THE IMPACT OF CAPABILITIES AND ALLIANCES ON COMPETITIVE ADVANTAGE: FOREIGN vs. DOMESTIC COMPANIES IN THE BIOTECHNOLOGY FIELD

Laurence A. Marsh, D. Abbot Turner College of Business, Columbus State University, 4225 University Avenue, Columbus, GA 31907-5645, 706-565-3504, marsh_laurence@colstate.edu

ABSTRACT

This research explores the question of how the liability of foreignness may impact how foreign firms structure their alliances. The Resource-based view is used to build a typology of differing alliance types based on partner characteristics and control within the alliance. The research attempts to determine whether foreign firms leverage their capabilities differently due to the liability of foreignness which impedes the ability of the firm to compete in international markets. Because there is a possibly a difference between the resources and capabilities of local and foreign firms plus a difference in the alliance activity between local and foreign firms, the impact of each on competitive advantage should differ. The implication is that the strategic situation faced by the company will determine how the internal capabilities will impact the competitive environment. While foreign firms are in the same competitive environment as local firms, given the strategic situation of being new entrants alters the usefulness of certain capabilities and requires development of capabilities that local firms already possess.

In determining a network structure, a firm must seek and establish the relationships that will be consistent with that firm's strategy. The partners chosen and the connections made allow access to the knowledge and resources that the firm requires for effective implementation of a strategy. Previous research has shown that three qualities of relationships make up a network structure. Those are ties between similar partners, ties between dissimilar partners, and constrained ties which one firm exerts definite control over another. Hypotheses are generated and tested from a sample of biotech companies involved in established and exploratory fields. The hypotheses test whether foreign firms may be more dependent on alliances that leverage productive capabilities while local firms are attempting to leverage both innovative and productive capabilities.

The findings show foreign firms use their alliance network to leverage exploitive capabilities more than local firms while local firms make greater usage of alliances to build new capabilities. The results of this research indicate that there are significant differences in how local and foreign firms compete in a national market. Due to the liability of foreignness, foreign firms are at a disadvantage when competing and must use alliances and joint ventures in a different manner to overcome the barriers found in a new market. Interfirm ties are a means to leverage those capabilities to their fullest extent and it appears that foreign firms must leverage their productive capabilities to the fullest to compete in new markets where they may be at a disadvantage. Local firms who do not have to deal with the foreignness disadvantage structure their alliances differently to take advantage of other capabilities. This research contributes to studies of international management by investigating some of the underlying differences in strategies between local and foreign firms.

(Keywords: Resource-based view, Strategic alliances, Liability of foreignness)