

THE IMPACT OF PROACTIVE CEO ON FINANCIAL PERFORMANCE MEDIATED BY ORGANIZATIONAL AMBIDEXTERITY: THE CASE OF CEOS OF KNOWLEDGE-BASED COMPANIES

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Abstract

The present research was conducted to explore the effect of proactive chief executive officers (CEOs) on financial performance in knowledge-based companies mediated by organizational ambidexterity. The present applied research was descriptive and correlational in design. The research population was the CEOs of knowledge-based companies in Mashhad. Overall, there were 161 companies all included in a census. Finally, 101 questionnaires were completed. The required data were collected using standard questionnaires, and Cronbach's alpha coefficient was estimated to measure the reliability of the instruments. Thus, the face validity, construct validity, and reliability of the instruments were all measured and confirmed. SPSS and Smart PLS were used for data analysis. The results showed that proactive CEOs have a positive and direct effect on financial performance, and organizational ambidexterity has a positive and significant mediating role in the relationship between proactive CEOs and financial performance. These findings show that attention to CEO proactivity and organizational ambidexterity in knowledge-

based companies can facilitate the improvement of financial performance and help CEOs and organizations face daily competitive challenges.

Keywords: proactive CEO, organizational ambidexterity, financial performance, knowledge-based company

1. Introduction

Every organization not only aims to be superior to rivals but also attempts to have optimal performance to achieve organizational goals (Pap et al, 2022). However, the performance of an organization is affected by its ability to innovate in production of goods or provision of services. Organizational performance is a concept to embrace all activities within an organization or company, including the production of goods and provision of services. Organizational performance refers to the achievement of visionary goals, missions, objectives and activities of the organization (Rumanti et al, 2023).

As for organizational performance, it is necessary to recognize the important role of CEOs in this process and the greater importance of their qualities for strategic decisions with multiple organizational outcomes (Kiss et al, 2022). A CEO is generally recognized as one of the most authoritative members of a company. A CEO's power usually results from his/her legal authority and expertise. Therefore, it is not far-fetched to expect the effectiveness of corporate goals and plans, internal structure and processes to be contingent on the CEO's authority (Daily & Johnson, 1997). The main decisions and to a large extent the future of a company are affected accordingly. In today's world of business, companies are competing to recognize and attract the most qualified CEOs as a competitive advantage. For this reason, the role of a CEO is central to this era. The CEO position, which has always been considered among the most impregnable positions in companies, is important because, as expected, the CEO is effective in the performance of organizations. Authoritative and intelligent CEOs are able to reduce financing costs, improve corporate governance, and set up better investment projects to ultimately improve organizational performance (Tien et al, 2013). CEO proactivity is a mixed personality trait defined as the CEO's desire to take actions to influence the environment, challenge and change the existing conditions to reach the desired outcome (Joo, & Lim, 2009).

Organizational ambidexterity is the ability to come up with new ways to do daily work, make changes and apply new methods. Techniques can include the development of new operational methods or processes and improve the existing mechanisms to increase efficiency. Furthermore, it enables the company to change or innovate fundamentally new business activities, such as the production of goods or provision of services and the supply of chain management or delivery (Weerawardena, 2003). Therefore, this ambidexterity can affect the performance of organization and can also improve its performance through using the personality traits of CEOs as a new means or technique.

Today, knowledge-based environments face rapid technological changes. Companies are looking for a competitive advantage to survive. An important aspect of improving performance is to know

