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THE EFFECT OF EXPLORATION AND EXPLOITATION ON FIRM PERFORMANCE: UNDERSTANDING THE ROLE OF STRATEGIC LEARNING (INTERACTIVE PAPER)

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INTERACTIVE PAPER

THE EFFECT OF EXPLORATION AND EXPLOITATION ON FIRM PERFORMANCE:
UNDERSTANDING THE ROLE OF STRATEGIC LEARNING

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Principal Topic

The literature on ambidexterity attributes the survival of an organization to two main entrepreneurial behaviours, the ability to continuously explore and identify new product and service opportunities, and the ability to exploit existing resources. A number of studies suggest that the effects of exploration and exploitation on company performance are direct, and argue that ambidextrous companies perform best (He and Wong, 2004). However, other researchers (for example Raisch and Birkinshaw, 2008) suggest that the relationship is more complex, with factors mediating or moderating these relationships.

This study introduces strategic learning (e.g. Mintzberg, 1985) as a mediating factor between exploration, exploitation and performance. Strategic learning is defined as an organization’s dynamic capability consisting of intra-organizational processes for the dissemination, interpretation and implementation of strategic knowledge (Kuwada, 1998; Thomas et al., 2001). Furthermore, this study seeks to contribute to entrepreneurship research by testing the moderating effect of exploitation on the exploration—strategic learning relationship.

Method

This study analyses quantitative survey data gathered from 206 Finnish software companies. The measures were adapted from previous studies and the validity of the construct items was pre-tested. The dimensional structures of the constructs were tested using principal axis factoring and the reliability and validity by using Cronbach’s alpha, AVE and composite reliability values. Moreover, discriminant validity, common method bias and multicollinearity were monitored. All measures were found suitable for the analysis using a partial-least-squares approach (Chin, 1998).

Results and Implications

The findings confirm that the relationship between exploitation and performance is partially mediated by strategic learning, whereas strategic learning fully mediates the relationship between exploration and performance. Additionally, we find a significant negative moderating effect of exploitation on the exploration—strategic learning relationship. This effect illustrates the existence of the so-called exploitation trap (March, 1991; Wang, 2008), i.e. a situation where excessive exploitation prohibits successful exploration. The results contribute to entrepreneurship research by highlighting the role of strategic learning in turning both exploration and exploitation into performance and underline the importance of actively balancing these activities.

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