VIII. Partnerships

- Kinds of Partnerships
- Intrapreneurship
- Technology Licensing
- Strategic Alliances
- Mergers and Acquisitions

Kinds of Partnerships

- Employees
- Customers
- Suppliers
- Bank
- Investors
- Competitors (sometimes)
- News media
- Community

Intrapreneurship

- Entrepreneurship in large corporate environments
- Conceptualizing and initiating change — developing (beyond one's job description) new ideas, services, products, systems, process improvements, businesses
- Think of it as a partnership between the intrapreneur and the corporation

Intrapreneurship (cont'd)

- The problem typically is not a lack of ideas
- Facilitating the exploitation of ideas
- Developing a culture for innovation
- Why is it so hard? Kanter's "rules for stifling innovation"

Kanter's "Rules for stifling innovation"

- Regard new ideas with suspicion
- Enforce cumbersome approval mechanisms, rules, regulations
- Pit departments and individuals against one another
- Express criticism, withhold praise
- Treat problem identification as signs of failure

"Rules for stifling innovation" (cont'd)

- Control everything carefully
- Plan reorganizations in secret
- Keep tight control of information
- Delegate unpleasant duties to inferiors
- Assume that you, the higher-ups, know everything important about the business

Problem typically not lack of ideas

- Best ideas are rooted in core distinctive competence
- Culture of innovation and free flow of information must pervade all levels of the firm to encourage and nurture these ideas
- "Ready, fire, aim!"
- Problem often is in choosing from among "too many" ideas
- Look for ideas with leverage: multiple products and generations

Facilitating idea exploitation

- Enhance access to "power tools" for innovative problem solving
  - Information (data, technical knowledge, politics, expertise)
  - Resources (funds, materials, space, time)
  - Internal support (approval, endorsement, backing, protection)
  - External context (current process, customer needs, state-of-the-art)
- In other words, nurture innovative ideas

Developing culture for innovation

- Develop an "integrationist" culture, not a "segmentalist" (Kanter)
  - Disseminate, earlier not later, information about company plans
  - Improve lateral communication among diverse expertises
  - Reduce unnecessary layers of hierarchy
  - Reorganize frequently enough relative to rate of industry change
- Encourage a culture of pride in innovation

The individual is the key: intrapreneurship roles

- Idea and product champions: Kanter's "change masters"
- Teams and collaborators: the need for "buy-in"
  - Persuading, team building, seeking input from others, being sensitive to others, sharing rewards and recognition
  - Champions need to work both formal and informal channels

The individual is the key: intrapreneurship roles (cont'd)

- Backers, providing access to "power tools," e.g., TI fellows, 3M "innovation banks," seed money from "President's Fund"
- Catalysts who release human energy, more than planners, organizers, controllers
- Innovative companies invest in people earlier rather than later

In Brandt's words...

- "The emphasis... is on getting a substantial percentage of all the members of the company thinking innovation on a daily basis so that business as usual is subject to experimentation and change."
- "The magic comes from being a legitimate part of what is going on."

Technology Licensing

- *Do not be committed to developing your own technology, but consider dispassionately the make-or-buy decision. Speed to market can be enhanced by taking advantage of the opportunities for licensing technology from government, universities, customers, or other companies, both competing and non-competing. (#58)*

The make-or-buy decision

- What counts is the competitive edge, as conferred, for example, by proprietary technology
- Source of edge not that important
- Advantages of buying
  - Speed to market
  - Minimize development cost and risk

The make-or-buy decision (cont'd)

- Advantages of making
  - Control and flexibility
  - Expertise
  - In long run, total cost
- Usually license under terms rather than buy
  - Worldwide, (non)exclusive, perpetual, etc.
  - Royalties of license

Sources of technology & examples

• Government	Harmony operating system
• Universities	Sun workstation
• Universities	AI technology
• Universities	Turing programming language
• Universities	UNIX load sharing software
• Universities	WWW browsing software
• Companies	MS/DOS
• Companies	Smalltalk language
• Companies	Notes
• Publishers	Content for multimedia
• Media companies	Content for multimedia

Strategic Alliances

- *The software industry is becoming more and more competitive, with established firms wielding more and more power; one weapon for a new or existing company is a strategic alliance with one or more other companies. (#59)*

Motivation

- Proprietary technology may be owned by another company
- Applications expertise may reside there
- Complementary, synergistic expertise
- Complementary marketing positions and strengths, e.g., geographical
- No need to go it alone
- Payoffs can be great
- Success story: Pervasive Software

Kinds of strategic alliances

- Alliances with customers
  - Technology, customer, reference account
  - Possibly non-use by competitors, royalties
  - Netron-Noma Industries

Kinds of strategic alliances (cont'd)

- Alliances with non-competitors
  - In adjacent markets, looking for new markets
  - Leverage existing reputation, market share, customer base, distribution channels
  - Novell-AT&T, Microsoft-McCaw Cellular, Microsoft-Sega

Kinds of strategic alliances (cont'd)

- Alliances with competitors
  - Shore up weaknesses on both sides, offensive or defensive move against competitors
  - Apple-IBM, Microsoft-Computer Associates, Microsoft-Apple

Dangers

- Risky to negotiate, esp. with competitors
  - Need to reveal trade secrets
  - Peeling the layers of two parallel onions

Dangers (cont'd)

- Difficult to manage
  - One survey reports that 2/3 of alliances ran into trouble in first 2 years (Least likely with complementary geographies)
  - Major issues
    - Exclusivity; time; control, audit, and dispute resolution; termination and exit
    - Milestones and ability to deliver; pricing; intellectual property
    - NIH; buy-in by people; corporate culture

Mergers and Acquisitions

- *Be open to merger and acquisition possibilities, but be particularly sensitive to the mesh of corporate cultures. (#60)*

Motivation

- The ultimate strategic alliance (best to precede with a strategic alliance)
- Economies of scale, power conferred by size
- Exit strategy for the founder, liquidity for all stakeholders
  - Options for entrepreneurial companies
    - Remain independent and grow "forever," probably going public to achieve liquidity
    - Go bankrupt (or wind down)
    - Merge or be acquired

Motivation (cont'd)

- Exit strategy and liquidity
  - First and third are respectable options
  - First option becoming harder and harder
- Also consider costs
  - Cost of doing it
  - Cost if it collapses before the altar!

Mergers

- Prerequisites
  - Complementary firms, often similar in size
  - Strong commitment on both sides
- Issues
  - Integrating management and staff, eliminating redundancies
  - "Merging" corporate cultures
- Example: Adobe-Aldus

Acquisitions

- Prerequisites
  - Usually firms of unequal size or power
  - Sometimes "voluntary," sometimes "forced"
- Issues
  - Friendly acquisitions vs. hostile takeovers
  - Integrating people, cutting "redundancies"
  - Instilling corporate culture

Examples of acquisitions

- IP Sharp — Reuters
- Dataline — large unnamed U.S. firm — "The right partner, but not the right people"
- Soma — Lotus — "Sold their soul"
- HCR — SCO
- Watcom — Powersoft, Delrina — Symantec
- SoftImage — Microsoft, Alias — SGI

Examples of acquisitions (cont'd)

- WordStar, Spinnaker, Learning Company, ... — Softkey Software Prod.
- Unix Systems Laboratories, WordPerfect, Borland's Quattro Pro business — Novell
- Ventura, WordPerfect — Corel
- Many VARs — Geac