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Digital transformation: The interplay of explorative and exploitative capability development

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When responding to the digital disruption, finding balance between radical and explorative trials and incremental and exploitative developments is key in unlocking the full potential of digitalization.

Attempting to capture the potential opportunities brought by digital disruption, organizations operating in the vast majority of the industries have increasingly become strategically committed to digital transformation efforts. To cope with the changes requires firms to renew their business model and develop their capability portfolio. Depending on the market dynamics, business nature and organizational culture, firms may choose to take a radical approach to discover the unknowns, or continue advancing the "knowns" in an incremental manner. This article acknowledges the essence of both approaches to unleash the full potential of digital transformation, and encourages organizations to find a balance between the two approaches taking into consideration their current capability level as well as the market expectations.

The article "Digital transformation: The interplay of explorative and exploitative capability development", written by Shan Gao, Reddal Helsinki, and her colleagues at Aalto University, suggests organizations should consider developing ambidextrous capabilities with a suitable spectrum of exploration and exploitation. As the organizational ambidexterity is, however, challenging to achieve, firms should leverage network capabilities instead of only relying on internal capabilities. This would require the organizations to:

1. Adopt a collaborative and growth mindset, and be open to co-creation and value sharing with partners. Even in the digital era, the fundamental logic behind partnership remains the same: give-and-take. Especially for organizations seeking for

complementary capabilities on data solutions, allowing access to data is a prerequisite.

2. Be visionary on focused strategy directives. Organizations need to have a clear vision what would be the spectrum between developing radical innovative offerings and making incremental improvements with digital means. In addition, organizations need to have a clear definition on the critical capabilities which will need to be developed in-house, and which capabilities will leverage partnerships.
3. Stay active in searching and reaching out to other business players to identify suitable partners. Note that the partners which can offer complementary capabilities may well lie outside of the organization’s existing value chain or ecosystem. These of course entail also uncertainties and risks associated with the new partners. These uncertainties can be further assessed with joint workshops, pilot projects or proof-of-concepts.