The transition from exploitation to exploration in young entrepreneurial firms

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This study aims to explore the transition process between exploitation and exploration in young entrepreneurial firms. This research is motivated by the following research questions: how do the companies proceed from a developed product (exploitation) to a new opportunity (exploration), and what are their motivating factors and challenges. The literature on ambidexterity has focused almost exclusively on corporate entrepreneurship context. Previous research on transition process concentrated only on the transition between the initial exploration and its exploitation in the field of strategic entrepreneurship. In bridging those two literature gaps, our most important contribution is the first attempt to understand how do young companies introduce the exploration into their existing activities and capabilities. In order to obtain the data, we conducted the case studies of three Swedish companies using semi-structured interviews. The findings from the research illustrate the characteristics of the process, its challenges, motivating factors and the aspect of balance. Contrary to our assumptions, we conclude that there is no clear transition phase as it depends on how the exploration is defined, and that entrepreneurial firms tend to balance exploitation with exploration. Our results revealed also some new concepts such as the concept of boredom and the learning exploration concept that suggest directions for the future research.

**Keywords:** transition, exploitation, exploration, ambidexterity.
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1 INTRODUCTION

This thesis focuses on the transition process of how exploration is usually introduced to exploitation in young companies. The majority of previous research in the field of strategic entrepreneurship has discussed the transition in light of the process between exploration and exploitation (Ireland and Webb, 2009). However, to our knowledge, no prior studies have examined the concept of the reverse transition between exploitation and recurrent exploration. We would like to find out how the young companies proceed from the existing product (exploitation) to the new one (exploration). A number of authors have recognized that exploitation alone in the organization is not sufficient (Gibson and Birkinshaw, 2004; March, 1991). This is why we think that the transition between exploitation and exploration is so important for an organization.

The transition between exploration and exploitation is claimed to be a long, resource-consuming, precarious, but also indispensable process. On the other hand, it is also iterative, recursive and dynamic. It is believed to be more difficult when the innovations deriving from exploration are more radical but it might be less risky while entering the transition process with a concrete plan (Ireland and Webb, 2009).

If a business unit focuses on either exploitation alone, problems will certainly arise (Gibson and Birkinshaw, 2004). Exploiting existing competencies might entail rapid profits but also foster stagnation and make firms vulnerable to market and technological changes (Atuahene-Gima, 2005; March, 1991). Exploration is very significant to the long-term performance and it also influences the survival of the firm (Goel and Jones, 2016). Several studies suggest that exploitation should be complemented with exploration in order to leverage the existing competencies (Duncan, 1976; March, 1991; Tushman and O’Reilly, 1996, Hill and Birkinshaw, 2012).

Accomplishing both, exploitation and exploration is believed to result in success or even survival (Tushman and O'Reilly, 1996), but it may also raise some tensions deriving from their various knowledge management processes (March, 1991) and from distribution of limited resources (Ireland and Webb, 2009).

The literature is also replete with the explanation of the theory of organizational ambidexterity in the corporate context. Many studies mention that successful organizations are generally ambidextrous, which means that they can balance the efficiency in managing their current business and exploring new projects that might become part of their business in the future (Duncan, 1976; March, 1991; Tushman and O’Reilly, 1996). This balance does not
mean an equal split but rather denotes an excel at both, exploitation and exploration (Atuahene-Gima, 2005).

The theory of ambidexterity has been discussed from the large companies’ perspective for many decades. However, research of ambidexterity in young companies and in SMEs has become more common only in the recent years (Volery, Mueller, and von Siemens, 2015; Parida, Lahti, and Wincent, 2016; Chang and Hughes, 2012). This is why we decided to focus our research on young entrepreneurial firms.

Parida and colleagues (2016) claim that young entrepreneurial firms should rather focus on either exploitation or exploration because such attitude towards ambidexterity decreases the variability in the firm’s performance, which is one of their greatest challenges. Volery and colleagues (2015) suggest that SMEs are not able to achieve the harmonic ambidexterity because they are usually owned and/or managed by one individual or few individuals, who do not incentivize their employees sufficiently. Chang and Hughes (2012) found that SMEs that are able to accomplish a balance between explorative and exploitative innovation by creating appropriate organizational structures and shaping right leadership styles, may overcome the resource limitations to generate superior performance.

Despite the increasing interest in ambidexterity as a concept and its scarce research in terms of young entrepreneurial firms, our literature review shows that a few essential research questions remain unexplored, or vague. Little is known about when and how this transition from exploitation to exploration appears and the lack of research in this segment is problematic for many reasons.

Just knowing that a close balance between exploration and exploitation can improve young companies’ performance (Cao et al., 2009) is not sufficient. Many successful young companies eventually transit between exploiting their existing projects into exploring new ideas. During this period, there are many challenges that need to be overcome, such as the optimum distribution of limited resources or the fact that it takes many ideas until one reaches maturity, which is discouraging for individuals to remain creative in these environments (Freeman and Engel, 2007).

Therefore, the questions that this thesis aims to solve are how the young companies proceed from a developed product (exploitation) to a new opportunity (exploration), what are the motivating factors and what are the challenges to introduce it.

In order to achieve this goal, we will conduct case studies in young entrepreneurial firms from different industries in Stockholm and Uppsala in order to understand people’s
various perspectives on the transition between exploitation and exploration. With the results, we hope to observe some key patterns regarding the transition process.

The structure of this thesis is composed of an introduction that briefly presents the topic and its contribution, a literature review that explains more deeply the context of the theme, the methods implemented in order to obtain data, the results obtained from the interviews, the discussion about the results and finally the conclusion.
2 THEORY

2.1 DEFINITION OF EXPLORATION AND EXPLOITATION

In the past three decades, research in entrepreneurial exploration and exploitation emerged within both, the entrepreneurship field (Parida, Lahti, and Wincent, 2016; Volery, Mueller, and Siemens, 2015) and the corporate field (March, 1991; Hill and Birkinshaw, 2012; O’Reilly, and Tushman, 2004). In order to provide the clarity to the research in the transition process between exploration and exploitation, we first focus on definitions of those concepts.

Exploitation includes such activities as choice, refinement, production, selection, execution, efficiency and implementation, while exploration encompasses search, variation, risk-taking, experimentation, play, flexibility, discovery, innovation (March, 1991).

Therefore, exploration might be defined as a development of new capabilities and creating new opportunities for growth (Hill and Birkinshaw, 2012; O’Reilly, and Tushman, 2004). Those activities are claimed to be the foundations for the company’s future competitive advantage (Ireland and Webb, 2009). Exploration is very significant to the long-term performance and it also influences the survival of the firm (Goel and Jones, 2016).

Exploitation is defined as the management of the current projects in an organization and developing the existing capabilities for profit (Hill and Birkinshaw, 2012; O’Reilly, and Tushman, 2004). During the exploitation, the entrepreneurs focus mainly on reinforcing core competencies in order to increase the existing opportunity and current competitive advantage (Shane and Venkataraman, 2000; Ireland and Webb, 2009). This particular concept ensures the benefits from using already well-known strategies (Lamberg, Tikkanen, Nokelainen, & Suur-Inkeroinen, 2009), although they result only in the short-term payoffs (Benner & Tushman, 2002).

A number of authors have recognized that exploitation or exploration alone in the organization is not sufficient. March (1991) argues that organizations that engage in exploitation to the exclusion of exploration are prone to find themselves trapped in the state of stable equilibrium - going nowhere fast but efficiently. Leveraging existing competencies might entail rapid profits but also foster stagnation and make firms vulnerable to market and technological changes (Atuahene-Gima 2005). Conversely, companies that focus only on exploring, accept arising risks and neglect current core capabilities (Birkinshaw and Gibson, 2004). Organisations that engage in exploration to the exclusion of exploitation are likely to
find that they suffer the costs of experimentation but without gaining many of its benefits (March, 1991). Yet, exploitation is not sufficient for long-term growth and survival.

2.2 EXPLORATION AND EXPLOITATION IN CORPORATIONS

Richard Foster, (then Director at McKinsey and Company) said that there are three main reasons why organizations fail:

1. They don’t invest in new technology
2. They invest in the wrong technology
3. They fail to implement the right culture

Therefore, in general, companies fail because they can not play “two games at once”, whereby adapting to new demands of the market and operating the existing technologies at the same time (Tushman and O’Reilly, 1996).

In such a competitive environment, companies need to adapt and innovate constantly. These innovations include improving their existing projects in order to make them more effective, but also creating new products and services that attend the demands of the market (O’Reilly, and Tushman, 2004).

Ambidexterity has been a research theme for a few decades and different researchers found different results. Hill and Birkinshaw (2012) say that organizations typically invest in Corporate Ventures (CV) in order to increase their exploratory possibilities. However, the overall rate of success in these CVs is considerably low, and paradoxically the reason is that these units tend to be too exploratory. Either the ideas are too different from the core business of the organization or it is too difficult to integrate them into its operations.

