**



**Figure 3. Conceptual Framework.**

### III. Research Method

Based on the strategy in conducting research, this research uses survey research, which uses data collection techniques by compiling questions and asking the respondents (Sekaran and Bougie, 2016). Based on the unit of analysis, this study uses an individual analysis unit, which is to collect data from each individual (Sekaran and Bougie, 2016). Based on time, this research uses cross sectional studies, which is done with data, only once collected in a daily, weekly or monthly period in order to answer research questions (Sekaran and Bougie, 2016). The period for distributing the questionnaires is from April to May 2021. This study uses explanatory research, which analyzes the concepts and problems studied to see causality, then explains the variables causing the problems studied. The variables in this study are Ambidexterity of Quality, Cost Leadership, Differentiation, Focus, and Dynamic Capabilities, as independent variables, and the dependent variable is Financial Performance. In this study, the relationship between variables was analyzed, through hypothesis testing. The hypothesis being tested is the result of modeling based on theories and models that have been tested from the results of previous studies. This study uses the verification method, which is to explain and describe the relationship between the independent variable (independent) and the dependent variable (dependent), to then be analyzed to obtain the best study results.

Structural Equation Modeling (SEM) was used to test the relationship between variables. SEM is a method of multivariate analysis which is a combination of path analysis and factor analysis in order to empirically test measurement models and structural models built through certain theoretical studies. Several other terms from SEM are Latent Variable Analysis, Covariant Structural Analysis, Linear Structural Relationship (LISREL) (Hair et. al. 2013).

**Table 2. Conceptual and Operational Definition.**

Variable	Conceptual Definition	Operational Definition	Code	Scale	Source
Quality Ambidexterity	The company's ability to allocate the resources critical to being successful efficiently and simultaneously engage in quality exploration and quality exploitation practices.	1. The company is very focused on responding to customer needs.	QA1	Likert 1-5	O'Reilly danTushman, (2004).
		2. Management always carries out strict control to ensure the process runs well.	QA2		
		3. The company always does teamwork to solve problems.	QA3		
		4. Management always conducts skill training that already exists for employees.			
		5. The company is always looking for new customer needs.	QA4		
		6. The company always makes dynamic changes with new product/process improvements.	QA5		
		7. Management always involves cross-functional teamwork.			
		8. Management always conducts training on various new skills/skills.	QA6		
			QA7		
			QA8		
Low Cost	competitive position, about	1. I try to give the lowest	CL1	Likert 1-	Porter

	the company in the eyes of customers, low cost.	price to the customer.  2. I make sure customers get the cheapest prices compared to competitors.	CL2	5	(1986)
Differentiation	<i>Competitive position, about differentiating the company in the eyes of customers.</i>	1. Management innovates for customer satisfaction.  2. Management applies unique marketing to reach customers.	DIF1  DIF2	Likert 1-5	Porter (1986)
Focus	<i>Competitive position, focusing on customer satisfaction.</i>	1. Management offers a special program in drilling for customer satisfaction.  2. Management provides the best quality service for customer satisfaction.	FOC1  FOC2	Likert 1-5	Porter (1986)
Dynamic Capabilities	The company's ability to integrate, develop, and rearrange internal and external competencies in order to provide solutions to how rapidly the environment changes.	1. We actively make changes to our products and services, in order to meet customer needs.  2. We and Principle utilize information related to the operational environment (for example: information from customers, media, technology/ regulatory policies) in determining future steps.  3. We share knowledge and learning with colleagues about something new in the work environment	DC1  DC2  DC3	Likert 1-5	Teece (2007)
Financial Performance	The company's financial performance is the final result obtained by the company for a certain period of time and under certain conditions based on predetermined targets.	1. ROI 2. ROA 3. ROE	FP1 FP2 FP3	Likert 1-5	Chen & Chen, (2011)

Source: Processed from various sources.

