

Abstract

Innovation has increasingly become a key activity for firms to cope with the rapid changes in technology, preferences of customers, increased competition, shortening product life cycles and growing product complexity. Some firms have found that an open model of innovation involving alliances with other firms enables them to cope with the complex demands of developing new technologies, products and services. The literature on alliance based innovation strategies is premised on the basis of strategic intent of one of the partner firms to appropriate knowledge to make new products, processes or services and the intent is to absorb partner capabilities. Small firms receive technology from the partner(s) and build on their core competence. This research focuses on the factors affecting the capability of firms to gain advantages and capabilities from its alliance partners. We examine strategic alliances involving small firms where the alliance activity is generating innovations. Small firms have been chosen to minimize the effects such as scale, scope and established influences that impact the management and decision making processes of large firms. The Indian biotechnology industry is chosen as the context for this study, since alliances in the Indian biotechnology industry are predominantly for the purpose of innovation and learning. Several hypotheses have been developed on the factors that affect the ability of firms to gain advantages and capabilities from its alliance partners. These hypotheses are tested statistically using a questionnaire survey with alliance top management representatives as key informants. The results were subjected to verification through case interviews with selected CEOs/Heads of alliances to arrive at generalizable conclusions. The research found support for hypothesized relationships between growth potential and organicity in the alliance structure with knowledge internalization, organizing cost of alliance with dependency reduction, technological competence and learning capacity of the focal firm with learning for innovation. However no support was found for hypothesized relationships between risk taking ability of the focal firm with the learning for innovation, openness in communication within alliance with knowledge internalization, organicity within the structure of the focal firm and openness in communication within the firm with knowledge recombination and application. Implication of this research for practice and policy are also indicated.