A big issue seen in many CV units is that the majority of VC funds require seven to eight years to return and since the management usually changes before this period in large organizations, strategic decisions are often made before those units had enough time to start showing positive results (Burgelman and Valikangas, 2005; Dushnitsky, 2006). Still, after an extensive research, Hill and Birkinshaw (2012) were able to validate that CV units had a higher chance of survival when acting ambidextrously.

Other studies show that successful organizations manage to align the capacities with adaptability simultaneously, without sacrificing one over the other (Heracleous and Wirtz, 2010; Heracleous, 2013; Gibson and Birkinshaw, 2004). The results indicate that achieving ambidexterity through contextual support is feasible and it does have a positive impact on the organization performance. However, creating a supportive context is not enough. In order to achieve performance gains, this supportive context must create the capacity to ambidexterity.
Gibson and Birkinshaw (2004) discuss the key assets that allow organizations to be ambidextrous. They say that even though senior executives have an important role in implementing ambidexterity in the organization, their role is more related to recognizing and promoting new ideas and inspiring innovation within different business units. Without their intervention, it is more likely that the new ideas will not receive the resources they need to evolve.

O’Reilly and Tushman (2004) came to the conclusion that some companies manage to find an effective balance between exploitation and exploration and realized that they have many similar traits between them. One common characteristic is that they separate the exploratory from their exploitative unit (O’Reilly and Tushman, 2004; Galbraith, 1982; Burgelman, 1985). This allows them to implement different processes, structure, and culture that are more compatible with each other. It is also a way for the unit to operate according to specific needs of the market without interfering with the organization’s current business (Burns and Stalker, 1961; Lawrence and Lorsch, 1967). The solution of creating a separate division was also supported by Ansoff and Brandenburg (1971), who observed that companies often fail to benefit from their great capabilities to engage in further diversification because the senior management is preoccupied with the current business activities.

2.2.1 EXPLORATION, EXPLOITATION AND THEIR BALANCE

For many decades, researchers have been studying about the duality between exploitation and exploration. March (1991) refers in his article to the relation between the exploration of new possibilities and the exploitation of old certainties. Exploitation and exploration are two distinct concepts and if a business unit focuses on either one of them alone, problems will certainly arise (Gibson and Birkinshaw, 2004).

Terziovski (2010) supports this by claiming that creating value through exploration might be insufficient, because entrepreneurial firms consequently must also exploit alternatives to be more effective than potential competitors.

The perfect outcome has been described in the literature as an appropriate balance between exploration and exploitation. Successful organizations are generally ambidextrous, whereby that they manage to balance the exploitation of their current business and the exploration of new projects that might become part of their business in the future - exploration (Duncan, 1976; Tushman and O’Reilly, 1996, Hill and Birkinshaw, 2012).
Tushman and O’Reilly (1996) came to a conclusion that the ambidextrous company should possess organizational ability and management to both, competing in the mature market, where the exploitation is necessary, as well as in emerging market, where the exploration of new product and services is required. Andriopoulos and Lewis (2009) add also that the ambidextrous organizations improve upon exploiting current products to enable incremental innovation and exploring new opportunities in order to excel more revolutionary innovation.

Even though exploring new projects is a time consuming and expensive activity that may not prosper, organizations need to balance it with exploitation in order to achieve superior performance (March, 1991). However, this balance does not mean an equal split but rather denotes an excel at both, exploitation and exploration (Atuahene-Gima, 2005). Although accomplishing both, exploitation and exploration results in success or even survival (Tushman and O’Reilly, 1996), it may also raise some tensions deriving from their various knowledge management processes (March, 1991) and from a distribution of limited resources (Ireland and Webb, 2009). March (1991) adds that by having difficulties of keeping a proper balance between exploration and exploitation, firms might suffer from the risk of being mediocre at both.

The literature presents also some contradicting opinions regarding exploitation and exploration. Some doubt if the ability to pursue adaptability (exploitation) while still developing the alignment (exploration) can ever be integrated (Lewis, 2000). Others suggest that ambidexterity is a capability for many, if not all, organizations (Gibson and Birkinshaw, 2004). However, March (1991) argues that exploration and exploitation are regarded as incompatible concepts because they have to compete for the scarce resources and this is why the organization must make explicit and implicit choices with respect to their expected values, variability, timing, and distribution. The search for new opportunities has less certain outcomes, longer time horizons, and more diffuse effects than does further development of existing ones. March (1991) sums it up by claiming that what is good in the long run is not always good in the short run. Ambidextrous companies face constant conflicts, and even if they will never be completely solved, companies that manage to reconcile them to a large degree are the ones who remain competitive in the industry (Gibson and Birkinshaw, 2004.).

2.2.2 DIFFERENT PATHS TO ACHIEVING AMBIDEXTERITY
There are many strategies to deal with the duality between exploitation and exploration. One of the most well known is doing a structure separation, which is basically separating them
into different units. This strategy should be implemented by the top management (Benner and Tushman, 2003; Galbraith, 1982; Tushman and O’Reilly, 1996; Tushman et al., 2010). According to Hill and Birkinshaw (2012), the best strategy is to separate exploration units from the main organization in order to allow a supportive culture for innovation and improve top management’s ability to allocate towards new ventures.

Another strategy is to do a *temporal separation*, which is the switch back and forth between exploration and exploitation (Duncan, 1976; McDonough and Leifer, 1983; Puranam, Singh, and Zollo, 2006). It is about encouraging the employees to divide their time between exploring new ideas and managing the current ones (Gibson and Birkinshaw, 2004).

*Contextual ambidexterity* is also a similar strategy. It is the separation of processes and structure in which individuals are inspired to alternate their work with exploitation and exploration according to their own judgement. It stresses behavioral and social way of integrating exploitation and exploration (Gibson and Birkinshaw, 2004).

Finally, *architectural ambidexterity* suggests dual structures and strategies, that differentiate efforts to concentrate on either exploitative or exploratory innovation (Gupta et al., 2006).

However, a higher business unit performance is achieved not only by a formal organization, charismatic leadership, structure nor strong culture but also by creating a set of systems and processes that allow alignment and adaptability to flourish (Gibson and Birkinshaw, 2004). It is the top management’s role to be the “corporate glue” that connects both exploitation and exploration by managing the tensions between the sectors. It is about “cross-fertilization among units while preventing cross-contamination” (O’Reilly and Tushman, 2004). The challenge is to manage the exploitation of the existing ventures with the culture, strategy, and structure while still exploring possible new projects according to the ever-changing environment.

To succeed, companies must reorient their strategies in order to respond to the changes in the market. If the environment develops in a slower pace, it is possible for the organization to develop slownlier, but if the changes in the market occur in a faster way, organizations should adapt accordingly, in order to prevent failure (Tushman and O’Reilly, 1996).
2.2.3 SUCCESSFUL AMBIDEXTROUS ORGANIZATIONS

Successful organizations know how to respond to feedback from the market, so they can continuously grow and adjust its strategies, technologies, and culture. When done properly, these changes are a decisive factor in the company’s success (Tushman and O’Reilly, 1996).

However, organizational growth leads to growth in structural and cultural inertia, whereby the harder it is for the organization to adapt to the market, therefore, creating a paradox. Structural inertia happens when the more a company grows, the harder, costly and time-consuming it is to change. On the other hand, cultural inertia happens when the organization creates a well-established culture and strong values, and these become hard to change as well. If the organization is in an environment that changes slowly, then a strong culture is a key management asset. It helps to control the employees without the need to implement rigid formal control systems. However, if the organization is part of a rapidly evolving environment, then the culture can be a significant barrier to change (Tushman and O’Reilly, 1996).

Ambidextrous organizations are the solution to this success paradox. (Tushman and O’Reilly, 1996). These organizations need also ambidextrous individuals to know how to balance exploration and exploitation within their unit (O’Reilly and Tushman, 2004). Contextual ambidexterity can only happen when individuals embrace the duality culture and manage to work with alignment and adaptability alternately (Gibson and Birkinshaw, 2004).

In order to be ambidextrous, one of the most important assets is to have managers and executives who are able to comprehend and respond accordingly to the needs of different businesses. They need to be able to combine the skills of “cost-cutters and free-thinking entrepreneurs” while still concentrating on the core business (O’Reilly and Tushman, 2004).

Some of the previous studies have emphasized the aspect of sustainability. Kollmann, Kuckertz, and Stöckmann (2009) indicated that creating ambidextrous structures and mindsets enhances firm sustainability when it is done at the very early stage. Andriopoulos and Lewis (2009) proposed the three factors that should interact in order to make the organizational ambidexterity sustainable: a multilevel approach, complementary tactics, and learning synergies.

Another crucial aspect is that the individuals in leading positions must be aligned with the ambidextrous culture of the company even if they are not ambidextrous themselves. If they are resistant to implementing ambidexterity they need to be reallocated to a more suitable position (O’Reilly and Tushman, 2004).
A strong and clear vision transmitted from the top-management team is also of utmost importance in an ambidextrous organization. They are the means through which exploration and exploitation can exist together. It is the top management’s responsibility to inspire the lower teams to implement the culture of the company (O’Reilly and Tushman, 2004).