Hari Wijanto, Setyo (2008:61), states that the input data in the estimation analysis of the structural equation model include covariance matrices, raw data, file system data, and asymptotic covariance matrices. Meanwhile, the estimation technique between the variables of the structural equation model, according to Yamin and Kurniawan (2009: 31) can be done using the one-step approach and two-step approach. The use of the structural equation model program according to experts, a good sample size is between 100-200 or between 5 - 10 times the estimated parameter. If the sample is too large, it will be very sensitive so it is difficult to get good measures of goodness of fit. If the model is good enough, then the next step in structural equation modeling is to interpret it, and vice versa if it is not good then it is necessary to modify the model. The main purpose of model modification is to improve the fit of a model. Modification of the model is done by removing or adding relationships between in the model. To find out that a model needs to be improved by looking at the absolute value of the standardized residual greater than 1.645.

The use of the sampling design in this study refers to Sekaran and Bougie (2019) using probability sampling, where in probability sampling, elements in the population have several known and non-zero

opportunities or probabilities to be selected as sample subjects. In the probability sample, the researcher uses stratified proportionate random sampling, where the elements in the population that are expected to have different parameters to the variables proposed by the researcher (Sekaran&Bougie, 2019). In this study, from 200 Oil Drilling Contractors in Indonesia, managers and above were selected and had worked for at least 2 years or more, so that they knew or felt the organizational culture in which they worked, and could provide a more objective picture of the previous leadership with the current one.

**IV. RESULTS AND DISCUSSION.**

In this study, for the initial stage using SPSS software, the researcher directly assessed the reliability test because some variables only consisted of two statement items so that the validity value of the statement items would always be the same. For reliability testing with Cronbach's alpha, using the criteria if each (latent) variable obtains Cronbach's alpha value > 0.6, meaning that the instrument can be said to be reliable. The results of reliability testing for each variable of this study can be seen in Table 3. below.

**Table 3. Research Variable Reliability Test Results**

NO	Variable	Cronbach's Alpha	Number of Indicators	Decision
1	Quality Ambidexterity	0.962	8	Reliabel
2	Cost Leadership	0.874	2	Reliabel
3	Differentiation	0.863	2	Reliabel
4	Focus	0.848	2	Reliabel
5	Dynamic Capabilities	0.906	3	Reliabel
6	Financial Performance	0.956	3	Reliabel

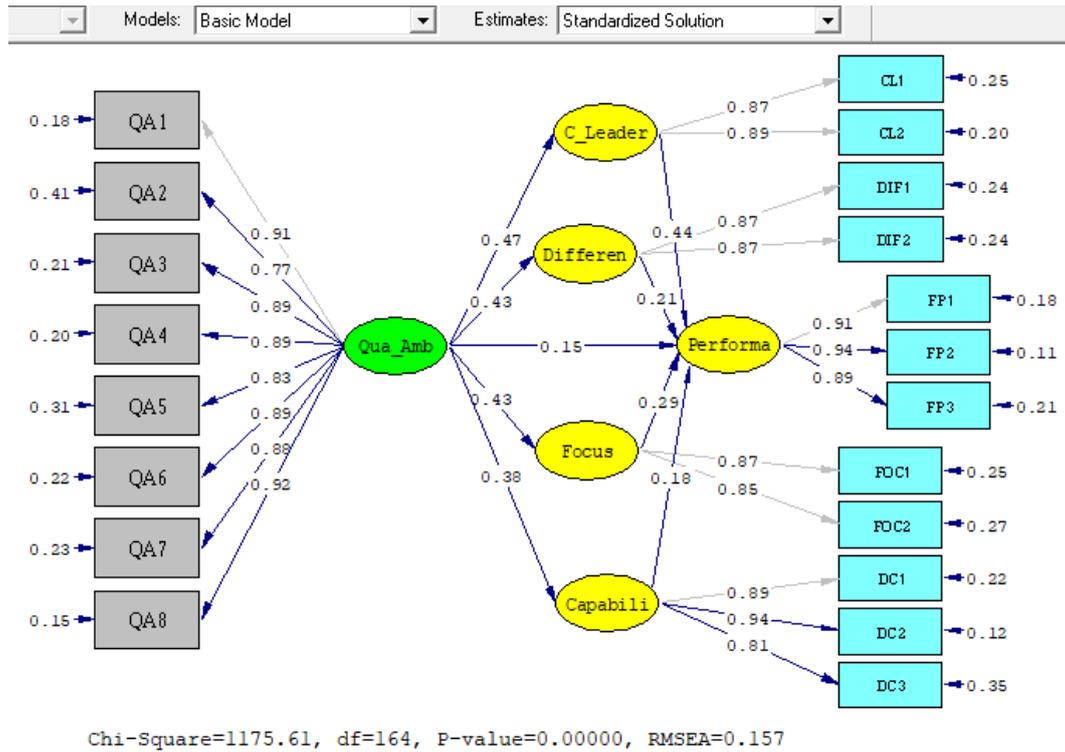
Source: Data Processing Results.

