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The process of value realization in asymmetric new venture development alliances: Governing the transition from exploration to exploitation

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ABSTRACT

Based on a case study of three asymmetric new venture development (ANVD) alliances, we examine the governance of transitions from exploration to exploitation. We propose that role deficiencies, technological asymmetry, and the presence of a separate venture unit at established firms constitute important initial conditions influencing value realization in ANVD alliances. We further show that role-specific investments act as more appropriate mechanisms than contractual incentives to govern transitions from exploration to exploitation. Jointly, these findings provide new insights into the impact of structural and relational governance mechanisms on value creation in interfirm relationships.

Introduction

In high-tech settings, formal collaboration between entrepreneurial firms (i.e., high-tech start-ups, university spin-offs) and more established organizations has become increasingly popular for the development of new venture activities (Bajeux-Besnainou et al., 2010; Dunne et al., 2009; Hagedoorn, 2002; Schildt et al., 2005). Following its widespread dispersion in practice, academic research on asymmetric new venture development (ANVD) alliances has been proliferating (e.g., Kalaignanam et al., 2007; Narula, 2004; Slowinski et al., 1996). Whereas these studies provide evidence for the

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potential value of ANVD alliances, they have remained relatively silent on how this value can be actually *realized*.

In order to successfully launch a new venture into the market, a transition needs to be made from explorative activities such as experimentation, fundamental research and prototyping, to exploitative activities such as fine-tuning, upscaling and leveraging (Kazanjian and Drazin, 1990; Rothaermel and Deeds, 2004). Such transition is not evident, since previous studies (i.e., Dodgson, 1993; Doz, 1988; Doz and Williamson, 2002) suggest that (i) the entrepreneurial partner might lack motivation to shift from explorative to exploitative activities and (ii) the established partner might lack the motivation to invest time and resources in supporting such a shift. Although these studies identify obstacles to the realization of value in ANVD alliance, they provide limited insights in how these problems can be addressed effectively.

In the broader alliance governance literature, scholars have relied on two different perspectives to identify governance strategies that facilitate adjusting and steering partner behavior in interfirm settings. Whereas structural alliance governance scholars (e.g., Hennart, 2006; Oxley, 1997) rely on transaction cost theory to emphasize the importance of contracts, relational governance scholars (e.g., Dyer and Singh, 1998; Madhok, 1995) point to the relevance of relational-specific investments. Previous studies on ANVD alliances (i.e., Alvarez and Barney, 2001; Sawers et al., 2008) have underlined the relevance of both structural and relational governance mechanisms in terms of risk mitigation, yet they have remained relatively silent on their implications for value realization.

The main objective of this study is therefore to examine how partner organizations can actually create value in ANVD alliances. In particular, we assess the impact of structural and relational governance mechanisms on partners' ability to transition from exploration to exploitation activities. In order to address this research objective, we have conducted a comparative case study of three ANVD alliances. Each case rests on the analysis of a wide variety of documents as well as interviews with managers and engineers of both partner companies. Based on an iterative process of within-case and between-case analysis, we subsequently build propositions on how firms govern the transition from exploration to exploitation activities in ANVD alliances. Our propositions point to (i) role deficiencies, (ii) the level of technological asymmetry, and (iii) the presence of a separate venture unit at the established firm as important initial conditions influencing the motivation and ability of partners to shift from exploration to exploitation activities. In addition, they suggest that relational investments are more proficient governance mechanism than contractual incentives when it comes to stimulating such a transition process.

The paper theoretically contributes to both structural and relational governance perspectives. Whereas existing structural alliance scholars have mainly focused on the design of interfirm transactions between partners, we observe that particular intrafirm structures (i.e., dedicated venture unit) can also substantially influence the ability to create value within the interfirm relationship. At the same time, our data point to the inherent limitations of contracts in motivating partners to change their behavior in alliances. Whereas relational governance scholars (e.g., Dyer, 1997; Kang et al., 2009) have mainly focused on the impact of physical relation-specific investments such as site-specific investment and customized equipment on value realization, our data point to the relevance of role-specific investments to enact synergies from complementary resources. In contrast to existing relational governance research, we question the role of goodwill trust as a sufficient social glue to keep partners together after value realization has taken place successfully. Instead, we emphasize the importance of balanced interdependence and intra-organizational changes for the continuation of interfirm relationships after value realization has occurred.

The remainder of this paper is organized in six sections. First, we provide an overview of existing literature on the phenomenon of ANVD alliances. Based on this literature, we identify two obstacles to value realization in ANVD alliances. Relying on structural and relational alliance governance perspectives, we subsequently identify two potential strategies to address these obstacles. We then discuss the methodology of our study, after which we provide an in-depth description of the three cases, focusing on the process of value realization. In the fourth section, we discuss our main findings and develop propositions on the process of value realization in ANVD alliances. To conclude, we reflect on the theoretical and managerial implications of our study, its main limitations and opportunities for future research.