The past decade has witnessed an increased emphasis on Open Innovation strategy, where firms proactively seek to leverage external knowledge. Following this strategy, however, a firm is only as innovative as its partners are. Accordingly, this paper investigates the factors that drive a firm’s ability to access innovative partners. We focus on economic and organizational factors that shape the partnering process, as well as the subtle interactions among these factors. To that end, we develop a formal theoretical model of the venture capital setting where established firms, as part of their open innovation strategy, pursue corporate venture capital in innovative ventures. The predictions are tested using a unique sample of 157 startup-stage CVC-entrepreneurial investments and a matched-sample of possible investments that did not materialize. Our findings afford important insights as to the economic and organizational factors that shape the success of open innovation strategies.

Using both archival and experimental data we examine key behavioral mechanisms that influence retention decisions, i.e. decisions to continue or abandon a previously chosen course of action. Focusing on the effects of external feedback, we integrate macro and micro literatures to theorize a non-linear, sinusoidal relationship between feedback and decision makers’ retention decisions. Specifically, we suggest that moderately negative feedback activates an ‘immune response’ in organizations, which leads decision makers to retain a course of action and exert extra effort to ensure its success. Strongly negative or moderately positive feedback, we argue, do not cause such an activating effect and thus lead to a lower likelihood of retention. Using firms’ retention decisions for R&D joint ventures as an empirical setting, we test and receive support for our hypotheses. We discuss implications of our findings for the literatures on decision-making feedback, divestment, and alliance management.