

VIII. Partnerships

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

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Kinds of Partnerships

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

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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

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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"

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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

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"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

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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

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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

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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

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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

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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

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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."

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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)*

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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

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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

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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 |

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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)*

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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: Open Text's Latitude

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Kinds of strategic alliances

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

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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

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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

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Dangers

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

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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

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Mergers and Acquisitions

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

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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

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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!

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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

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Acquisitions

- Prerequisites
 - Usually firms of unequal size or power
- Issues
 - Friendly acquisitions versus hostile takeovers
 - Integrating people, eliminating redundancies
 - Instilling corporate culture

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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

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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

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