**Table 4. Variables' CR and VE Test**

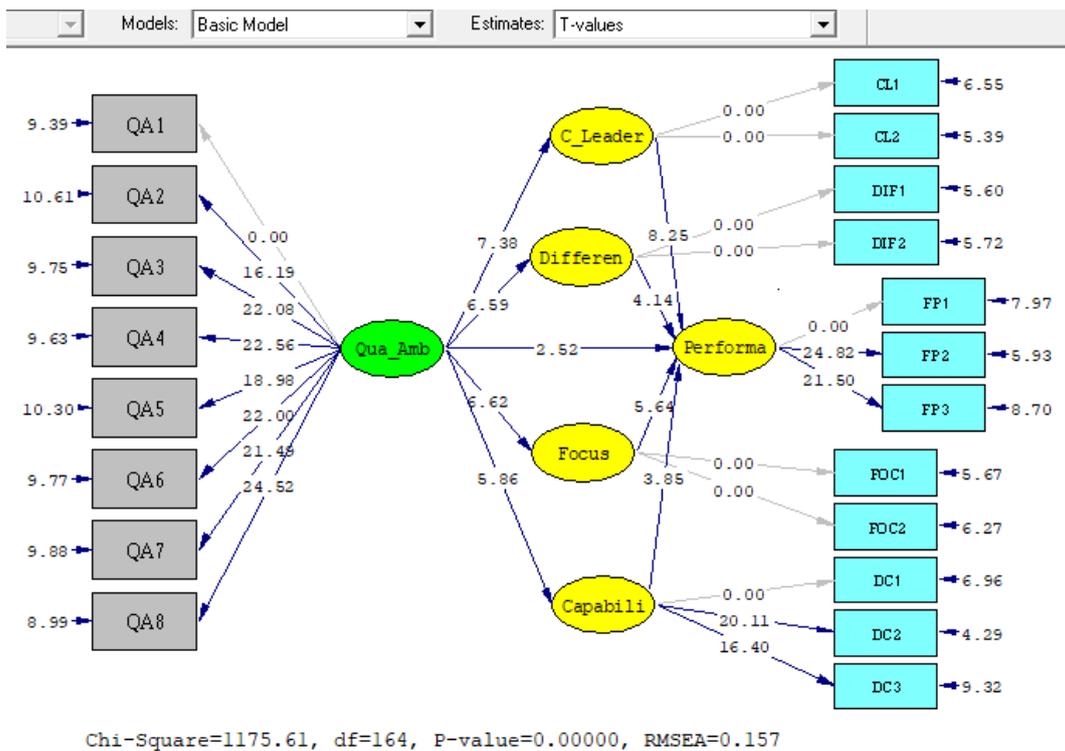
Construct	CR	VE
Quality Ambidexterity	0.96	0.76
Cost Leadership	0.88	0.78
Differentiation	0.86	0.76
Focus	0.85	0.74
Dynamic Capabilities	0.91	0.77
Financial Performance	0.96	0.88

Source: Processing Results with LISREL 8.80.

