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**Balancing Exploration and Exploitation in Alliance Formation:
A Multidimensional Perspective**

ABSTRACT

Do firms balance exploration and exploitation, and if so how? Our study of alliances formed by software firms identifies conflicting organizational pressures for exploration and exploitation and suggests that firms balance these pressures within and across distinctive domains. First, we argue that organizational inertia fosters exploitation while the firm's organizational slack and absorptive capacity facilitate exploration. Second, we note that exploration and exploitation can be observed in the separate domains of function (value chain function of the alliance), structure (network position of the partner), and attribute (the partner's profile). We then examine the implications of firm age, partnering experience and financial performance, showing how conflicting findings in prior research can be reconciled to the extent that firms trade off exploration in one domain for exploitation in another. Firms' tendencies to explore versus exploit in any particular domain are thus underdetermined by the aforementioned organizational pressures since firms may apply managerial discretion in dynamically balancing exploration and exploitation across domains.