COMMENT ON “FISHING FOR SHARKS: PARTNER SELECTION IN BIOPHARMACEUTICAL R&D ALLIANCES” BY DIESTRE AND RAJAGOPALAN

RICHARD MASON and DONALD L. DRAKEMAN*
Centre for Health Leadership and Enterprise, Cambridge Judge Business School, University of Cambridge, Cambridge, U.K.

A recent study of R&D alliances between new biotechnology firms (NBFs) and pharmaceutical firms investigated how NBFs deal with the “swimming with sharks” dilemma involved in allying with firms capable of appropriating value. It concludes that NBFs are less likely to select alliance partners with related expertise because of greater appropriation risk. Based on our experience as NBF managers and a survey of NBF executives, we believe that such situations are uncommon, and that the study more likely shows pharmaceutical firms seeking diversification. Thousands of NBFs seek alliances with the top 100 pharmaceutical firms, and the larger company is much more likely to be the one to select among multiple potential partners.

Keywords: R&D alliances; innovation; new ventures; value creation; value appropriation; biopharmaceutical industry

*Correspondence to: Donald L. Drakeman, Centre for Health Leadership and Enterprise, Cambridge Judge Business School, University of Cambridge, Cambridge CB2 1AG, U.K. E-mail: don.drakeman@adventventures.com

We are biotechnology executives writing in response to the interesting article by Diestre and Rajagopalan, “Are All ‘Sharks’ Dangerous? New Biotechnology Ventures and Partner Selection in R&D Alliances” (2012). The study was designed “to examine how new technology-based ventures deal with the value creation versus value appropriation (or, the ‘swimming with sharks’) dilemma that is inherent in partner selection decisions (Diestre and Rajagopalan, 2012, 1116).” In analyzing 51 alliances between biotech and pharmaceutical companies during the years 2003–2007, the authors sought to determine the extent to which the pharmaceutical company is capable of assimilating—and potentially misappropriating—the technology of the biotech company. They conclude that the study provides “compelling evidence in favor of the argument that start-ups have some discretion in partner selection decisions, and that they are less attracted to those partners that represent greater appropriation risks,” especially those potential partners that already have strong complementary skills (Diestre and Rajagopalan, 2012, 1131-32).

We believe that the authors are correct to suggest that biotech companies faced with the good fortune of a choice of multiple potential pharmaceutical partners will try to avoid selecting one that is likely to misappropriate their technology. Based on our experiences in forming many biotech/pharmaceutical partnerships, we believe, however, that such a situation is quite rare and that, in fact, the authors are more likely to be observing a very different phenomenon; that is, the desire by some pharmaceutical companies to increase their therapeutic and technological diversity through partnering with biotech companies.
We have conducted an informal survey of individuals who have been corporate officers or members of the boards of directors of 42 biotech companies. These individuals have participated in a total of 75 biotech–pharmaceutical partnerships similar to the 51 transactions included in the authors’ study. The survey respondents were asked how often their biotech company selected a particular pharmaceutical partner that was less capable of absorbing its technology because of a fear of misappropriation by a more capable potential partner. Individuals participating in nearly two-thirds of the 75 transactions answered “Never,” with almost all of the rest answering “Rarely,” and, in one case, “Occasionally.” The answer choices “Always” and “Usually” were not selected by any survey respondent.

Since, for the reasons described in the authors’ study, fear of misappropriation is a natural concern of an executive of a small technology company, the question is why executives say that it rarely or never affects their selection of partners; we believe that this fact can be explained by the nature of the partnering marketplace. A second question is whether there is a more likely explanation for the authors’ data than the fear of misappropriation. We believe that there is.

Contrary to the assumption underlying this study, a biotech company seeking a partnership only occasionally has multiple potential pharmaceutical partners. It is the pharmaceutical company, rather than the biotech company, that most frequently does the selecting. There are several thousand biotech companies, a vast number of which are actively seeking the cash, product development expertise, and positive signaling that accompany a partnership with one of the top 50 (or, at most, 100) pharmaceutical companies. It is, therefore, usually the case that the biotech company does not have multiple suitors, whereas each pharmaceutical company routinely chooses among many potential biotech partners. This phenomenon is likely to explain the authors’ data better than the misappropriation theory. If we assume that most partnerships are, in fact, driven by pharmaceutical company choices, then it seems quite reasonable that those companies would be more likely to enter into partnerships with biotech companies that will expand their capabilities than with ones that would fall within their existing areas of expertise. That is, through partnering with biotech companies, they are seeking to diversify beyond, rather than replicate, their in-house capabilities.

Depending on the nature of the technology, there can be a misappropriation risk however, and the nature of the partnering marketplace means that biotech companies may not be able to avoid it by selecting a less risky partner. An analysis of partnership agreements will show that biotech executives, together with legal counsel, have developed a variety of anti-misappropriation provisions that are often included in partnership agreements. There are, therefore, methods by which biotech companies can address misappropriation without, except in rare cases, refusing to enter into an otherwise attractive partnership opportunity.

It may well be the case that the authors have captured in their dataset both situations: pharmaceutical companies seeking technological diversification and biotech companies trying to avoid misappropriation. Without more information about the specific transactions that were studied by the authors, it is not possible fully to separate these two possibilities. Based on our knowledge of the partnering marketplace, our experiences in forming many of these kinds of partnerships, and our survey of biotech executives involved in 75 partnering transactions, we believe that the category of pharmaceuticals seeking diversification is likely to be much more heavily represented in the authors’ dataset than that of biotechs avoiding misappropriation. We agree with the authors that some “sharks” may be more dangerous than others; but if you are one of thousands fishing for fewer than 100 sharks, you are usually happy to hook whichever one you can.

REFERENCE