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Crossing the great divide of strategic entrepreneurship: Transitioning between exploration and exploitation

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Abstract Managing uncertainty effectively is perhaps one of the most significant challenges a firm's decision makers face today. Strategic entrepreneurship—defined as exploration for future sources of competitive advantage, combined with exploitation of current sources of competitive advantage—has been proposed as a means via which decision makers can manage uncertainty. In this article, we discuss the transition between exploration and exploitation activities within organizations as a vital part of strategic entrepreneurship; this transition process can involve various types of internal firm challenges. Additionally, we highlight various sources for these internal challenges and mechanisms through which firms can overcome them.

1. Managing uncertainty

Today's firms face incredibly challenging competitive environments. In such a context, the reality is that as one source of uncertainty becomes resolved, others emerge to take its place. From the perspective of a firm's external environment, consider the sweeping changes—and the uncertainty they create—that commonly accompany the results of political contests as new business-government interfaces are established. Similarly, think about how the situation with subprime mortgages continues to affect the political and economic segments of the external environment for firms competing in the United States, particularly those competing on a global scale. As a measure of the interconnectedness among parts of a firm's external environment, think about how quickly the realities of subprime loans are spreading beyond the financial services industry to weigh upon nearly every industry sector as fears of a money supply shortage spread and grip global markets.

Other sources of uncertainty outside an organization's general environment affect firms more directly. Changes in the nature of a firm's industry environment (e.g., a key competitor acquiring a firm's partner or supplier) and technological shifts are examples of changing conditions in an industry that can influence how a firm chooses to compete in its quest for superior or above-average returns on its invested capital. In total, the changes affecting firms and their leaders in today's complex and interconnected global competitive environment

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demand that decision makers effectively manage uncertainty and their firm's resources to position their company in ways that will allow it to adapt to changes occurring in the external environment.

Corporate entrepreneurship represents one set of activities a firm's decision makers may elect to use in effort to enhance a firm's competitive ability while successfully coping with the challenges embedded within its external environment (Ireland, Covin, & Kuratko, 2009; Kuratko & Audretsch, 2009). As a process through which an individual or a group of individuals in an existing company work to create a new organization or to instigate renewal or innovation within their company (Sharma & Chrisman, 1999), corporate entrepreneurship is often used to help firms achieve outcomes such as domain redefinition, sustained regeneration, and business model reconstruction (Covin & Miles, 1999).

In our view (Hitt, Ireland, Camp, & Sexton, 2001; Ireland, Hitt, & Sirmon, 2003), strategic entrepreneurship is an important path through which corporate entrepreneurship manifests itself, and more specifically, captures a mode of organizing in which decision makers manage both uncertainty and resources as the foundation for being able to position their firms to adapt to changes. Based on a symbiotic relationship between strategic management and entrepreneurship (Ireland, 2007), strategic entrepreneurship has been described as the activities through which firms "simultaneously exploit today's competitive advantages while exploring for the innovations that will be the foundation for tomorrow's competitive advantages" (Ireland & Webb, 2007, p. 50).

Consider the application of this definition to decision makers in the music industry. Firms in that arena could benefit from strategic entrepreneurship as the industry transitions from one based on in-store CD sales and music artists being signed to large companies, to an industry whereby artists can use the Internet as a distribution channel through which to connect with fans and sell products directly to them. As things currently stand, decision makers for firms in this industry continue to wrestle with how to protect their core revenue driver (i.e., in-store CD sales) while embracing a new distribution channel (i.e., the Internet) as an integral part of the business model.

Strategic entrepreneurship could also help those leading firms in other industries, or segments of industries, deal with similar types of challenges. Examples here include: (1) firms competing in the computer storage industry, as the technology base changes from disk drives to flash drives; (2) companies manufacturing tobacco products, as heightened regulations are placed on these consumer items; and (3) organizations competing in the financial sectors, during a time when significant and yet-to-be-fully-defined shifts are taking place in the economic and regulatory landscapes affecting those business models. The situations and challenges facing these types of organizations highlight the need for organizational decision makers to be able to effectively use firm resources as the foundation for managing multiple sources of environmental uncertainty.

Because both the exploration for future sources of competitive advantage and the exploitation of existing sources of competitive advantage draw upon firms' limited stocks of resources, decision makers face a tension concerning how to balance their firm's current and future needs. We described this tension in an article which appeared in the January/February 2007 issue of *Business Horizons* (Ireland & Webb, 2007). Therein, we noted that successfully using strategic entrepreneurship as a path to enhance firm competitiveness is challenging. Here, we seek to extend our earlier work by describing the transition process between exploration and exploitation as another significant challenge that firms face when using strategic entrepreneurship.

We believe what we address here is significant, as a firm's efforts to transition between exploration and exploitation processes do not occur instantaneously. Indeed, we believe that transitioning between exploration and exploitation can be a lengthy, resource-intensive, and risky—although necessary—process. Some firms are quite successful in transitioning between exploration and exploitation, realizing that success is measured not only based upon effectively transitioning innovations from exploration to exploitation, but also by minimizing the costs and repercussions of transition failures. Apple, for example, is an excellent case study of transition success on both counts: the firm has successfully transitioned services and products such as the iPod, the iPhone, and iTunes. Other Apple products, however—including the Newton personal digital assistant, Quicktake digital camera, and Pippin video game console/computer—may be considered transition failures. Nonetheless, as a firm which appears committed to effective strategic entrepreneurship, Apple has been able to manage the associated costs and learn from these failures.

Our article proceeds as follows. First, we establish the boundaries of strategic entrepreneurship in terms of the operational, structural, and cultural differences that characterize exploration and exploitation processes. In light of these differences, we then discuss the unique challenges of transitioning from exploration to exploitation, and set forth a