NEAR TO OR FAR AWAY? THE IMPLICATIONS OF ALLIANCE PARTNER LOCATION FOR NEW VENTURE INNOVATION (INTERACTIVE PAPER)

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INTERACTIVE PAPER

NEAR TO OR FAR AWAY? THE IMPLICATIONS OF ALLIANCE PARTNER LOCATION FOR NEW VENTURE INNOVATION

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Principal Topic

This study explores the implications of relational and structural embeddedness for new venture product innovation. We distinguish between two relationships which differ markedly in the nature of interaction and quality of knowledge transferred to represent differing levels of relational embeddedness - a venture’s marketing and knowledge alliances. The structural embeddedness of each of these relationships is examined in terms of the number of ties to partners of each type within and beyond the venture’s geographic region; and the extent to which there is diversity across geographic regions. The implication of ties to specific regions and ties across regions for new venture product innovation is argued to depend on the type of relationship considered.

Method

We test the hypotheses on 128 software new ventures that undertook an IPO. Software firms have intrinsic need to ensure their products interoperate with other computer and software products on the market. They are prolific in introducing new product lines and innovating around existing ones. We use negative binomial regression analyses to test our hypotheses on the ventures’ new and enhanced product innovations for the two year period after they went public.

Results and Implications

The results suggest that for relationships such as knowledge alliances, which have strong relational embeddedness potential, ties to firms in specific regions have stronger consequences for innovation than diversity to partners across regions. By contrast, for relationships such as marketing alliances, which have weaker relational embeddedness characteristics, diversity across regions is more valuable for innovation than are ties to partners in specific regions. These findings demonstrate the importance for new ventures to consider the relationship desired and whether it should partner with regional or non-regional firms. For network theory, these findings contribute the caveat that the role of structural configuration can vary depending on the extent to which a firm’s relationships have characteristics of embedded or arms-length relationships. They suggest a need to consider the structural configurations by relationship type rather than simply for the network as a whole.

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