how to deal with environmental dynamics and adapt to rapid changes. It requires special attention due to the emergence of competitive markets and human needs for growth in cultural and social domains. Societies and especially customers are interested in the performance of organizations. Many organizations cannot survive in a competitive environment and very easily get out of the competition (Simsek et al., 2019). To grow and survive in today's chaotic environment, knowledge-based companies need to create value and create wealth; therefore, getting to know the wealth creation process is one of a CEOs' goals. To achieve this goal, a proactive CEO focuses on how to create ambidexterity for the recognition of new and emerging opportunities. Proactive CEOs deal with wealth creation, but their focus is somehow different. How to create sustainable organizational values, pursue new business opportunities, create and use competitive advantages is a major management issue that has led to the convergence of the proactive CEO. For this reason, exploring its relationship with other organizational concepts is of an utmost importance (Yiu et al., 2018). The main issue is that proactive leadership in knowledge-based organizations in the process of structural changes within these companies in past decades has received increasing attention. That is because leaders work in an atmosphere of confusion, uncertainty and instability due to complexities of the environment. The problems of companies today are not simple, and today's solutions may cause more problems in future. Therefore, success in the current environment requires a different way of thinking about issues, which depends on proactivity in the management process. It entails an exchange of ideas between the leader and followers in a specific condition, helping each other reach a shared point of view and work effectively. However, the exiting gap in related literature is quite evident. Besides the practical implications of the core concepts of the present research as perceived by experts, there are limitations too. Examples are the lack of national studies on research variables and the increasing importance of the topic in today's organizations. Therefore, the present research sought to explore the relationship between proactive CEO and financial performance mediated by organizational ambidexterity in knowledge-based companies in Mashhad.

2. Literature review

2.1 Proactive CEO

Proactivity is marked by an interest in underlying processes of knowledge rather than knowledge construction. It basically aims to explain the purpose of mental processes for an organism in continuous efforts to adapt to the environment. Psychological processes are viewed not as independent elements, but as activities with significant implications. In other words, proactive individuals will not stop until they achieve the desired outcome (Fuller et al., 2007). This personality trait of a CEO is generally associated with initiative and high performance. A proactive CEO pioneers in behaviors such as voluntary work, persistence, high ability to solve problems in critical conditions to influence, challenge and change in the best way possible within the work environment (Bjorklund et al., 2013).

Proactive personality (PP) is defined as an individual's active efforts and behaviours to effectively change the current conditions, seize opportunities, overcome difficulties and barriers and achieve

goals while shaping the external environment (Shi et al, 2023). In light of interactionism, proactive personality is described as one's tendency to take initiative to modify the external environment. In fact, the proactive personality of a CEO also significantly influences strategic decisions, especially in M&A cases. Proactive personality represents the tendency to take active measures to change the external context (Yang et al, 2021).

Proactive personality represents one's disposition toward taking personal initiative and showing perseverance to influence the surrounding environment. It is the behavioral tendency to seize opportunities and work on them to introduce change. Contrary to individuals with low levels of proactivity, proactive employees are more likely to actively shape their work environment to achieve personal goals instead of passively waiting for external motivators for action (Hadi et al, 2023).

2.2 Financial performance

Performance is the expected outcome of CEO's job and the operation system generated, providing information about how well internal and external resources are used. Performance appraisal often emphasizes a process-oriented approach that focuses on evaluating the effectiveness of business using a set of metrics that can be used to improve business operation (Henri, 2004; Gu et al., 2021; Karimi & Walter, 2015; Martínez-Caro et al., 2020; Trieu et al, 2023).

An organization's performance entails the assessment of its efforts in practice and employ strategies for organizational success. A successful organization is expected to show good organizational performance, measured by certain performance indices according to the organization's strategic objectives. Occasionally, an organization's performance needs to be compared with similar organizations to assess its relative condition among rivals (Somwethee et al., 2023). Organizational performance is hard to assess though many researchers have attempted to operationalize it. The measurement of objective performance requires financial data such as financial outcomes, profit-making, and return on investment. The measurement of subjective performance includes non-financial information such as customer satisfaction, social performance, employee satisfaction, and environmental performance of organization (Inthavong et al, 2023).

Financial performance is an objective measure that shows how well an organization has used its assets to generate revenue. The financial performance of a company is a main indicator of assessed performance and the extent to which predetermined goals are achieved (Juliana et al., 2021).

2.3 Organizational ambidexterity

Ambidexterity is an organizational feature based on the idea that two incompatible goals of an organization, one related to short-term time objectives and the other related to long-term objectives can be achieved both successfully. Several definitions have been offered for the concept of organizational ambidexterity, each trying to explain this concept from a certain perspective (Sheng, 2017).