2.3 EXPLORATION AND EXPLOITATION IN YOUNG ENTREPRENEURIAL FIRMS

There exists an extensive body of literature on ambidexterity in the context of large companies but there is scarce research on ambidexterity in young entrepreneurial firms. Only a few studies have a similar early stage focus (Parida, Lahti, and Wincent, 2016; Frigotto, Coller, and Collini, 2014; Wieblen and Chesbrough, 2015).

Differently from established organizations, startups do not have the resources and routines available, so it is the more flexible and innovative startups that end up being more successful (Wieblen and Chesbrough, 2015).

In the early stage, startups tend to be more exploratory (Frigotto et al., 2014), but with time, this innovation process decreases, which makes the survival of startups a constant concern (Shane, 2008). In order to survive, startups need to balance exploitation and exploration as much as established organizations, but this is a concept that is neglected by many entrepreneurs (Foreby, Tammisto, and Åberg, 2016).

Nonetheless, some authors have a different opinion. Parida and colleagues (2016) conducted research which demonstrated that young entrepreneurial firms should rather focus on either exploitation or exploration, instead of scoring as much as possible in both because such attitude towards ambidexterity decreases the variability in firm performance, which is one of their greatest challenges. Instead, it helps to achieve higher return stability. The authors claim that the entrepreneurial companies in the early stage should precisely consider how much they should explore to be as distinct as possible and how much they should exploit in order to be as efficient as possible. According to Parida and colleagues (2016), if young entrepreneurial firms suffer from the lack of the resources, competencies, and experience needed to handle the contrary demands of exploration and exploitation, they could end up being mediocre at both.

However, in the corporate entrepreneurship framework, there are different views on that. Some authors state that large companies are able to commit enough resources to both activities (combinatory dimension) (Cao et al., 2009), whereas the others have concluded that pursuing exploitation and exploration simultaneously is a challenge, because both of them
must compete for the same scarce resources (March, 1991), which might generate disputes within the organization (Simsek, Heavey, Veiga, and Souder, 2009).

It was also reported in the literature that firm size is negatively associated with its capability to achieve profitability due to ambidexterity, although small companies tend to be more agile so they should more easily achieve ambidexterity (Parida et al., 2016).

Large companies often choose structural ambidexterity, which results in the creation of a structurally separate business. Some of them focus entirely on exploitation and others entirely on exploration (Lubatkin et al., 2006; Simsek 2009). However, young entrepreneurial firms usually lack the resources to design such dual structures (Parida et al. 2012). Instead, they rather choose contextual ambidexterity (Parida et al., 2016), because it does not require the creation of different units, but the creation of a specific process or system that motivates the intrapreneurs to divide their time between adaptation and alignment (Duncan, 1976; McDonough and Leifer, 1983; Tushman and O’Reilly, 1996; Gibson and Birkinshaw 2004).

One big issue related to exploration in startups is that it takes many ideas until one reaches maturity and goes public. Therefore, it is very discouraging for individuals to remain creative in these environments (Freeman and Engel, 2007).

On the other hand, startups have the advantage that they permit the implementation of radical innovations. Because they are riskier than incremental innovations, more established companies tend to avoid radical ideas, which leaves a gap for startups to innovate and explore (Levinthal and March, 1993; Freeman and Engel, 2007).

Several studies have examined ambidexterity within small and medium companies (SMEs) (Chang and Hughes, 2012; Lubatkin et al., 2006; Volery et al., 2015), which similarly to entrepreneurial firms in the early stage, share limited resource endowments, are also created by entrepreneurs, and are small in revenue and staffing. Since exploration and exploitation tend to compete for resources, consideration and organizational practices (Volery et al., 2015), this is also relevant to this thesis.

Volery and colleagues (2015) suggested that SMEs are not able to achieve the harmonic ambidexterity because they are usually owned and/or managed by one individual or a few individuals, who do not incentivize their employees sufficiently. It might result in the optimal time allocation between contrary demands from exploitation and exploration (Simsek et al., 2009).

Research on ambidexterity in the context of SMEs has also shown that the top management team plays a crucial role in managing the exploration or exploitation (Chang and Hughes, 2012; Lubatkin et al., 2006; Volery et al., 2015). Lubatkin and colleagues
(2006) argue that SMEs should rely more on their top management team while willing to attain ambidexterity because they usually have fewer hierarchical levels and their top managers tend to play both, strategic and operational roles. The top management team in SMEs, conversely to its role in large firms, usually takes part in a strategy implementation on a daily basis. This is why the top management is closer to the firm’s core competencies, has a better knowledge about how to use them more efficiently, but at the same time, it is closer to the market and is able to react fast to the changing market trends and explore new opportunities.

The findings of research by Lubatkin and colleagues (2006) indicate that top management team’s behavioral integration is crucial to achieving an ambidextrous orientation in SMEs, because it creates trust and cooperation, and also that the combined pursuit of an exploratory and exploitative orientation influences the firm’s performance.

Another interesting point that Lubatkin and colleagues (2006) make is that SMEs may resemble the large firm’s business units in terms of range and, in some cases, a number of individuals employed, but they differ in terms of knowledge processes obstacles and the role played by the top management team.

The literature review suggests that companies have a natural tendency to focus on either exploitation or exploration but not on both. This natural tendency is described in many ways: “competency trap” (Henderson and Clark, 1990), “key dilemma facing organizations” (Weick, 1982), and “basic unresolved problem” (Levinthal and March, 1993). Lubatkin and colleagues (2006) argue that this tendency can be solved in SMEs by having a CEO with the leadership skills to encourage better behavioral integration among the members of his or her top management team.

Chang and Hughes (2012) focused on their studies on the features of top management and characteristics of organizational structure and context in simplifying the ambidexterity in SMEs. First, they found that SMEs that are able to accomplish a balance between explorative and exploitative innovation by creating appropriate organizational structures and shaping right leadership styles, may overcome the resource limitations to generate superior performance. However, their results contrast with Tushman’s and O’Reilly’s (1996) suggestions that ambidexterity can only be created in separate organizational units, which is rather irrelevant to SMEs. Those results support also Cao’s and colleagues (2009) argument that a balance of exploration and exploitation is profitable to SMEs with fewer resources, and uphold the studies of Andriopoulos and Lewis (2009) that SMEs might achieve ambidexterity through the use of appropriate organizational structures.
2.4 TRANSITION PROCESS

The majority of previous research has discussed the transition in light of the process between exploration and exploitation (Ireland and Webb, 2009). This specific type of transition is said to be a crucial part but also a challenge of strategic entrepreneurship, which is defined as exploiting the current competitive advantage and simultaneous exploring the foundation for the future competitive advantage (Ireland and Webb, 2007). The transition between exploration and exploitation is believed to be long, resource-consuming, precarious, but also indispensable process (Ireland and Webb, 2009). On the other hand, it is also iterative, recursive and dynamic (Ireland and Webb, 2009). The companies that are successful in this specific type of transition are claimed to effectively transition innovations from exploration to exploitation, and also to decrease the costs and effects of failures (Ireland and Webb, 2009). The transition between exploration and exploitation is believed to be more difficult when the innovations deriving from exploration are more radical (Ireland and Webb, 2009).

Market-based factors and firm-based factors are distinguished as influencing the course of this process. The companies should consider if there is a market for the innovation, when to release it, and also how to integrate the operational, structural and cultural differences in the transition process. The uncertainty from the market point of view creates also the uncertainty for the company internally and also for its employees (Ireland and Webb, 2009). One solution for this uncertainty proposed by Ireland and Webb (2009) is to enter the transition process with a concrete plan that includes setting a timeline and milestones, shaping the expectations among the employees, forming the transition team, and explaining the key decisions to the rest of the team.

Although several theories have been proposed to the concept of transition between exploration and exploitation, to our knowledge, no prior studies have examined the concept of the reverse transition between exploitation and recurrent exploration.
3 METHODS

3.1 RESEARCH DESIGN

The questions that this thesis aims to solve are how the young companies proceed from a developed product (exploitation) to a new opportunity (exploration), what are the challenges and motivators to introduce it.

Considering those questions, a case study and a qualitative analysis were chosen to be the most suitable. As our goal was to examine the transition from exploitation to exploration, qualitative methods would allow us to have a detailed look at the actual practices applied in young entrepreneurial firms. We found the features of qualitative research, proposed by Yin (2010), connected very well to the features of our research plan: we wanted to study the topic under real-world conditions, discover the views and perspectives of participants by letting them speak, explore the contextual conditions, contribute to the concept of transition by better understanding of enterprises behavior, and strive to use triangulation instead of using one perspective.

We decided to choose the case study as a form of our research because we wanted to illuminate a decision concerning the transition process. According to a definition of a case study proposed by Schramm (1971), case study tries to answer such questions as: “why they were taken, how they were implemented, and with what result”.

