EXPLORATION AND EXPLOITATION IN NEW VENTURES: COMBINING INTRA- AND INTER-ORGANIZATIONAL LEARNING FOR CAPABILITY DEVELOPMENT (SUMMARY)

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EXPLORATION AND EXPLOITATION IN NEW VENTURES: COMBINING INTRA- AND INTER-ORGANIZATIONAL LEARNING FOR CAPABILITY DEVELOPMENT

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Principal Topic

This study investigates how technology ventures develop capabilities through the lens of explorative and exploitative learning within and across organizations. We distinguish capability development from product development (involving multiple capabilities), and capability initiation from capability development (involving institutionalization after initiation through repetition). A capability development may take one of the four modes: internal exploration; external exploration; internal exploitation; and external exploitation. Capability exploration refers to the initiation of a new capability that is never possessed by a firm; capability exploitation refers to the improvement and adjustment of an existing capability to adapt to new situations. Capability exploration can occur inside the venture (e.g., R&D capabilities developed in-house), or outside the venture (e.g., relational capability developed through collaboration). A new capability initiated externally through collaboration may stay external or be brought into the venture, adjusted and exploited to meet the venture's proprietary uses; and vice versa. Therefore, in the case of capability exploitation, the source of the existing capability defines another layer of differentiation: the exploitation of a capability that is initiated through internal exploration, or the exploitation of a capability initiated through external exploration.

Method

We adopt an inductive, qualitative method through in-depth case studies, drawing on the field data on early-stage capability development of six Montreal-based, health-related biotech companies.

Results and Implications

The data shows that a dominant mode of capability development after the inception research (i.e., internal exploration), is the internal exploitation of a capability initiated through external collaboration. For resource-constrained new ventures, external exploration leverages diverse resources and ideas, and facilitates new capability initiation in a cost-efficient manner. The new capability can be further exploited in the venture when it is able to find a way to transfer and apply the capability to internal uses and harvest its value in the long term independently from the partnership. Hiring key people and nurturing absorptive capacity drive this process of internal capability exploitation, and enable the transition to the next exploration. This study supports the duality between exploration and exploitation, and the complementarity between intra- and inter-organizational learning. It demonstrates that beyond internal exploration, learning to exploit the exploration initiated from partnerships is essential for new ventures’ capability development.

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