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SUMMARY

AN INVESTIGATION OF THE ROLE OF EXPLORATION AND EXPLOITATION IN THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ORIENTATION AND FIRM PERFORMANCE

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Principal Topic

EO is a firm-level strategic orientation, representing the extent to which an organization is committed to innovation by introducing new products and services, is proactive in initiating competitive actions, is willing to take risks and compete aggressively (Covin & Slevin, 1989; Miller, 1983, Lumpkin & Dess, 1996). While scholars have examined the direct effects of EO on performance, we propose that EO is an antecedent, requiring key organizational activities—more specifically, exploration vs. exploitation—which in turn influences performance. Both exploration, the experimentation with new alternatives and exploitation, the refinement and extension of existing competencies, technologies and paradigms, are important entrepreneurial processes. This paper poses these related questions: How does EO (values) lead to exploration and exploitation (actions)? How does exploration and exploitation (actions) work as a means by which EO (values) leads to performance effectiveness (outcome)?

Method

We conducted a survey among Chinese technology firms in Guangdong Province, China. This context was chosen because (1) in technology firms, EO and explorative and exploitative activities are expected to be important drivers of firm performance. (2) Guangdong is the most dynamic and active economic zone in China, a suitable setting to test the research questions. Managers from 96 ventures have completed the survey instruments and 96 valid questionnaires were used for the analysis. We used regression analysis and mediation procedures to test the hypotheses.

Results and Implications

Our findings suggest that EO leads to both exploration and exploitation, but forms a stronger relationship with exploration. Both exploration and exploitation are partial mediators in the EO-performance relationship, with exploitation showing a stronger mediating effect. This suggests that EO does impact exploration quite significantly, but exploitation provides a more effective way to translate EO into performance. While exploration, exhibited a weaker mediating effect between EO and performance, we may recognize, however, that exploration could provide longer-term benefits to the firm that reach beyond nearer-term performance. Overall, our research reveals that the inclusion of mediating variables can enhance our understanding about the mechanisms through which EO impacts firm performance through specific actions.

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