Furthermore, a full SEM model will be presented for testing the parameter (loading factor/indicator coefficient) measurements on exogenous and endogenous models. This test is intended to determine whether or not the indicators of each latent variable (construct) are strong. This analysis measures the t-value and coefficient of structural equations. By testing the t-value is greater than 1.645. The t-value of the coefficients/parameters and the coefficients/parameters (eStandardized Solutions) can be seen in the following figure:



**Figure 4.**  
**Structural Equation Modeling (Standardied Solutions)**  
 Source: Processing Results with LISREL 8.80.



**Figure 5.**  
**Structural Equation Modeling (T-Values)**  
 Source: Processing Results with LISREL 8.80.

**Table 5. Hypotheses Testing**

Partial Influence	Beta	t-value	Conclusion
Quality Ambidexterity → Cost Leadership	0.47	7.38	Accepted
Quality Ambidexterity → Differentiation	0.43	6.59	Accepted
Quality Ambidexterity → Focus	0.43	6.62	Accepted
Quality Ambidexterity → Dynamic Capabilities	0.38	5.86	Accepted
Cost Leadership → Financial Performance	0.44	8.25	Accepted
Differentiation → Financial Performance	0.21	4.14	Accepted
Focus → Financial Performance	0.29	5.64	Accepted
Dynamic Capabilities → Financial Performance	0.18	3.85	Accepted
Quality Ambidexterity → Financial Performance	0.15	2.52	Accepted
Influence Simultaneously	F <sub>Reg</sub>	P & R Square	
Quality Ambidexterity, Cost Leadership, Differentiation, Focus, and Dynamic Capabilities → Financial Performance	<b>135.83</b>	0.000 dan 0.69	Accepted

Source: Processing Results with LISREL 8.80.

## V. Conclusion & Future research

### Conclusion

1. Management must always conduct training on various new skills/skills and management should always involve cross-functional teamwork. Meanwhile, the things that must be improved are the management always carries out strict control to ensure the process runs well and the company is always looking for new customer need.
2. The things that must be maintained to increase the effectiveness of Cost Leadership are: the company always provides the lowest price to customers compared to other companies. While things that must be improved are: the company provides certainty of the cheapest price by asking customers to compare prices with other company.
3. The company must provide a unique drilling process that no other company has. Meanwhile, the things that must be improved are: management always innovates in the oil and gas drilling processes.
4. Companies must focus on premium customers by having sophisticated technology. While the things that must be improved are: the company offers the drilling process at a high price, with a strategy of using a different company/other Limited Liability Companies.
5. Things that must be maintained to improve Dynamic Capabilities are: sharing knowledge and learning among colleagues on something new in the work environment. While the things that must be improved are: the company is actively making changes to our products and services, in meeting customer need.
6. The company's equity performance is attempted to improve well. Meanwhile, the things that must be improved are: the company is experiencing a good increase in assets every year.
7. The company always provides the lowest price to customers compared to other companies.

### Future Research.

Taking into account the various limitations of this study, the researcher provides suggestions for further research, including:

1. Further research should take the results of previous research and references under 5 years old and sourced from several researchers in various countries in order to obtain a more comprehensive discussions.
2. Adding qualitative research to deepen the conclusions obtained from the quantitative research results that have been obtained.
3. The next research needs to separate the results of the combined competitive strategy on the three strategies, by separating the strategy to focus on the use of other companies, when participating in tenders.
4. Further research may analyse the Company Resilience variable, where at this time the world is facing a non-natural disaster of the COVID-19 pandemic, resilience is needed from oil drilling companies in Indonesia.

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