Our main research question asks about “how” the companies proceed in the transition process and many of auxiliary questions that we wanted to ask in the interviews started with “why”. According to Yin (2002), case studies are preferred method while posing “how” and “why questions. Also, our research plan fulfilled one more case study condition proposed by this author, as we did not intend to take the control over behavioral events. Yin (2002) suggests that case studies should be chosen when the focus is placed on contemporary events. However, we wanted to focus on both, contemporary and past events, so we decided to pose “how” and “why” questions also in the context of past.

The relevant disadvantage of case studies for our case is that they are extensive, therefore, it is not possible to analyze a big amount of companies in a short period of time. Therefore, after identifying commonalities and patterns in these few companies, it is required from future studies to focus on a quantitative research in order to validate the findings on other companies. But as for a first analysis, a qualitative study seems to be more appropriate.

We must also put a lot of attention and preparation to designing and conducting those case studies in order to overcome the traditional criticism of this strategy based on the lack of
rigor and a little basis for scientific generalization (Yin, 2002). However, we aim to analyze and generate theory instead of enumerating frequency or scale. Such theory-building approach is likely to introduce novelty, and this is why it is principally well-applicable to new fields of research or fields for which existing literature seems to be incomplete (Eisenhardt, 1989). This is particularly relevant in our context because, to our knowledge, no prior studies have examined the concept of the transition between exploitation and recurrent exploration.

Our case studies required the collection of data through semi-structured interviews with the people involved. We decided to choose this type of interview because it allows us to adjust the style, pace and questions order to elicit the most completed responses that might be often hidden aspects of human an organizational behavior. One main drawback of semi-structured interviews is the fact that they require careful planning before, during and after the interview, and the ways questions are asked and interpreted should be considered (Qu and Dumay, 2011).

The case studies consisted of three stages. The first one was to identify the companies with the right profile to be studied, the second stage was to collect information in the form of semi-structured interviews from different individuals in the company, and the third stage was to analyze the results and identify key patterns.

Three companies agreed on collaborating with us and representatives from different roles including the founding team, developers, product managers, sales representatives, production representatives shared their perspectives on the companies’ process of transition.

The structure of the case study in this research was inspired by Andriopoulos and Lewis (2009) and by Foreby, Tammisto, and Åberg (2016). Because of the limited time and a small number of companies analyzed in comparison with the authors, we did not make use of any statistical analysis. Similarly to the authors, we focused on acquiring relevant information and applying a cross-case analysis in order to understand more deeply the patterns and differences between the companies. Yin’s (2002) studies also contributed to the development of the design of the case study applied in this research. His work allowed us to build the components of our research more concretely and to establish its criteria.

3.2 SAMPLE SELECTION

To be able to study the transition between exploitation and exploration in young entrepreneurial firms, the profile of the companies analyzed needed to have similar traits and
to fit our study focus. To fit the profile, the companies needed to meet the following sampling criteria:

- Be located in Uppsala or Stockholm regions,
- Have launched at least one product (exploitation) and have developed/be currently developing new ideas/opportunities (exploration),
- Have a size - between 10 to 25 employees (should have enough human capital to start exploring again),
- Have between 1 to 5 years of operation (still in the early stage but long enough in the market to start exploring again).

At the same time, we aimed for companies that still presented differences between one another, in order to be able to generalize our findings. The balance between similarities and differences allowed not only the comparison between the practices and results in each company but also the discovery of patterns that could possibly be found.

We intended on getting the perspective from different industries, however, the majority of young companies in Sweden are related to the tech industry and these are the ones that agreed on being interviewed. Additionally, it is important to considerate that the sample does not represent all the entrepreneurs and managers. The findings of this study are particular to the companies interviewed and could indicate patterns in young entrepreneurial firms, but more cases should be done in the future to validate them.

The details about each company, such as the year of foundation, number of employees, number of offices, specialization and location are summarized in Table 1.

<table>
<thead>
<tr>
<th>Firm*</th>
<th>Specialization</th>
<th>Year Founded</th>
<th>Number of Employees</th>
<th>Number of Offices</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm A</td>
<td>IoT</td>
<td>2013</td>
<td>11</td>
<td>1</td>
<td>Stockholm</td>
</tr>
<tr>
<td>Firm B</td>
<td>Saas (Software as a service)</td>
<td>2016</td>
<td>25</td>
<td>1</td>
<td>Uppsala</td>
</tr>
<tr>
<td>Firm C</td>
<td>Health Tech</td>
<td>2013</td>
<td>15</td>
<td>1</td>
<td>Uppsala</td>
</tr>
</tbody>
</table>

*The names of the companies are presented as pseudonyms in order to protect their identity.*
Company A is based in Stockholm, Sweden and it was founded in 2013. It has approximately 11 full-time employees and it creates physical shortcuts to digital functions in mobile devices. Its two main products are a wireless push button that introduces shortcuts to many smart functions and has many use cases, and also a device that allows anyone at home to control devices that would normally need multiple apps or remotes to use. In this company, we interviewed the co-founder (also responsible for innovation), the second co-founder (also the head of production and supply), and the COO (also responsible for sales).

Company B was established in 2014 and is based in Uppsala. The company employs currently 25 employees. It creates apps that help people to organize and manage their tasks with their work colleagues, aiming for more efficiency and control. The company was born as a department of another company with a similar product but with different technology. Once Firm B demonstrated its potential, the founders decided to sell the original company and work full time on Firm B. Therefore, the case study on this company was focused on how the idea for Firm B appeared and how the transition from the first to the second company was shaped. We were able to interview one of the founders (who is also the CPO) and the Product Developer.

Company C was the last company interviewed. It was established in 2013 and it has 15 employees. This company is also related to the tech industry, but its focus is on the healthcare. They design apps that help people recover from their addictions. Their first product launched was to help people with alcohol addictions and their second product launched in 2016 was focused on gambling addiction. We interviewed the CEO of the company and the Product Manager.

3.3 DATA COLLECTION

The case studies were conducted in the light of triangulation, understand as discovering the perspective of individuals in different positions and on different organizational levels, who could provide us with insights into our phenomenon of transition. We conducted 7 interviews with founders and individuals representing departments such as the operations, sales, product development, management, and production. In order to collect more data from key individuals, we often asked the interviewees to recommend other individuals in the company who might provide an interesting insight into the phenomenon of transition. The interviews lasted on average 40 min and we recorded and transcribed them word-by-word in order to guarantee reliability.
Before interviewing, we also informed the respondents that we were going to protect their confidentiality and anonymity by removing the names of the companies, products, and interviewees. We explained that we are more interested in the process of transition than in a product itself. All of the respondents agreed for recording the conversation.

In order to understand the companies better and their way of communication, the data collected from archives included mainly the official websites. Articles and announcements published on other websites were also read.

3.3.1 PREPARATION FOR THE INTERVIEWS

The semi-structured interviews required from us preparing an interview guide (Appendix 1) with questions that helped us to direct the conversation toward the topic and obtain more elaborate responses. In Appendix 1, we also added a note that explains the process of our interviews. According to Yin (2002), questions starting with “what”, “when”, “why”, “how” and “who” are the ones that induce the interviewees to share more valuable information and that is how we tried to pose our questions (Appendix 1).

Before the preparation of the interview guide, in order to gain a better empirical sense about the topic, we also talked to Lukas Gräf, who is a Membership Manager at SUP46 - the leading startup hub in Sweden. He helps Swedish startups to grow and guides them in their development paths. He offered us the new insights regarding the transition in Swedish young entrepreneurial firms. He suggested that the main motivating factors to explore again is the feedback from users that there is a need for a new product or that the current one does not work anymore. According to him, the companies usually know very well their own market so they just pivot. The companies often face such challenges as lack of resources, too much development time required, and keeping the employees satisfied. Most often, the companies explore within the same area because they do not want to lose the focus. One suggestion was especially important because the practitioner suggested that the majority of companies abandon their first product while introducing the new one because it is difficult to share the resources. However, it is true mainly if the second product is radically new. We asked the companies about those insights in order to know what their point of view was.

During the interviews, we focused more on the process of transition, its characteristics, introduction, communication, decision-making, motivating factors and the challenges. We also asked about the concept of abandonment, as we were alert to this issue due to the suggestion of Lukas Gräf from SUP46. Moreover, while collecting the information, we paid additional attention to contradictions by catching the keywords such as:
“but”, “however” and “although”, and also “struggle”, “challenge”, “difficult”, etc. When the keywords appeared in the conversation, we were asking some clarifying questions in order to discover potential obstacles or tensions. We knew from the literature review about ambidexterity that it might involve some struggle, but we did not want to impose it.

According to Yin (2002), questions starting with “what”, “when”, “why”, “how” and “who” are the ones that induce the interviewees to share more valuable information and that is how we tried to pose our questions (Appendix 1).

3.4 DATA ANALYSIS

After the collection of all the data, we analyzed the information and aimed to find similarities, differences, and patterns between the companies. We used the three-stage process.

**Stage 1. Categorization within each case**

First of all, we conducted a within-case analysis. The material collected in each case was separated into categories in order to make the analysis process simpler. The categories were suggested by the existing literature and the concepts stemming from the interviewees’ statements. We identified the following categories: characteristics of transition, learning exploration, challenges, an account of purpose and exploration process.

