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RUDE AWAKENING: THE INFLUENCE OF AN ENVIRONMENTAL JOLT ON CORPORATE VENTURING ACTIVITY (SUMMARY)

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 SUMMARY **RUDE AWAKENING: THE INFLUENCE OF AN ENVIRONMENTAL JOLT ON CORPORATE VENTURING ACTIVITY**

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Principal Topic

Environmental jolts prompt organizational learning processes as decision makers reexamine engrained routines and processes, yet there is little scholarly attention on this issue. Building on both the jolt and organizational learning literatures, we use the dot-com crash as an opportunity to test and extend the notion of vicarious learning from failure. The purpose of our research is to investigate how investment in new business opportunities varies in periods of “irrational exuberance” relative to periods of “cautious investment”. We comparatively examine two different ways firms can pursue new business opportunities that reside outside of the boundaries of the firm: corporate venture capital (CVC) investments and the acquisition of entrepreneurial ventures. We hypothesize that the dot-com jolt altered firms’ new business investment decisions, and then consider three contingencies based on key attributes of the firm and the investment target: managerial optimism, R&D intensity, and the age of the venture.

Methods

Our sample is comprised of publicly traded U.S. firms engaged in CVC investments or the acquisition of entrepreneurial ventures within the U.S. between 1998-2005 in the information and communication technologies, chemicals, and medical and laboratory equipment industries. We use SDC Platinum and VentureXpert databases to collect data on acquisition and CVC activities, COMPUSTAT for financial data, and firm 10-K reports for textual analysis data. The final sample contained 1,273 venturing relationships from 95 parent companies.

Results and Implications

Results from the logit specification indicate that a jolt may function as a system-wide learning mechanism that can influence firm behavior. Collectively, results indicate that the jolt induced an adjustment of external opportunity exploitation. We contribute to the jolt literature by testing the notion that an environmental jolt serves as a potent learning experience that alters strategic decision making, as evidenced by changes in the form of external venturing chosen by a firm. Similarly, we contribute to the organizational learning literature by expanding on the notion of vicarious learning from failure to a systems-wide level.

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