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LEARNING FROM STARTUPS: DETERMINANTS OF EXPLORATORY KNOWLEDGE CREATION (SUMMARY)

Anu Wadhwa

Ecole Polytechnique Federale de Lausanne, anu.wadhwa@epfl.ch

Corey Phelps

University of Washington

Suresh Kotha

University of Washington

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SUMMARY

LEARNING FROM STARTUPS: DETERMINANTS OF EXPLORATORY KNOWLEDGE CREATION

Anu Wadhwa, Ecole Polytechnique Federale de Lausanne, Switzerland

Corey Phelps, University of Washington, USA

Suresh Kotha, University of Washington, USA

Principal Topic

Corporate venture capital investing in young, entrepreneurial firms is an important tool through which large, established organizations can stimulate innovation and knowledge generation within their own boundaries. In this study, we examine the conditions under which CVC investing influences the investing firm's degree of exploratory knowledge creation. This is an important question since exploratory knowledge creation helps firms discover new opportunities and generates the potential for future exploitation. However, little research has explored the determinants of the *direction* of knowledge creation resulting from CVC investments. Drawing upon the innovation search literature, we examine how characteristics of the startups funded by corporate investors enhance novelty of investors' knowledge creation.

Method

Our main proposition is that investments in certain types of startups influence the domains in which corporate investors learn and build their knowledge bases. Specifically, we explore whether the degree of relatedness between the corporate investor and its portfolio of startup firms, the degree of specialization in the corporate investors' portfolio, the maturity of investor firm portfolio, and the extent of knowledge codification of the portfolio firms influence investors' exploratory knowledge creation. We test our hypotheses using longitudinal data on 36 firms in the global telecommunications equipment manufacturing industry during the period 1989-1999.

Results and Implications

Consistent with our theoretical expectations, we find that the characteristics of an investor's portfolio impact its subsequent degree of exploratory knowledge creation. We find that incumbents who invested in more related portfolios exhibited more exploratory knowledge creation. We also find the maturity of an investor's portfolio maturity and its degree of codified knowledge enhanced its creation of *novel* knowledge.

Our results highlight the saliency of CVC investments for corporate investors' knowledge creation in exploratory directions. We empirically demonstrate that certain attributes of portfolio firms play a significant role in the type of innovative performance obtained. This research contributes to the innovation search literature by taking a portfolio view of a corporate investor's venture capital investments and showing how different characteristics of portfolios firms influence the outcomes of the search process. This research also provides practical insights for managers of CVC programs about how to manage their investments in portfolio firms.

CONTACT: Anu Wadhwa; anu.wadhwa@epfl.ch; (T): +41-21-693-0030; (F): +41-21-693-2489; EPFL-CDM, Odyssea 2.01A, Station 5, Lausanne CH-1009, Switzerland.