Organizational ambidexterity refers to an organization's ability to balance and integrate the exploration of new opportunities while also exploiting the existing ones (Trieu et al, 2023). Organizational ambidexterity refers to an organization's capacity to both explore and exploit to compete in the use of mature technologies and markets where efficiency, control, and incremental

improvement are appreciated, as well as the new technologies and markets where adaptability, autonomy, and experimentation are needed (O'Reilly & Tushman, 2013). Contextual ambidexterity is highly relevant for new product invention and organizational success, especially in dynamically operating high-tech companies (Wang & Rafiq, 2014). Ambidexterious organizations need a dynamic capability that enables them to mobilize, coordinate, and integrate a set of conflicting efforts, as well as to allocate, reallocate, combine, and recombine assets and resources across various exploratory and exploitative units (Yunita et al, 2023).

2.4 The relationship between proactive CEO, organizational ambidexterity and financial performance

According to Kiss et al. (2022), the performance of a company whose CEO is known for proactivity can be affected by this personality trait. Also, Happy et al. (2021), in their research, proved the effectiveness of four leadership styles (i.e., interactive, transformational, a combination of transactional and transformational leadership and passive-avoiding) in the financial performance of companies. These researchers found that the CEO's leadership style can affect the financial performance of the company. Martiadi et al. (2020) also showed the impact of leadership style on the financial performance of companies which is similar to the research by Happy et al. In another study, Tan et al. (2020) also showed the impact of leadership style on the financial and operational performance of Chinese companies.

It is believed that ambidexterity is an organization's internal coordination capacity to achieve short-and long-term goals of the company. As the research by Kiss et al. (2022) showed, organizational ambidexterity can also affect the performance of companies through innovation. Also, Trieu et al. (2023) acknowledged the effect of organizational ambidexterity on organizational performance in their research. Junni et al. (2013) showed in a meta-analysis that when organizational growth is measured, organizational ambidexterity has a positive association with performance. Junni et al. also contended that empirical evidence of the effects of ambidexterity on performance is mixed. A number of studies showed a positive relationship (Lubatkin et al., 2006).

Franco and Prata (2019) contended that the owner-CEOs personality traits are a critical attribute that moves them towards success. Personality traits of owner-CEOs influence enterprise strategy and performance (Sobaih et al, 2022).

2.5 Conceptual model of research

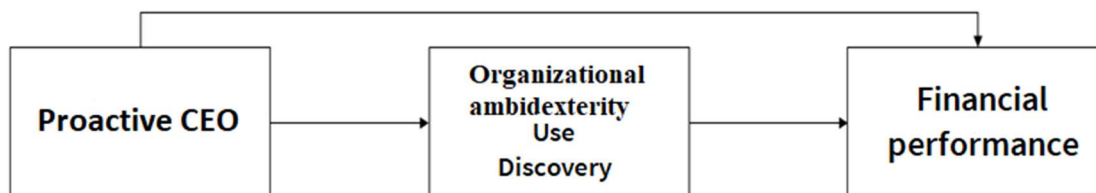


Figure 1: Conceptual model of research

1. Research Hypotheses

- Proactive CEO has a significant impact on financial performance mediated by organizational ambidexterity in knowledge-based companies.
- Proactive CEO has a significant impact on financial performance in knowledge-based companies.
- Proactive CEO has a significant impact on organizational ambidexterity in knowledge-based companies.
- Organizational ambidexterity has a significant effect on financial performance in knowledge-based companies.

3. Methodology

The current research is applied in terms of purpose of study and is an analytical and correlational survey in terms of procedure. The research population comprised the CEOs of knowledge-based companies in Khorasan. The total number of knowledge-based companies in this province was 161. For data collection, a census was used and finally 101 questionnaires were completed. To collect the required data, three questionnaires were used including Seibert et al.'s (1999) Proactive CEO Questionnaire, Schilke's Financial Performance Questionnaire (2014), and Jansen et al.'s (2006) Organizational Ambidexterity Questionnaire containing 25 questions. For validation, content validity was used by gaining a panel of experts' approval of the content. Construct validity was checked using factor analysis, and Cronbach's alpha and composite reliability were used to check the internal consistency of the questionnaires (see Table 1). To analyze research data and test hypotheses, descriptive and inferential statistics were used in SPSS and Smart PLS3. SPSS was used to summarize the demographic variables and calculate Cronbach's alpha, and PLS3 was used to test the model and check the hypotheses.

