

Linking Market Performance to Exploration and Exploitation in The Pharmaceutical Industry

Authors : Johann Valentowitsch, Wolfgang Burr

Abstract : In organizational research, strategies of exploration and exploitation are often considered to be contradictory. Building on the tradeoff argument, many authors have assumed that a company's market performance should be positively dependent on its strategic balance between exploration and exploitation over time. In this study, we apply this reasoning to the pharmaceutical industry. Using exploratory regression analysis we show that the long-term market performance of a pharmaceutical company is linked to both its ability to carry out exploratory projects and its ability to develop exploitative competencies. In particular, our findings demonstrate that, on average, the company's annual sales performance is higher the better the strategic alignment between exploration and exploitation is balanced. The contribution of our research is twofold. On the one hand, we provide empirical evidence for the initial tradeoff hypothesis and thus support the theoretical position of those who understand exploration and exploitation as strategic substitutes. On the other hand, our findings show that a balanced relationship between exploration and exploitation is also important in research-intensive industries, which naturally tend to place more emphasis on exploration.

Keywords : exploitation, exploration, market performance, pharmaceutical industry, strategy

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