EXPLORATION AND EXPLOITATION UNDER RESOURCE SCARCITY: EVIDENCE FROM ENTREPRENEURIAL SUCCESSION (INTERACTIVE PAPER)

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INTERACTIVE PAPER SESSION

EXPLORATION AND EXPLOITATION UNDER RESOURCE SCARCITY:
EVIDENCE FROM ENTREPRENEURIAL SUCCESSION

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Principal Topic

Abernathy (1978) and March (1991) inspired a continuous stream of research on how managers can balance operating efficiency through better exploitation of existing resources with innovation and exploration of uncharted waters. While organization scholars have eagerly embraced the necessity of exploitation and exploration to firms’ survival and growth, the theory has raised challenging specification issues in empirical research. In the introduction to a recent research forum in the Academy of Management Journal, Gupta et al. (2006) flagged the need for further investigation of the temporal dynamics of exploration and exploitation.

The present research examines the temporal interplay of exploration and exploitation in the aftermath of entrepreneurial succession in SMEs. Prior research has shown that exploration and exploitation can co-exist and are, indeed, necessary for long term survival and growth. However, researchers disagree on whether firms can pursue both simultaneously or sequentially. March (1991) contended that, under resource scarcity, organizations can not engage in exploitation and exploration simultaneously, but sequentially. Granted that March’s argument for sequential balancing under resource scarcity could be verified empirically, we still would have to understand why organizations would opt for exploitation or exploration at a particular time. Entrepreneurial succession at in SMEs is a good context for testing March’s conjecture. Indeed, new owners of SME typically operate under resource scarcity. Further, they have to make choices as where to focus in the period following the acquisition: exploration or exploitation or a combination of both.

Method

The hypotheses were tested on data collected from a sample of French SME owner managers who bought their firm in 2001-2003. The surveyed population consists of all SME buyers who sought credit insurance from OSEO Garanties for an amount of €750,000 or more in the target period.

Results and Implications

This research advances scholarly discussion about the exploration-exploitation mechanism under resource scarcity. On a more practical level, the research enables us to identify the circumstances and the behaviors associated with better value creation in “old” businesses after change of ownership. This knowledge is valuable when taking into account the thousands of SME owner-managers who will retire, in France, during the coming 10 years.

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