In order to further categorize the data, we used a coding technique that was applied by Andriopoulos and Lewis (2009). Early in the research, the open coding depicted numerous categories and insights from the respondents. In the first-order concepts analysis, we tried to extract general insights into transition process between exploitation and exploration described by respondents. Next, we looked for any links or relations between the first-order concepts that allowed us to group them again into second-order themes and reduce the number of categories. Instead of guiding the concepts and relationships between them by former hypotheses, we supported their emergence from the collected data.

While examining the information collected, we paid additional attention to contradictions. Specific terms or intonations may often indicate a hidden piece of information (Kvale, 1996). In case of our interviews, sentences with the keywords like “but”, “however” and “although”, and also “struggle”, “challenge”, “difficult” were usually accompanied by valuable information. We also paid attention to contradictory statements within the same transcript. Any disagreements that appeared were resolved due to a discussion between the first coder and the second author.
Stage 2. Identification of patterns by cross-case comparisons

After we categorized the information in the second-order themes in every case, it was easier to identify patterns, similarities, and differences across cases. We looked for similar concepts in all the cases, comparing the criteria developed in stage 1.

In the second-order themes analysis, we tried to find any suggestions for the concepts that could help us describe and explain the transition process. Themes that were similar were grouped into aggregate dimensions (Andriopoulos and Lewis, 2009) and were used by us as a basis of our framework. We classified those dimensions by detecting a higher level of abstraction within the concepts.

As in the first stage, any discrepancies we resolved through discussing in order to achieve an agreement. We assessed reliability also by providing an outsider perspective of the second author. All the interpretations of the collected data were extensively discussed and verified how they match the proposed dimensions.

Stage 3. Building a theoretical framework

In the final stage, we summed up and described our findings, but we focused only on the findings most related to the topic.

3.5 RELIABILITY AND VALIDITY

Reliability and validity are two factors that should be in concern of any qualitative researcher when designing a research, analyzing the findings, and assessing the quality of the study (Patton, 2002). "Since there can be no validity without reliability” (Lincoln and Guba, 1985), we tried to demonstrate first validity in order to obtain reliability.

Validity means the appropriateness of the tools, processes, and data (Leung, 2015). We have addressed validity by explaining in the previous sections our choice of methodology that is appropriate for answering the research questions, our research design that is valid for the chosen methodology, and also the results and conclusions that are valid for the sample and overall context.

The essence of reliability lies in consistency (Carcary, 2009) and trustworthiness (Seale, 1999). In order to endorse the trustworthiness of this research, a few precautions were taken. During the interviews, both of the authors were present in order to certify that the information was being analyzed without misjudgment and the analysis was being done systematically. It also allowed us to discuss the interpretation of the answers and eventual disparities, reinforcing even more the reliability of the interviews. In data analysis, cross-case
comparison technique was used in order to go beyond the first impressions by using structured and different lenses on the collected data. We believe that these tactics helped us to improve the accuracy and to discover the novel findings that were hidden in the data.
4 FINDINGS

While investigating the transition process between exploitation and exploration in the Swedish young entrepreneurial firms, we identified a few underlying patterns. Some categories such as external motives revealed no clear patterns, but others such challenges, an account of purpose and the exploration process led to important patterns of within-group similarity and across-group differences. These patterns are presented in Table 2 and more deeply discussed in the text.

Table 2. Data structure: Transition process

<table>
<thead>
<tr>
<th>First Order Concepts</th>
<th>Second Order Themes</th>
<th>Aggregate Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• If you want to survive you need to explore constantly.</td>
<td>Exploration Practices</td>
<td></td>
</tr>
<tr>
<td>• The idea has always been there from the beginning.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• We practice exploration and exploitation at the same time, but we tend to keep</td>
<td></td>
<td></td>
</tr>
<tr>
<td>the ideas in the discussion level.</td>
<td>Balance</td>
<td>Characteristics of Transition</td>
</tr>
<tr>
<td>• We have very risky long projects that we try to balance with short-term gains.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• We never stopped working on the first product. We were doing both simultaneously.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• We were coming up with the new ideas.</td>
<td>Early stages - unplanned and spontaneous</td>
<td>Learning exploration</td>
</tr>
<tr>
<td>• The process was more intuitive and spontaneous in the past.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• We were using the occasion.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Now we have time to discuss things more properly.</td>
<td>Advanced stages - structured and planned</td>
<td></td>
</tr>
<tr>
<td>• Ideas come from the customers.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• We are becoming more mature and structured.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lack of time to explore.</td>
<td>Resources</td>
<td></td>
</tr>
<tr>
<td>• Small budget.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Prioritizing is difficult.</td>
<td>Focus</td>
<td></td>
</tr>
<tr>
<td>• You cannot do many things at the same time.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• It can’t be too similar to what we offer now.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• It is difficult to satisfy all the units.</td>
<td>Different perspectives</td>
<td></td>
</tr>
<tr>
<td>• We had internal resistance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• People had different opinions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• It was frustrating for some people to change their old way of working.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>People did not know what was happening.</td>
<td>Miscommunication</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>------------------</td>
<td></td>
</tr>
<tr>
<td>Misunderstanding the activities from the management team.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Previous product was based on different technology.</td>
<td>Different Technology</td>
<td></td>
</tr>
<tr>
<td>Making changes in the hardware might be expensive.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It’s fun to develop new ideas.</td>
<td>Boredom</td>
<td></td>
</tr>
<tr>
<td>If we don’t explore the employees would start leaving.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It is a satisfaction to bring new ideas to life.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurs live on the edge. They constantly seek adventure and something new.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The CEO wants to grow sales.</td>
<td>Commercial Motives</td>
<td></td>
</tr>
<tr>
<td>We want to grow the business into something big.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We want to increase our product lines.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology changes fast and we need keep up.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There was a need in the market.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There were some requests from customers about our features.</td>
<td>Customer Satisfaction</td>
<td></td>
</tr>
<tr>
<td>We needed to deliver what our customers need.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have to listen to the needs of the market.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ideas that are feasible and that fit our current focus are discussed.</td>
<td>Idea Generation</td>
<td></td>
</tr>
<tr>
<td>It’s the matter of which idea is more reasonable, easier and faster to make.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We estimate the changes based on the feedback of the development team and production.</td>
<td>Planning</td>
<td></td>
</tr>
<tr>
<td>The development of the product is a planned process.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It takes time to explore new ideas, but the development of the product itself is quite fast.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New ideas often come spontaneously.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The top management makes small decisions and announces them. Big decisions are made by the entire team.</td>
<td>Decision Making</td>
<td></td>
</tr>
<tr>
<td>We try to bring everyone’s perspectives.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have evaluating meetings where we communicate and discuss new ideas.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We build our tactics and strategies together, so everybody knows where we are going.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.1 INTERPLAY OF EXPLOITATION AND EXPLORATION

In this dimension, it was observed that in general, the companies never stop exploring new ideas and opportunities. *“We are a startup, we always have to explore. We constantly try to*
see what is going on in the market. If you want to survive as a company, you need to be quick” said the Co-founder of Firm A. “The idea has always been there from the beginning. Similar ideas have been there when we first started the first product” complemented the Product Manager of Firm C.

At the same time, the COO of Firm A said that they do constantly look for new ideas, but they are always related to their core business and to the improvement of their existing products. He said: “We always look at the data and see the things that we have to change. But in terms of exploring completely new ideas, we don’t do it so constantly”.

The COO of Firm A also added that they have phases in which they explore more and phases which they exploit more. “Sometimes we focus on the quality of our existing products and sometimes we focus on how to develop the next product. Of course, we always discuss new products, but we haven’t kicked off those in a bigger scale”, said the COO of Firm A.

Since exploration is a constant practice, the companies balance exploration and exploitation simultaneously. Each of the companies manages this balance according to their practices and culture. “Regarding the process of working on our products and exploring new ideas, we do both at the same time. But we tend not to have too many projects rolling at the same time. We can manage the development of our products and functions and while exploring at least something new”, said the COO of Firm A. “We separate the tasks and departments in buckets. We have 3 horizons: stairs, growth and visionary and people work in one of these horizons exclusively”, explained the Co-founder of Firm B about how exploitation and exploration are organized in the company. “We built the first product and then we adapted it to the second one. But we never stopped working on the first product. We were doing both simultaneously”, added the Product Manager of Firm C.

However, two of the three companies studied mentioned that exploration of new ideas is not the priority and that they often do not come to reality. “If you have your existing products while creating several new ones, then it is more difficult. It also depends on how deep you go into these projects. If it is only in a discussion level, then you can have more projects” said the COO of Firm A. “It was about prioritizing what we thought we could do at that time” said the CEO of Firm C about how they first started the company with only one product.