Table 1- The results of confirmatory factor analysis, validity and reliability for research variables

Variable	Item	Factor loading	t-value	Cronbach's alpha	Composite reliability	AVE
Proactive CEO	Q1	0.773	9.827	0.783	0.833	0.507
	Q2	0.790	15.398			
	Q3	0.640	7.823			
	Q4	0.664	8.859			
	Q5	0.642	7.793			
	Q6	0.760	18.210			
	Q7	0.719	12.498			
	Q8	0.653	10.058			
	Q9	0.766	13.807			
	Q10	0.698	8.759			
Ambidexterity	Q11	0.531	9.894	0.798	0.843	0.536
	Q12	0.683	10.157			
	Q13	0.818	13.750			

	Q14	0.694	10.077			
	Q15	0.813	13.473			
	Q16	0.725	12.337			
	Q17	0.798	12.532			
	Q18	0.546	6.949			
	Q19	0.821	13.165			
	Q20	0.792	12.933			
	Q21	0.766	11.629			
	Q22	0.713	5.050			
Financial performance	Q23	0.742	12.136	0.741	0.853	0.659
	Q24	0.856	32.939			
	Q25	0.833	19.064			

1.2

1.3 3.1 Discriminant validity via Fornell–Larcker criterion

In estimating common factor loadings, correlation of the indicators of a given construct is compared with that of other constructs. If the correlation of an indicator with another construct other than its own is higher than the correlation of that indicator with its own construct, the discriminant validity of the model can be questioned. In factor analysis, before conceptualizing the model, this state is definitely reached (Henseler et al., 2009). The results of discriminant validity are provided in Table 2. The reported values on the main diagonal are larger than all values in their rows and columns, so it can be concluded that discriminant validity is substantiated.

Table 2: Divergent (Discriminant) validity via Fornell–Larcker criterion

	Ambidexterity	Organizational performance	Proactive CEO
Ambidexterity	0.729		
Financial performance	0.659	0.812	
Proactive CEO	0.708	0.677	0.712

4. Results

Table 3- Summary of the research participants' demographic information

Variables	Groups	f.
Sex	male	66
	female	35
Education	≥diploma	1
	Bachelor's degree	34
	Master's degree	53

	Ph.D.	13
Age	20-30	39
	31-40	14
	41-50	34
	>50	14

4.1 Inferential statistics

Kolmogorov-Smirnov test was used to check the normality of distribution. The results are presented in Table 3. Since the significance level or *Sig* for all variables is less than 0.05, the data are interpreted as not normally distributed. Considering that the PLS is not sensitive to the normality of data, this software was preferably used for data analysis. The three criteria of t-value, coefficient of determination (R²) and predictive power were used to test the model. If the t-value is greater than 1.96, the relationship is statistically significant. The results of PLS are analyzed in two parts: model fit and hypothesis testing. To test the model fit, three indices of common variance, coefficient of determination R² and GOF were used. The first index measures the power of the model to predict items through their corresponding latent variable values. A positive value indicates the appropriate quality of the reflective measurement model. A main way of measuring endogenous variables is to estimate the coefficient of determination, which indicates the changes of the endogenous variables by the independent variable. The values of 0.67, 0.33 and 0.19 for endogenous variables in the model are interpreted as significant, moderate and weak, respectively. Table 4 shows the fit indices of the research, both showing a good fit.

Table 4- Kolmogorov-Smirnov test, coefficient of determination and common variance

Variable	Z	Sig	Common variance	Coefficient of determination (R ²)	Decision	GOF
Proactive CEO	0.144	0.000	0.225	---	----	0.359
Organizational ambidexterity	0.160	0.000	0.197	0.530	Slightly significant	
Financial performance	0.173	0.000	0.319	0.517	Slightly significant	

The overall model fit was represented by the GOF index. The GOF is estimated as the average score of the arithmetic mean and geometric mean coefficients of determination. The GOF values of 0.01, 0.25 and 0.36 are interpreted as low, medium and high. The estimated GOF value is 0.359, which indicates the fit of the model is at a medium level. Another part of PLS output represents hypothesis testing. Figures 2 and 3 show the model with the significant coefficients and path coefficients, respectively.

