

Confronting To Foreign-Advantaged Entrants: Strategies For Entrepreneurs To Leverage Partnerships

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In 2018, Tesla, Inc., a renowned leader in electric vehicles, autonomous drive technology, and energy storage, made a noteworthy announcement regarding the establishment of a wholly-owned Gigafactory in Shanghai, China. This development raises an important question for local entrepreneurs: What steps should they take in response?

Foreign-advantaged entrants impact the local business environment, fostering a dynamic and globally competitive landscape. Local entrepreneurs, particularly those focused on knowledge-intensive sectors, have great potential to interact with these foreign entrants because they are at the forefront of innovation, constantly developing new products, services, and business models that have the potential to create new markets and disrupt existing ones. Their core knowledge and expertise can be further refined and leveraged to compete with advanced foreign entrants.

To effectively respond to foreign entrants, entrepreneurs rely on more complementary resources to enhance their expertise and knowledge at the forefront. Instead of depending solely on limited internal capabilities and market power, they can coevolve with partners and obtain resources from partnerships to respond to foreign entrants. However, when considering forming partnerships to enhance their core assets, entrepreneurs also face a risk that potential partners may misappropriate their valuable assets, especially knowledge assets. Specifically, partners could potentially utilize new ventures' intellectual property (IP) to develop their products or services or disclose their confidential information to competitors. This poses a significant threat to new ventures, particularly because their IP is less complex and easier to imitate. A notable instance is, in 2017, Waymo, an autonomous vehicle venture, accused Uber of hiring away their former key technician and misappropriating their trade secrets related to self-driving car technology, subsequently establishing their own autonomous vehicle department. This could be devastating for entrepreneurial firms, resulting in the loss of proprietary assets and increased vulnerability in the face of foreign-advantaged entrants. In such cases, it is critical for entrepreneurs to simultaneously enhance their assets to confront foreign entrants and safeguard valuable assets to prevent partners' potential misappropriation. Now, the question arises: How can entrepreneurs form partnerships in response to advanced foreign entrants while mitigating the risks of misappropriation?

Take the partnerships between entrepreneurs and venture capital as examples; in the face of foreign-advantaged entrants, entrepreneurs rely on funding partners' resources to foster growth and innovation. However, they also face the misappropriate risk their partners pose; some venture capitalists, such as corporate venture capitalists, have a strategic goal of acquiring knowledge and seeking synergy effects from entrepreneurial firms. This raises concerns about the potential misappropriation of IP or other valuable assets of entrepreneurial firms for the benefit of the funding partners own profits. Such misappropriation could result in the loss of proprietary assets for entrepreneurs during their interactions with foreign entrants. This raises the question: How should entrepreneurs navigate this complex landscape and respond to the blessings and potential challenges posed by CVC partners when confronting foreign entrants?

Our results show that entrepreneurs form syndicates as an effective strategy to both confront foreign companies with advanced technologies and safeguard core knowledge from partners' potential misappropriation risks. This is because co-investors could facilitate trust, monitor the

syndication network, and provide more diversified resources to satisfy entrepreneurs' involved needs.

Specifically, we adopt the data on VC deals in China between 2010 and 2021 as a research sample. We observed that, prior to foreign-advantaged entry, 62 % of entrepreneurs engaged in VC syndication, and following the entry, this proportion increased by 10%. Before foreign-advantaged entry, entrepreneurs in the entry-affected industries displayed a similar inclination to form syndicate funding partnerships with those who are in other industries. However, after foreign-advantaged entry, entrepreneurs in the entry-affected industries were 1.560 times more likely to form VC syndicates than their counterparts in other industries.

Based on our findings, we provide three tips for entrepreneurs. With the arrival of technologically advanced foreign entrants:

- ✓ Tip 1. Entrepreneurs could be more reliant on external partnerships to tackle the ensuing challenges. But it is important to protect core assets from potential misappropriation by their partners.
- ✓ Tip 2. Whether to collaborate with CVCs hinges on striking a balance between the need to acquire corporate resources prompted by foreign entrants and the importance of preventing corporate misappropriation.
- ✓ Tip 3. Higher visible and early-stage entrepreneurial firms should exercise increased vigilance when leveraging partnerships to respond to foreign entrants.

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