4.2 EXPLORATION PROCESS

This dimension is based on findings that answer on one of our research questions, how do the companies proceed from the first product to the second one.
Our findings on idea generation hint that “ideas that are feasible and that fit the current focus are usually the ones that are discussed” (Co-founder, Firm A). The second Co-founder of Firm A also explained, “In the small company in the early stage you cannot do many new things at the same time. We cannot kick off two projects at the same time. So it’s the matter of which idea is more reasonable, easier and faster to make”. The respondents highlighted that being more aligned with the idea generation is a strength for the company because otherwise there is a risk of losing a focus. Although the companies generally try to stay focused, they let their employees go wide with the ideas. The COO of Firm A pointed out that “the company allows to explore things outside of the scope as well, so it’s good for a company to have a broad perspective and consider new ideas”. The results demonstrate that ideas come from different sources and we have not observed any pattern here. In the idea generation phase in Firm A the ideas came from the customers, in Firm B it was developers who started looking into new technologies and proposed it to the founder who started prototyping it, and in Firm C the idea came from the team.

Planning was another theme identified in data analysis. All the firms we interviewed admitted that the process is rather planned one and it takes into account the perspectives of other units. As the Co-founder of Firm A explained, “We tried to estimate pretty much everything we were doing basing on what the development and production team say.” However, appearing of the idea might be unexpected. The CEO of Firm C revealed, “coming up with the idea is more spontaneous, but the development of the product is very well structured”. Firm B separates the tasks in “the buckets” because it is helpful in planning. According to its Co-founder/CPO, “We have 3 horizons: stairs, growth and visionary. We have very risk long projects that we try to balance with short-term gains. People also work in one of these horizons specifically”. All the companies agreed that exploration is a slow process apart from the development process. Firm’s C Product Manager confessed, “It has been in the idea phase for such a long time. But the development of the product itself was very fast”. Firm’s A Co-founder also supported by saying that “It is rather a long process but when we realize that we need a new product urgently, we decide to do it very quickly”.

This analysis has also found an evidence for how decision-making process looks like while exploring in young entrepreneurial firms. The results show that the small decisions are taken officially by management (CEO and co-founders in Firm A, Founders in Firm B, CEO in Firm C), but in all of the studied companies the big decisions regarding the new product are always made by the entire team. The Co-founder and Production Manager of Firm A described it for us, “After pre-studies, we need to sit down and plan it. That’s something we
will do all together. Our developers assume how long will it take to develop it, I assume how long will it take to produce it, build it and design it, founders together with the management need to decide if we have enough funding to kick it off or if we need to crowdfund it. We need to bring all the puzzle pieces together to kick the project off”.

However, we discovered also some contradictions in perspectives. In Firm B, the management perspective was that decision is “the agreement between all of us” but from the development perspective the founders “made the decision together”. All the case companies admitted that they usually communicate and discuss ideas altogether during the evaluation meetings. We observed that all the studied organizations were flat and decisions were made with the consent of the group. Introduction of the new idea or opportunity has not been defined as a surprise by all the respondents. As the CEO of Firm C explained, “So it was not a surprise to the team that we were going to start developing product B. We build our strategy and tactics together, so everybody knows where we are going”. Co-founder and CPO supported it by saying, “there were about 50 people working in the company so they knew what was going on from the beginning”.

4.3 LEARNING EXPLORATION

This dimension is related to the learning through exploration. Representatives from the three companies said that in the early stages the ideas come more intuitively and spontaneously. The ideas came from the individuals in the company and they had more freedom to explore and be creative.

With time, ideas on new products were often proposed by the customers and they had a more structured process. “It used to be spontaneous in the past, we were using the occasion. Now it’s different. We have a sales team that focuses on selling the existing products and we have now more time to actually sit down and discuss things more properly” – Co-founder/Production Manager, Firm A.

Both representatives of Firm B agreed that exploring new ideas may look chaotic on the outside, but on the inside, it is quite structured. “You fall into some sort of path that helps you build that idea”, said the Co-founder and CPO of Firm B. “All we did was to have an idea and execute it to see if it works”, complemented the CTO of Firm B.

The representatives from Firm C also had similar inputs. “The first idea was more intuitive, but after this one is created the rest follows more of a structured process”, said the Product Manager of Firm C.
4.4 CHALLENGES

The results of the conducted case studies found the clear support that young entrepreneurial firms face many challenges while exploring new opportunities in the early stage. The findings represent five main challenges.

First, the case informants viewed the resources as the main challenge. Firm A’s Co-founder explained, “The budget, time and focus are the things we lack the most. If we had the budget we would organize the order of the tasks according to our needs”. The resources might be especially problematic for the hardware companies. According to the second co-founder of firm A, “making changes in hardware is expensive so making a wrong decision might be very costly”. The same respondent also reported that the lack of time is his personal challenge as he has too many responsibilities. Development time was also considered to be a precious resource. Our data analysis revealed also that doing something new that would take the resources from the old product might result in conflict. As the Co-founder and CPO of Firm B explained, “This was very bad for the company, they should have both been separated from the beginning. While the old team was feeling very pressured to keep the old clients and fight for their place in the old market, the new team wanted to gain its space in the new market, and they compete for the same resources”. He also admitted that fighting for the same resources was the main reason why they needed to separate the company.

On the other hand, the Product Manager of Firm B said that when it comes to resources, they did not have a big struggle. She said, “Since both products are very similar to each other, it is not that they compete with each other, but that they utilize the same base”. According to her, their products complement each other, which makes them stronger together than separate.

The second revealed challenge was the focus. Across the cases, the matter of focus was highlighted many times. The Co-founder of firm A explained that “Prioritizing is very difficult” and that there is a risk that “the new product idea might be not so different to what we have right now”. He also mentioned that “in young small companies it is difficult to do many new things at the same time”.

Different perspectives in a team appeared to be the third challenge. This was most evident in Firm B. Informants from Firm A stressed that it is difficult to satisfy the expectation of every unit in the company. As one of the co-founders explained, “From the business, sales and marketing side we know that we won’t be able to sell it. But it’s not fun to only improve existing product for developers. So then it’s difficult cause there are two
different perspectives in the company and one needs to convince the other”. The Co-founder of Firm B admitted that during the transition between the first product and the second product he faced the conflict and internal resistance among the team. Product developer of Firm B revealed that one of the reason could be the lack of certainty at the beginning of the process as “some team members lacked the finished product in order to decide which company they wanted to work for”. According to Product Developer, Firm B knew why it was developing the second product but not exactly what will it be and that was a problem for some employees. Developer’s perspective also demonstrated that some people were frustrated to change their way of working after long time as the new product was based on a new technology.

Fourth challenge, miscommunication, was most evident in Firm A. One of the Co-founders confessed that during the exploration there was a time when everyone was thinking differently about which new project should be next. During the brainstorming meeting, the team came up with a few ideas but the management miscommunicated their activities. Some people thought that the management wants to kick off the new projects although it was still doing only the pre-studies. The team did not know what was going on in the company.

Last identified challenge was different technology. Co-founder/CPO of Firm B reported that new technology was a problem. The first product was based on old technology and it needed to be changed. This is how the second product was born but it required a complete change of technology and everything was different.

However, the analysis has found the evidence for the fact that it is possible for the entrepreneurial firm not to face any challenges in the transition process. Product Manager of Firm C admitted that they did not really face challenges and that building a new product was not a problem for them. She explained, “Since the entire team was discussing the idea from the beginning, everybody was prepared to change and to start working on the new product. Also, since the two products complemented each other there wasn’t a big change in our culture or in the work itself. So it all went very smoothly with the team”. From these results, it is clear that some challenges might be avoided if the team is prepared for a new product from the very beginning and if the new product is aligned with the focus.

4.5 ACCOUNT OF PURPOSE

When it comes to the purpose of exploring new products, some similarities were found in all the three companies studied. Boredom was a concept mentioned by most of the representatives from the three companies. According to the representatives, exploring new
ideas is more exciting than managing old products and this is a way to keep the team motivated.

“Nobody wants to work in a company where you only have one product and all you have to do is to try to fix the bugs in the next 10 years”, said one of the co-founders of Firm A.  “It becomes a bit boring after a while”, said the Co-founder/CPO of Firm B related to only developing one product. “We enjoy and love new ideas”, added the Product Manager of Firm C.

Even though all the representatives mentioned that boredom is an important factor, the representatives of the companies agreed that it is not a determinant factor. Boredom itself is not enough reason to develop something new. “We need focus and we need to make sure that our product, in the end, has a commercial value. We can’t develop things just because it’s fun”, said the CEO of Firm C. “When we were closer to the split of the two companies, boredom was also a factor, but not immediately”, said the Co-founder/CPO of Firm B.

Another important motivation to start exploring are the commercial reasons. Naturally, the founders and top management seek growth and profits. “We want to increase our product lines, we want to grow this business into something very big.”, said the Co-founder/CPO of Firm B. “CEO wants to grow sales and lead a successful company”, admitted the Co-founder of Firm A.

Exploring new products is also a way to beat the competition. “Technology grows so fast and we need to keep up, we can’t be stagnating. We always need to be mindful about the future and think about what we can do in order to enhance the experience for the customers”, said the COO of Firm A.

