

Exploration, exploitation, and financial performance: analysis of S&P 500 corporations

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Abstract

The literature suggests that established firms need to balance their exploration and exploitation activities in order to achieve superior performance. Yet, previous empirical research has modeled this balance as the interaction of orthogonal activities. In this study, we show that there is a trade-off between exploration and exploitation and that the optimal balance between exploration and exploitation depends upon environmental conditions. Using a novel methodology to measure the relative exploration versus exploitation orientation, we find an inverted U-shaped relationship between the relative share of explorative orientation and financial performance. This relationship is positively moderated by the R&D intensity of the industry in which the firm operates. Copyright © 2008 John Wiley & Sons, Ltd.

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