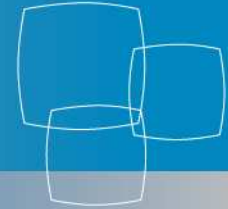




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Linkages Between Small and Large Firms



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Introduction

- **Aim**
 - To examine how small & large firms can work together for mutual advantage to aid entrepreneurial behaviour & innovation strategies
- **Importance of Alliances**
 - Number of alliances appear to be growing – possible 25% annual growth
 - Alliances associated with better performance in the literature
 - Examples of Phillips, LG Electronics and others
- **What are Strategic Alliances? Definitions & Scope**
- **Why Strategic Alliances (SA)? Theory and Results**
- **What Categories of SA are there? Framework & case studies**





Definitions

- **Entrepreneurship**
 - Actions by individuals/business owners who seek to generate value through creation or expansion of economic activity, identifying and exploiting new products, processes or markets (OECD/ICE)
- **Corporate Entrepreneurship (CE)**
 - Process by which firms innovate, form new businesses and transform themselves by changing the business domain (Teng 2007)
- **Strategic Alliances**
 - Interfirm cooperative arrangements that allow firms to temporarily seek resources from others for their own benefit (Teng 2007)





Large Firm Scope of CE (O'Connor & Hyland 2008)

	Inside Company	External to company
Ownership Investment	<p>Internal venturing (Spin-in): new ventures formed to incubate inside the company, projects that do not fit current business models or structures of the firm. Spin-ins are such ventures that are moved to an existing company division after incubation</p> <p>New business creation: A group formed inside a corporate R&D function or a division. The investment could be spun-in; spun-out; a separate business unit or licensed technology</p>	<p>Corporate venture capital: investment of corporate funds directly in external start-up companies (direct equity or limited partnership)</p> <p>Internal venturing (Spin-out): new ventures formed to incubate inside the company, projects that do not fit current business models or structures of the firm. Spin-outs stand alone businesses that are set up after incubation</p> <hr style="border-top: 1px dashed black;"/> <p>Open innovation: Joint ventures to form a new legal entity</p>
Non-equity Investments	<p>Intrapreneurship: independent entrepreneurial behaviour by individuals within an established company</p> <p>Institutional CE: innovation viewed as a critical organizational competence</p>	<p>External corporate incubators: incubators set up outside company</p> <p>Open innovation: use and distribution of external and internal ideas as well as external and internal paths to market. Includes in-licensing; strategic partnerships; competency based acquisitions; new organizational intermediaries; learning alliances</p>





Theory: Resource-based Theory of Firm

- **Most prevalent theory in SA literature**
- **Firms have key resources from which they can extract rents over extended period**
- **Resources: financial, organizational, technological, HR/critical competencies, managerial capacity**
- **Reason for rent extraction is that resources owned by a firm have distinct & superior attributes**
- **These resources are vital for meeting opportunities sought: entrepreneurship**





Resource Gaps

- **Pursuit of CE creates a resource gap**
 - Firms seek to stretch their resources as they search for new opportunities
 - Entrepreneurial firms therefore likely to experience shortage of key resources
- **Resource gap can be solved by**
 - 1) internal action
 - 2) spot transactions
 - 3) acquisitions or
 - 4) “temporary” partnerships with another firm that does possess missing resource(s): a strategic alliance
- **Strategic alliance is only one way of filling resource gap**
- **Strategic alliances thus a key facilitator of CE**





Resources Brought to Alliances

Small Firms		Large firms
Technological innovation		Large R&D budgets
Human resources Specialized skills		Financial (non-R&D)
Organizational Flexibility		Human resources Diversity of skills
Culture Uncertain rewards		Organizational Distribution channels Manufacturing facilities Marketing Routinized Procedures
		Management capacity
		Culture Established processes





Results from Literature

- **SA used to fill resource gaps (Brush & Chaganti; Zacharakis)**
- **Rapid growth firms use SA to deal with lack of managerial capacity (Barringer)**
- **Innovative firms more likely to form SA (Eisenhardt & Schoonhoven)**
- **Management experience important for successful SA (McGee)**
- **Positive aspects of SA stronger for small firms in unstable environments (Sarkar)**
- **Advantage of SA hinges on resource characteristics (Teng)**
- **55 percent of SAs “fail” within three years (Segil)**





Resource Attributes That Confer Advantage

- **Heterogeneity**
 - Having differentiated & superior resources increases the value of a partner: complementary not supplementary resources between partners' increases success of SA
- **Low Imitation/Substitution**
 - Low resource imitation/substitution increases their value; SA success where there is a strong first mover advantage; the benefit from low imitable resources
- **Non Tradable**
 - Low resource mobility means relation-specific assets; presence of these increase success of SA
- **Retained Net Future Benefits**
 - Success of SA more likely if future benefits of SA still outweigh the costs of acquiring strategic resources; potential benefits from superior resources are NOT absorbed during the bidding process; e.g. knowledge based (tacit knowledge); property based resources;. “you still have something to share/offer in the future”





Specific Alliances on Innovation

- **Innovation**
 - perceived as most important aspect of CE
 - has low success rate/ high risk (Teece)
- **R&D alliance is an SA for innovation**
 - Mainly intangible resources contributed
 - Challenge is exposure of knowledge vs. protection of distinctive competencies
- **Joint ventures: a separate entity**
 - Less knowledge exposure but uneven financial clout
- **Learning alliances: learning from each other's knowledge base**
 - Access to knowledge may be limited





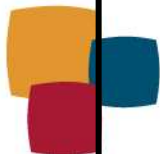
Framework for Case Studies

- **Objective**
 - To develop rigorous case studies on small and large firm alliances and the role of these alliances in entrepreneurship and innovation.
- **Scope**
 - SA between small firm and large
 - Activities that lead to growth of new ideas & competencies
 - Case Studies: limited information from Innovation Surveys
- **Literature suggests information needs**
 - Tombstone company data: (sales, industry, emp. etc.)
 - Initiation of SA
 - Objectives of the SA
 - Experience and History of Firms in SA
 - Source of strategic/superior resources
 - Specific Arrangements





Industries	Arrangements	Goals of SA	Performance
<p>Biotechnology Aerospace Pulp & paper; Computers/ electronics seem to have high cooperative agreements</p> <p>Do we seek only these sectors?</p>	Joint Ventures	Small firm Financing Protection of IP	SA Success in terms of i) objectives e.g. what was new; ii) managers’ expectations
	R&D Alliances	International/ export expansion	
	Learning Alliances	Meeting a market need Credibility Risk reduction	
	Others?	Large Firm Develop new products quickly Knowledge of market trends Manage risk Tax advantage	Failure not always a “bad”





Next steps

- **Incorporation of members' comments**
- **Refinement of framework**
- **Development of a questionnaire**
- **Identification of case studies in each ICE country that wishes to participate, according to the agreed criteria**



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