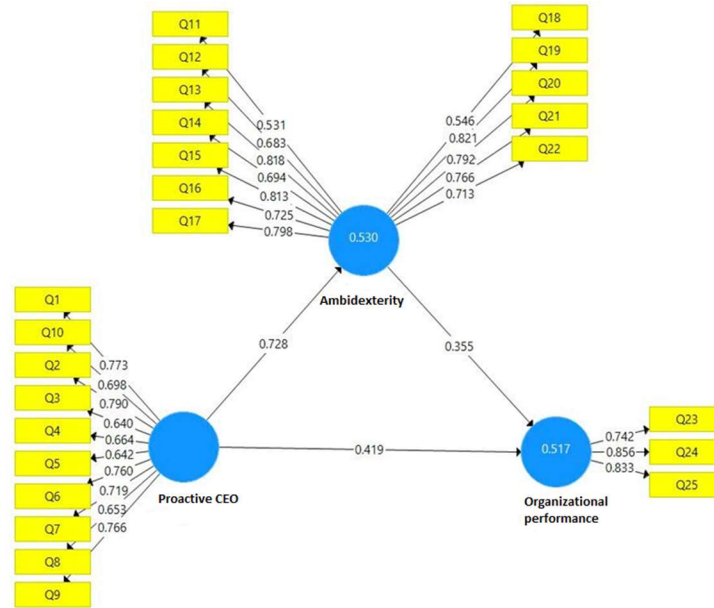


Figure 2: Structural path coefficients (PLS output)

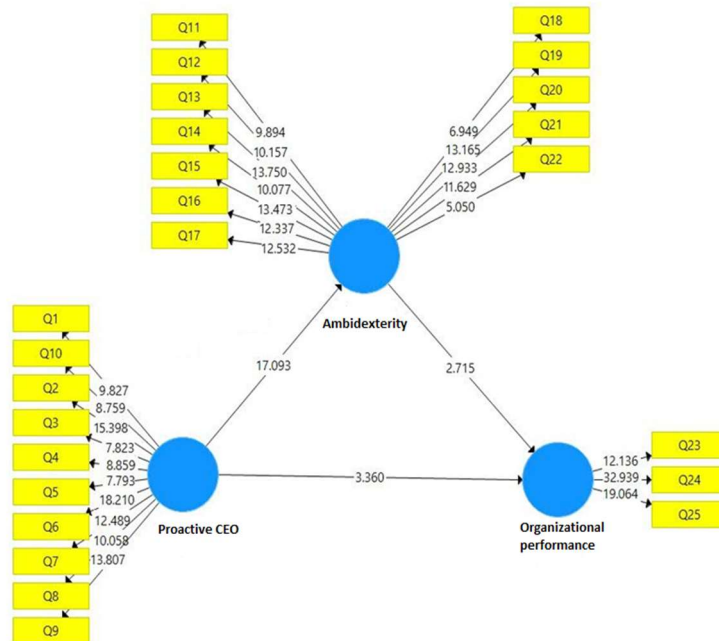


Figure 3. Significance of path coefficients (t-value) (PLS output)

Table 5 summarizes the results of the hypotheses

Hypothesis	Hypotheses	Significance (t-value)	Path coefficient	CI	Result
1	Proactive CEO → Organizational performance	2.604	0.258	95%	accepted
2	Proactive CEO → Financial performance	3.360	0.419	95%	accepted

3	Proactive CEO → Organizational ambidexterity	17.093	0.728	95%	accepted
4	Organizational ambidexterity → Financial performance	2.715	0.355	95%	accepted

According to Figures 2 and 3 and Table 5, all path coefficients are positive, which means that the hypotheses are directly accepted, and the t-value is greater than 1.96, which points to the acceptance of all research hypotheses. The significance level or p-value for all relationships is less than 0.05, so it seems reasonable to accept the hypotheses. To test the hypothesis with a mediating variable, the bootstrapping technique was used in SmartPLS 3, as automatically reported in the third version of the SmartPLS in the output of the specific indirect effect table. The reason for not using the Sobel test was that the data were not normally distributed (by default, the Sobel test assumes the data are normally distributed).