While internal motives were mostly the same in all three firms, external motives varied according to each industry. Since Firm C is related to health care, the legislation has a relevant impact on the growth of the firm. “There were changes in the legislation that made our transition possible”, said the CEO of Firm C, adding that if it was not for the changes in the legislation their second product would not have been launched.

Finally, customer contentment also has an impact on the decision of developing new products. All representatives agreed that satisfying the customers is essential when it comes to deciding which products to develop next. “We have to listen to the needs of the market because if there is no demand we are not able to provide any products and services”, said the COO of Firm A.
5 DISCUSSION

5.1 MAJOR RESULTS

Through the comparison of those three case studies, we have found many interesting aspects while examining the transition process between exploitation and exploration and its challenges. Our findings suggest five main dimensions that describe the process. We now want to build on our findings and existing theory to elucidate some of the relevant concepts.

5.1.1 DEFINITION OF EXPLORATION AND THE TRANSITION

One of the most relevant findings in this study was that the term “exploration” should be better defined while considering the transition. In the theory, Hill and Birkinshaw (2012), and O’Reilly and Tushman (2004) describe exploration as the development of new capabilities and creating new opportunities for growth. However, it is unclear when exploitation ends and when exploration begins. It was only after the interviews that we noticed that the term could either be applied to brainstorming, market research and idea generation, but also to the implementation of the new idea. All of these activities are related to the development of new capabilities.

Therefore, we suggest that the term exploration should be divided into two subcategories: idea generation and idea implementation. Idea generation is the activities related to the creation and validation of the idea, and idea implementation is the actual operation of making the idea a reality.

Since the previous research has discussed the transition in light of the process between exploration and exploitation (Ireland and Webb, 2009), we assumed that there needs to be the transition that appears next between exploitation and the exploration of the second product. Although to our knowledge, no prior studies have examined this concept, we wanted to research on it. Surprisingly, in our study, we found that young entrepreneurial firms have never actually stopped exploring and it is their constant practice.

Hence, when it comes to the transition phase, it all depends on what we consider exploration to be. If we consider it is regarded as the generation of ideas, then there is no clear transition process. We agree with O’Reilly and Tushman (2004) who claimed that in such a competitive environment, companies need to adapt and innovate constantly. We found that entrepreneurial firms also think that for young small companies it is necessary to explore constantly in order to survive. So if firms never stop looking for new ideas and opportunities,
then there is no clear transition. However, if we consider only idea implementation as an exploration then we posit that the transition process exists.

When comparing our results to those of older studies, it must be pointed out that the transition that appears during the idea implementation in young entrepreneurial firms is very similar to the transition process between exploration and exploitation. Ireland and Webb (2009) believed that it is a long, resource-consuming, precarious, indispensable, but also iterative, recursive and dynamic process. We found that transition that appears during the idea implementation in the studied firms is also a slow process, that requires a lot of their resources and that faces many challenges. All the interviewees claimed that it is also indispensable in order to survive. Many of them highlighted that it is also iterative process as they usually test it first many times.

5.1.2 BALANCE BETWEEN EXPLOITATION AND EXPLORATION

We also posit that the balance between exploitation and exploration exists also in young entrepreneurial firms. We agree with the authors who have recognized that exploitation or exploration alone in the organization is not sufficient (March, 1991; Atuahene-Gima, 2005; Birkinshaw and Gibson, 2004). We especially support Atuahene-Gima (2005) who claimed that the balance does not mean the equal split but rather an excel at both, exploitation and exploration. Although the term of balance has been used mainly in the context of corporate organizations (Duncan, 1976; March, 1991; Tushman and O’Reilly, 1996; Hill and Birkinshaw, 2012), we observed that all of the studied firms have been balancing as well. As an example, Firm B has separated the tasks in 3 horizons: stairs, growth, and visionary. The company is trying to balance risky long-term projects with the short-term gains. The other two companies also exploit and explore at the same time.

However, our claim contradicts the statement of Parida and colleagues (2016) who demonstrated that young entrepreneurial firms should rather focus on either exploitation or exploration, instead of scoring as much as possible in both. We also disagree with some authors who suggested that companies have a natural tendency to focus on either exploitation or exploration but not on both. This natural tendency is described in many ways: “competency trap” (Henderson and Clark, 1990), “key dilemma facing organizations” (Weick, 1982), and “basic unresolved problem” (Levinthal and March, 1993). We believe that times have changed and nowadays, young entrepreneurial firms might look up to corporate practices and adopt the ones that work well, i.e. balance between exploitation and exploration.
5.1.3 BOREDOM AND LEARNING EXPLORATION

Nonetheless, we have found two main concepts that have not been explored in previous studies: the concept of boredom and the concept of learning exploration. Both concepts were identified in all the studied companies. The concept of learning exploration consists in being spontaneous and intuitive at the beginning, and getting more structure and planning with time. Whereas the concept of boredom stems from the opinion that constant exploitation gets boring after some time while exploring new ideas is more exciting than managing old products. We found that companies do not explore just for the survival of the company, but also to keep people motivated. Boredom was one of the factors motivating the innovation within the companies.

5.2 MINOR RESULTS

The findings mentioned above were the most relevant, but we have found also many other interesting but minor findings that should not be neglected.

5.2.1 IMPLEMENTATION OF RADICAL IDEAS

Through our findings, we are able to agree with Ireland and Webb (2009), who said that radical ideas are more difficult to be implemented than complementary ones. During the analysis of the three companies, we noticed that the exploration of new ideas happened in a smoother way in Firm A and Firm C, when compared to Firm B in the managerial level. The reason to that was that Firm B’s second product was based on a different technology and it grew to be a competitor of their original product. This generated a few internal tensions between the units and one of them was the fight of resources, and this aligns with the work of March (1991) and Ireland and Webb (2009). This internal tension was stronger on Firm B, which had a disruptive product when compared to Firm A and C, which had products that are extensions of their core business. If firm B’s second idea had more similarities with their first one, they might have encountered fewer conflicts between the units of the firm. Even though Firm A and Firm C still need to distribute their resources efficiently in order to maintain their different products, it appeared to be easier to do so when the products are complementary to each other.

The fact that Firm B opted to separate their two products into two companies is another indication that young companies are not necessarily able to sustain radical innovations. This contradicts Levinthal and March (1993) and Freeman and Engel (2007), who said that startups have the advantage of permitting the implementation of disruptive
ideas. Even though young entrepreneurial firms have more freedom to explore, it does not necessarily mean that radical ideas can be implemented in one company. Therefore, from the analysis of the three companies studied, even young companies should explore ideas that are aligned with the core business.

If the new ideas are disruptive, perhaps implementing it as a new company already in the early stages might be a better option. This was recommended by the Co-founder of Firm B and it aligns with Ireland and Webb (2009), when they said that managers should integrate new projects with the company’s operation, structure and culture. Hill and Birkimshaw (2012) also agree with this concept, since according to them it is difficult to integrate radical ideas into a company’s core business.

5.2.2 RESPONSE TO MARKET

Another interesting finding was that according to Tushman and O’Reilly (1996), successful organizations manage to respond accordingly to the market and they know how to adjust their strategies based on its needs. We found that not only organizations aim for this, but young entrepreneurial firms do the same. Our findings show that the first ideas were more creative and the companies had the freedom to explore many options. But once the business was established, the subsequent products were developed according to suggestions from customers, market research and technological advances. All three companies showed that the market has a significant influence on their decisions.

5.2.3 INTERNAL COMMUNICATION AND FUTURE PLANNING

The understanding between colleagues within the company also showed to be an important factor. As mentioned in the findings, in Firm A and Firm C the employees felt confident about the trajectory of the company after the implementation of the second product. On Firm B, this appeared to be not the case. The uncertainty made a few individuals uncomfortable and led them to either quit the company or remain working with the original product. A clear vision of the future could have prevented that. This was not a problem of miscommunication, but a problem of not knowing precisely where they are going. This did not happen to either Firm A or Firm C, where all the employees remained in the company after the implementation of the second product.

Although Ireland and Webb (2009) mentioned that in order to avoid tensions within the employees, the company should initiate a new project with concrete plans, sometimes this
is not possible. Even the people responsible for the creation of the idea had uncertainties, which caused insecurity within the employees.

In line with the ideas of Ireland and Webb (2009) who suggested that the uncertainty from the market point of view creates the uncertainty for the company internally and also for its employees, it can be concluded that the uncertainty stemming from the unsure future of the company might be another factor. Our results show that when people are not sure about how the future product will look like, what exactly will it be, it often makes them hesitant and as a consequence, it might lead to internal conflicts. This was especially observed in Firm B.

5.2.4 EXPLORATION ENGAGEMENT AND STRUCTURE

Another finding of this study concerned also the engagement in innovation. We observed that in young entrepreneurial firms it is usually the management and the developers who are mainly engaged in innovation but there is no separate unit created. Whereas corporations usually create a separate Corporate Ventures Unit that develops their new ideas and increases exploratory possibilities (Hill and Birkinshaw, 2012).

