Driving performance via exploration in changing environments: Evidence from Formula One Racing

Date
Thursday 20 November 2014, 2pm

Venue
Room 10, Department of Sociology and Social Research – via Verdi 26, Trento

Speaker
Dr. Paolo Aversa – Cass Business School, City University London

Abstract
Until recently, scholars have customarily lumped multiple dimensions of environmental change into single constructs, and usually ascertained that the more the context changes, the more value firms derive from higher levels of exploration. In sync with more recent studies focusing on specific dimensions of change, in this paper we borrow theoretical elements from systems theory to examine the possibility that the reward to developing innovative product components may itself be eroded by implicit and yet burgeoning costs to fit the new component technology into existing architectures, thereby dampening system performance. Specifically, we theoretically assess how varying magnitudes of industry regulatory changes affect the optimum level of firm exploration, and propose—counter-intuitively vis-à-vis past literature—that the more radical (i.e., competence-destroying), as opposed to incremental (i.e., competence-enhancing), these changes are, the more the optimum intensity of firm exploration recedes. Based on quantitative as well as qualitative empirical analyses from the F1 racing industry, we precisely trace the observed performance outcomes back to the underlying logic of our theory, stressing that impaired capabilities to integrate the new component in the product system, as well as time-based cognitive limitations both operate to inhibit the otherwise positive relationship between firm exploration and performance. In the end, we offer new insights to theory and practice.