

Innovation, CEO Bonding Behavior & Poor Outcomes

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Abstract

The ability to innovate is considered vital to firm performance, and the consensus is that firms should find a balance of both types - exploration and exploitation. Generally, studies conclude that rates of exploration are low at most firms.

When studying exploration and exploitation, researchers have concentrated on the Search, Portfolio Selection, and Design Phases. Significant subjects of research include the relative amount of exploitation and exploration that firms engage in; the contradictions in attempting both and in transitioning between them. Surprisingly, the R&D phase is absent from exploration/exploitation literature.

This research questions if the balance of exploration to exploitation that is assumed to be wholly determined in the early phases, changes due to Agency Bonding by the CEO during the long R&D phase. It has three overall conclusions. The first is that the amount of exploration innovation firms accomplish is not wholly determined in the Search, Selection, and Design phases. During development in R&D the plans change significantly. The second is that manpower is moved away from exploration projects during development, and they have generally worse performance than other projects. The third conclusion is that one dynamic at the root of change is unrelated to resource-based constructs such as skills and capabilities. An explanatory model finds that the agency tenet of CEO bonding is material to the outcome.

This paper contributes to innovation and to exploration/exploitation literature by extending Agency Bonding behavior to innovation and to exploration/exploitation research. It links the low rates of exploration innovation in firms to decision processes that occur during –but originating outside of - development.

The research begins with multiple site interviews that result in theoretical models. Then, the hypothesized constructs and processes are tested via a population study of US-based software SME's. Results of the dependent variable analysis and the regressions are provided.