The majority of corporations tend to apply a structure separation as a form of ambidexterity, which is characterized by separating the exploratory from their exploitative unit (Benner and Tushman, 2003; Galbraith, 1982; Tushman and O’Reilly, 1996; Tushman et al., 2010). Therefore, we agree with Parida and colleagues (2016) who claimed that young entrepreneurial firms rather choose contextual ambidexterity, because it does not require the creation of different units, but the creation of a specific process or system that motivates the intrapreneurs to divide their time between adaptation and alignment. This type of a system has been applied by Firm A and Firm C but not Firm B which decided to divide the tasks into three horizons among which, one was devoted to innovation. Therefore, Firm B was the exception and chose a structure separation.

We hope that those case firms will serve as exemplars and will motivate the further research. Therefore, we will now suggest the directions for future research and examine the implications of our study for the managers.

5.3 CONTRIBUTIONS, LIMITATIONS FOR FUTURE RESEARCH

This study offers several contributions. First, and to the best of our knowledge, we believe that this study is the first attempt to understand how do young companies introduce the exploration into their existing activities and capabilities. Second, this is one of only a few papers that examine ambidexterity in young entrepreneurial companies. Third, we propose
two new concepts that stemmed from our findings: the concept of boredom and the concept of learning exploration. They have been neglected in the literature so far. Finally, we believe that this study will contribute to the further evaluation of this transition from exploitation to exploration in young companies and in the long term, it will be helpful to create the suggestions for how to even improve it. The goal is to focus specifically on young companies that are still neglected in the ambidexterity discussion. In turn, this paper responds to the suggestion of Lubatkin, Simsek, Ling, and Veiga (2006) to extend and validate research into the antecedents and consequences of ambidexterity in young companies.

Leveraging comparative case studies and integrating the ambidexterity and transition literature in the context of corporate organizations and entrepreneurship allowed us to develop the key insights that amplify the concept of transition between exploitation and exploration in young entrepreneurial firms. We now explore opportunities for testing and extending our suggestions.

Boredom was a common motivator aspect for all the companies studied. However, this is not a topic deeply analyzed, especially in young entrepreneurial firms. Therefore we suggest that future research is done in order to position boredom as a motivation for decision making in this environment.

Additionally, learning exploration had a significant impact on the development of the companies in the case studies. How managers learn, administer their resources and respond to market needs changes throughout their growth. Therefore, this is an interesting topic with significant importance that should also be further investigated.

Finally, our findings show interesting results, but only in three companies and only in the tech industry. Because of the limited time, it was not possible to extend this research into a broader sample. Therefore, our findings do not represent all the managers and entrepreneurs. It is recommended that the answers obtained here be validated in more companies and in different industries in order to verify the patterns and differences found. Even though this research was meticulously developed, the validation of the findings in more case studies would be helpful in confirming the veracity of the conclusions.

5.4 RECOMMENDATIONS FOR MANAGERS

After the analysis of the challenges, tensions and motivating factors identified faced when exploring new ideas, a few aspects were noticed that made this stage smoother for some companies. Regarding this, the main conclusion was that ideas that are too radical are more
difficult to be implemented and they generate tensions and conflicts that may often impact negatively the growth of the company.

Internal tensions such as the fight for resources, difficulty in focus, different opinions within the same unit and miscommunication between colleagues are the identified challenges that can be less problematic if the new projects are aligned with the core business of the company. The companies who had their second products as an extension of their first ones showed a smoother time when implementing these new ideas. Once their second projects become a complement to their first ones, they help each other to grow instead of becoming competitors of one another.

If the new idea is too different from the original one, a good advice is to build it completely separate from the original business. This allows the groups and resources to be independent of each other and to avoid mixing of the two projects.

Also, a good communication between employees is crucial. It is very important that all the individuals in the company have a clear vision of the goals and expectations of the company. When all the team is updated on the next steps and decisions there are no surprises and the performance of the entire group is enhanced.

Lastly, we recommend that companies should constantly explore not only in order to be competitive but also because it keeps their teams motivated and excited. It is important that the employees feel that they can come up with the new ideas, which are later taken into consideration, and that they are supported by the management. However, the management should proceed further with the ideas that have a commercial value, stay in the core focus, respond to the needs of the customers and market.
6 CONCLUSION

This study allowed a more extensive comprehension of the exploration practices in young entrepreneurial firms. After reviewing the literature published by reputed authors, we expected to fill the gap and develop new insights regarding the transition between exploitation and exploration in young companies, their motivations, and challenges during this period. The case studies showed whether the theory could also be applied to the companies analyzed and lead to the discovery of new areas that can be further investigated by future studies.

From the observations, many aspects seemed to be aligned with the literature, but some showed particular conclusions. First, the term exploration needs to be better defined. If exploration includes the generation of new ideas, then there is no clear transition between exploitation and exploration, because young companies never seem to stop looking for new ideas and new opportunities. The companies that we have studied tend to balance exploitation and exploration simultaneously from the very early stages.

Second, one motivator that was common to all three companies studied was boredom. At some point in each of them, the lack of excitement in exploiting only one product drove the top management and employees to seek new opportunities and ideas to develop. Entrepreneurs are often risk-taking people and joy of developing something new and discovering new things is a factor of importance to all respondents.

Finally, learning exploration comes with time. The ideas at first are broad and spontaneous. As the company grows the development and organization of the company become more structured and controlled. Customers then begin to have more influence on the decisions, the management team becomes more experienced and they learn how to deal with challenges more efficiently.

This research provided some results that clarify the situation encountered in young entrepreneurial firms regarding the exploration and exploitation process. The focus on this environment was scarce and still more in-depth research is needed in order to validate our findings in broader sceneries.
REFERENCES


APPENDIX A

INTERVIEW GUIDE

Following interview guide was used by the authors in order to collect data about the transition process between exploitation and exploration from three Swedish entrepreneurial firms that the sample consisted of. First, the English version of the interview guide is shown, followed by the Swedish version. There are 14 main questions in this document, 3 warm-up questions, and 1 finishing question.

The role of the warm-up questions was to encourage the interviewee to start talking, loosen the atmosphere and define the role and, at the same time, the perspective of the interviewee.

The main questions concerned the transition process itself and aimed to make the interviewee elaborate on them. The questions were only auxiliary as we tried to adjust them to the context. Having these questions at hand was helpful because we could easily verify what kind of information had not been discussed yet. Also, the order of the questions could be different. In some interviews, not all of the questions were posed as they did not fit the context.

Additionally, during the interviews, we often asked clarifying questions, such as “when you said… do you mean that…?” or “could you explain better what you meant by…?” in order to develop more precise descriptions from general declarations.

Moreover, while collecting the information, we paid additional attention to contradictions by catching the key words such as: “but”, “however” and “although”, and also “struggle”, “challenge”, “difficult”, etc. When the key words appeared in the conversation, we were asking some clarifying questions in order to discover potential obstacles or tensions.

The two finishing questions simply asked if we can contact them again if we will have more questions and if they know any other colleagues whose perspective would be insightful for the purpose of this case study.

At the end of the interview guide, we placed the helping questions adapted from Kavle (1996) that would help us to make the conversation smoother and to develop out interviewing skills.
Interview Guide

Warm-up Questions
1. What is your role/position?
2. What are your responsibilities?
3. How long do you work in this company?

Main questions concerning the transition process
1. What do you remember about starting exploring again, what did you think it was going on in the firm, how did it begin?
2. How did you communicate it/how was it communicated?
3. Who made a decision to go for exploration/new version of the product?
4. What were the main motivating factors/reasons? Why did you do it?
5. When was it introduced?
6. What were the biggest surprises for you during the process?
7. Was it a surprise that the company started to explore again?
8. What was your role in the process of transition at that time?
9. How much were you engaged in the transition process?
10. Was there anyone against the decision?
11. How fast was it going?
12. How much planned the process was?
13. What were the challenges you faced in the project?
14. Did the firm keep the same individuals involved in the specific innovation project when transitioning?
15. Ask about the concept of struggle, boredom, abandonment, learning exploration, balance.

Finishing questions
1. Can we contact you by email in case we have more questions to you?
2. Do you have any other colleague in mind whose perspective could be insightful for the purpose of this case study?
### Helping questions

<table>
<thead>
<tr>
<th>Introducing questions</th>
<th>Probing questions</th>
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<tbody>
<tr>
<td>“Can you tell me about [...]?”</td>
<td>“Could you say something more about that?”</td>
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<tr>
<td>“Do you remember an occasion when [...]?”</td>
<td>“Can you give a more detailed description of what happened?”</td>
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<td></td>
<td>“Do you have further examples of this?”</td>
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<table>
<thead>
<tr>
<th>Interpreting questions</th>
<th>Introducing new topic</th>
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<tbody>
<tr>
<td>“You then mean that [...]?”</td>
<td>“I would now like to introduce another topic [...]”</td>
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<tr>
<td>“Is it correct that you feel that [...]?”</td>
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<tr>
<td>“Does the expression [...] cover what you have just expressed?”</td>
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**Source:** Adopted from Kvale (1996)