5. Discussion and Conclusion

Based on the agency theory, a proactive CEO can influence financial performance by focusing on innovation, initiative, transformational leadership and creating passion and motivation in the organization. Also, organizational ambidexterity as a mediating variable can play a major role in this relationship by influencing the relationship between proactive CEO and financial performance. Therefore, the present study aimed to explore the effect of proactive CEO on financial performance in knowledge-based companies in Khorasan mediated by organizational ambidexterity. To this aim, a hypothesis was formulated and the following results were obtained: Primary hypothesis: Proactive CEO has a significant effect on financial performance mediated by organizational ambidexterity in knowledge-based companies of Khorasan.

Bootstrapping technique was used to explore the mediation effect and test the primary hypothesis. The impact factor of the relationship between proactive CEO variable and financial performance in a two-way mediating role was estimated at 0.258. According to the table of indirect effects, the t-value is reported as 2.604, which is higher than 1.96. Thus, it can be concluded that the proactive CEO variable significantly affects financial performance through a two-way mediation path at the 95% confidence interval. The result of this hypothesis testing was consistent with the research by Kiss et al. (2022). Proactive CEOs may engage in multimodal networking, feedback-seeking, and problem-solving behaviors that lead to organizational ambidexterity, which, in turn, has a dual function and is positively correlated with organizational performance. If CEOs are proactive, they are generally known for their initiative and high performance in the management position; therefore, they can positively affect the organizational performance, and the output is reflected in financial measures. Also, if organizational ambidexterity is added, it will have a stronger effect because the initiatives of CEOs can facilitate the achievement of short-term and long-term goals. Secondary hypothesis #1: Proactive CEO has a significant impact on the financial performance of knowledge-based companies.

The impact factor of the proactive CEO variable on the financial performance of knowledge-based companies is 0.419. As this value is positive, it indicates the direct effect of the proactive CEO variable on financial performance. The t-value is estimated at 3.360, and as it is greater than 1.96, it can be concluded that the proactive CEO significantly affected financial performance at a confidence interval of 95%. Therefore, it can be concluded that the first secondary hypothesis can be accepted. To achieve innovation goals, proactive CEOs may develop an extensive external network of contacts to access new sources of knowledge and industry-related information, including information about internal and external rivals (Foss et al, 2013). Therefore, active CEOs can influence the financial performance of companies. In addition, establishing formal and informal connections with external partners and national and international organizations gives CEOs access to financial resources and insights into new technologies, markets, and products that can be leveraged (Kiss et al, 2022). Finally, this feature can affect the performance of a company and financial indices can be affected too. The result of testing this research hypothesis is consistent with the research of Kiss et al. (2022).

Secondary hypothesis #2: Proactive CEO has a significant effect on the organizational ambidexterity of knowledge-based companies.

As the analysis showed, the impact factor of the relationship between proactive CEO variable and the organizational ambidexterity of knowledge-based companies is 0.728, As this value is positive, it indicates the direct effect of the proactive CEO variable on organizational ambidexterity. The estimated t-value is 17.093 which is greater than 1.96; thus, it can be concluded that proactive CEO had a significant impact on organizational ambidexterity at a 95% confidence interval. It can be concluded that the second secondary hypothesis of the research can be accepted. To achieve organizational ambidexterity goals, proactive CEOs may increase their networking efforts to emphasize less familiar national and international ties. Such networks have been associated with increased stability, quality and quantity of tangible and intangible resource flows and lead to organizational ambidexterity through promoting knowledge and effective sharing of capabilities (Turner et al, 2013). Organizational ambidexterity is a concept that has attracted many companies and has been able to offer new insights to CEOs to use strategic positions and innovative opportunities as far as they can. These new insights have fed into a new personality trait marked by proactivity. The result of this hypothesis is in line with the research of Kiss et al. (2022) and Tan et al. (2020).

