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SHOULD I STAY OR SHOULD I GO? MANAGING INTERDEPENDENCIES BETWEEN EXPLORATION AND EXPLOITATION (SUMMARY)

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SUMMARY

SHOULD I STAY OR SHOULD I GO? MANAGING INTERDEPENDENCIES BETWEEN EXPLORATION AND EXPLOITATION

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Principal Topic

Researchers overall agree that, in most circumstances, exploration and exploitation need to be separated without being isolated (2003; Govindarajan & Trimble, 2005; Markides & Charitou, 2004; Tushman & O'Reilly, 1996) i.e. they need to be “loosely coupled.” (Weick, 1989) Loose coupling allows for responsiveness between exploration and exploitation –preventing fragmentation– as well as autonomy – allowing for idiosyncrasies. Less consent exists on the degree of separation (strength and amount of remaining interdependencies) and how to manage the constantly changing nature of the interdependencies over time.

Method

This research deploys case studies to build grounded theory (Strauss & Corbin, 1998). Our focus is on projects that address opportunities that established firms are unlikely to perceive or that don’t look like an opportunity i.e. new value network and reduced financial hurdle rate projects. New value network projects involve new supplier channels, customer channels, retailers, distributors and/or partners. Reduced financial hurdle rate projects embody projects that look initially unattractive from a financial perspective, but may over time bring in substantial profits and prevent low-end disruption. We currently have collected and analyzed data on one case. This project concerns a financial hurdle rate exploration by a US-based medical device firm targeting consumers in Asia Pacific, a market with large potential in size but which is price-sensitive.

Results and Implication

Whereas the execution of this project largely took place in Asia-Pacific; approvals for expense moneys, business cases and/or budget appropriations had to pass through headquarters. Significant championing for this product from out of the Asia-Pacific region was required to keep it alive. Even though the project by itself showed positive financials; the overall prospect to the business relative to other projects in the pipeline was loss. Several mechanisms were used to convince headquarters the worth of the project e.g. by manipulating the proposed positioning of the product based on unlikely assumptions; by front-end prototyping; and by proposing cross-divisional profit calculation methods. The unavoidable and tight linkage with the traditionally US-focused headquarters through finance, sales, marketing and manufacturing significantly slowed this project down. This case study looks at these linkages and starts to build a theory on the interdependencies between exploration and exploitation.

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