ALLIANCE PORTFOLIO DIVERSITY AND MARKET SCOPE: DIRECT AND INTERACTION EFFECTS ON BIOTECH FIRMS’ EXIT (SUMMARY)

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SUMMARY

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Principal Topic

The present study aims at contributing to the on-going debate on the benefits and disadvantages of organizational diversity by exploring the following research questions: What role do alliance portfolio diversity (APD) and market scope (MS) play in small high-tech firms’ exits? and How do firms balance these types of diversity in their struggle for survival?

Several reasons have motivated this research. First, among numerous factors explaining firms’ survival, APD and MS are notable, because of the oppositions in theoretical arguments and empirical evidence they are accompanied with. The present study aims at contributing to the on-going debate in strategy and entrepreneurship on the benefits and disadvantages of organizational diversity. Second, while economic and innovative outcomes have traditionally received the most interest from academic research dealing with alliances and alliance portfolios, APD and its impact on firms’ survival remained in the shadow of theoretical and empirical contributions. The present paper fills this gap by exploring the contradiction of positive and negative consequences of APD for small and young high-tech firms in terms of their exit. Third, in contrast to the literature on large firms few studies have addressed the theme of MS (i.e., diversification) in small entrepreneurial firms, either at a theoretical or empirical level (Iacobucci, 2005). In the present paper, diversification literature is revisited for small innovative firms in order to theoretically argue and empirically explore the role MS plays in these firms’ survival.

Method

The empirical part of the paper is a quantitative study of the population of French biotech firms having participated in the industry over 9 years (1994 – 2002), representing 313 firms. Event history analysis has been used as a statistical method.

Results and Implications

The results show that both APD and market scope have a curvilinear relationship with biotech firms’ exit (inverted U-shaped form for the former and U-shaped for the latter). While the relationship between APD and exit remains unchanged for biotech firms with narrow scope, it is inversed for the firms entering more than 3 markets. In other words, combining greater diversification with increasing APD enhances biotech firms’ chances to survive up to a certain point, where joint effect of two facets of organizational diversity lead to their failure.

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