Secondary hypothesis #3: Organizational ambidexterity has a significant effect on the financial performance of knowledge-based companies.

The impact factor of the organizational ambidexterity variable on financial performance of knowledge-based companies is 0.355. As this value is positive, it points to the direct effect of organizational ambidexterity on financial performance. The t-value is reported as 2.715, and because this value is greater than 1.96, it can be concluded that organizational ambidexterity has had a significant effect on financial performance at a confidence interval of 95%. Therefore, the third secondary hypothesis can be accepted. Organizational ambidexterity is a critical capability for companies to adequately value their innovations by taking advantage of organizational

flexibility and ability to engage in disruptive practices while lowering the risks associated with resource constraints (Cao et al, 2009: kiss et al, 2022: Luk et al., 2008). Ambidexterity may lead to increased short- and long-term performance as companies simultaneously refine and improve their existing products in relevant ways. Customers value and push the boundaries with radical innovations that lower the risk of being limited to the existing products. Ambidexterity is positively related to organizational performance because it allows organizations to effectively manage existing demands while also anticipating disruptive changes in their industries (Koryak et al, 2018: Kiss et al, 2022). Research has shown that environmental dynamics affect performance. With strong competition and rapid changes, organizations need the ability to use existing capabilities and discover new ways to modify the organization (Wang and Li, 2008). The result of testing this hypothesis agrees with the research of Kiss et al. (2022) and Koryak et al. (2018). Secondary hypothesis #3: Organizational ambidexterity has a significant effect on the financial performance of knowledge-based companies.

Therefore, according to the results of hypothesis testing, the following suggestions are made:

- As for the impact of rewards on financial performance, it is suggested to update and arrange for a fair payment system, improve organization's welfare facilities to meet the staff's age and work experience needs. It is also suggested to make the organization's payments competitive to retain qualified workforce in the organization, give rewards to qualified individual or group staff to further motivate them.
- Concerning the effect of proactive CEO on financial performance, the organization is suggested to create a cooperative climate, run employee participation programs, use organic structures appropriate for the working groups, and also use centralized and non-centralized decision-making methods in concert.
- Having a proper organizational and administrative structure is probably the biggest challenge for an ambidextrous organization. Making changes within the organization is a complex process for two important reasons. One is that organizations are dependent on the past. These organizations are many years old and have become stubborn and unrealistic over time. The other reason is that organizations deal with human behavior. Hundreds of people who make up an organization have maintained their old habits and have no desire to change them. Some of these people are also influenced by the decision-making power, including those affiliated with the biggest department, the biggest budget and the highest salary. This is in fact one of the most difficult business issues to strike a proper balance. Both the organization and the external environment are constantly changing. Striking a balance between change activities and business administration is essential to the employment of strategies. If this optimal balance is created, the organization will be adequately responsive to the changing environment.
- Processes, methods and standards are required to ensure work is done consistently and properly in the organization. Each process serves a specific purpose that depends on specific functions to produce the desired output. These processes not only help measure performance and

efficiency, but also facilitate continuous development and help the CEO have better control of the organization.

- The other suggestions include adequate attention to comprehensive interventions, employees' readiness for change and stabilization, recognition of sources of stress, job fatigue and stress management interventions, coping with stress, analyzing practical problems of work teams, role conflict, role illusion and conflict management, running job enrichment and job design programs, and evaluating organizational growth programs.
- It is also suggested to recruit and retain staff of both skills. Many researchers are focused on corporate level mechanisms to create ambidexterity. However, many employees of small organizations are forced to take responsibility of both exploration and exploitation. At the individual level, it is assumed that ambidextrous capabilities are rooted in individuals and small teams. In this type of organization, in all organizations, there may not be enough resources to recruit people who are specialized in development and support functions. These people should ideally acquire both skills. The same team may be made ambidextrous in different ways.
- It is suggested to recruit CEOs with balanced ability. CEOs who perceive the problems of the organization as a leader, those who act as entrepreneurs, increase the potential of the organization to be ambidextrous.

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