



Driving Performance Via Exploration in Changing Environments: Evidence from Formula one Racing

Paolo Aversa, Cass University

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A usual explanation for why firms increase their exploratory activities is that the environment in which they find themselves has changed, thus corroding existing sources of competitive advantage. On the surface, the claim that new external circumstances trigger self-evident calls for strategies of greater exploration seems obvious and compelling. Yet, this prevailing wisdom overlooks the probability that the reward to developing innovative components may itself be eroded by implicit yet burgeoning costs of fitting the new technology into existing product architectures, thereby dampening performance. What is more, because such adjustments take time, the delayed reward to generating new knowledge may itself be eroded, if the degree of change varies intermittently. Following the above reasoning, we theoretically examine how varying magnitudes of environmental change affects the optimum level of firm exploration, and propose that the more radical (i.e., competence-destroying) as opposed to incremental (i.e., competence-enhancing) these changes are, the more such optimum level recedes. Based on quantitative and qualitative empirical analyses from the Formula One racing industry our study suggests contrarian strategies vis-à-vis previous literature, and brings insights to theory and management practice.