SEPARATE OR INTEGRATE THAT IS THE QUESTION

ONE OF THE OBJECTIVES OF IMPLEMENTING AN INNOVATION OR CORPORATE VENTURING PROCESS IS TO GENERATE NEW BUSINESS OPPORTUNITIES AND POTENTIALLY NEW BUSINESSES. ONE FOCAL POINT IN THIS IS THE ISSUE OF WHERE TO PLACE A DEVELOPMENT PROJECT: WITHIN OR OUTSIDE THE PARENT COMPANY.

The most basic question a parent company can ask itself to find guidance is: is the venture an extension of our existing operations or a completely new business? Depending on the answer and the decision the parent makes, the venture will be linked at various degrees to internal and external counterparts. Therefore, the issue is a question of internal and external embeddedness.

The issue of internal and external embeddedness has to be carefully analyzed.

The concept of embeddedness deals with issues such as strategic fit, dependencies and autonomy. One analysis that can guide this strategic issue deals with the strategic importance and strategic alignment of the venture in relationship to the parent. Another is to analyze the resource and function configuration of the venture and determine if there are crucial resource links or functional ties between the parent and the venture. Such links can become barriers to venture autonomy.

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The question of integration versus separation is also a question of future exit opportunities.

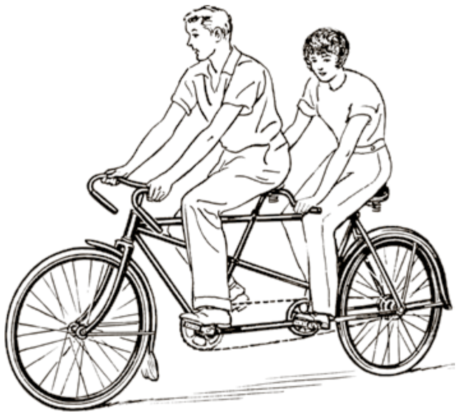
If the venture lies outside the strategic domain of the parent company, the parent may seek an exit. Exits are made so the parent capitalizes on its ownership in a venture. Examples of exits are trade sales, IPOs, and MBOs, all of which have different implications on the parent and venture in terms of legal and financial issues.

Companies have a number of ownership constructs to choose from.

The ownership construct is to a large extent a strategic issue, but also a question of how to finance the venture. In cases were the parent is unwilling or unable to finance the project, third party financing can be an option. For example, the spin-out strategy is a strategy in which a company develops businesses based on its non-core emerging technologies and sells minority stakes to public investors. The venture-capitalized spin-outs remain within the corporate orbit or structure. As such the ownership construct enables hierarchical authority in coexistence with venture autonomy.

In the end, the answer to the question on integration versus separation is company specific. In order to successfully take advantage of any strategic route, the parent company must carefully craft its strategy. This paper has put forth a few examples of considerations that must be regarded and analyses that can be made. However, it does not claim to be all encompassing.

If you want to know more about how you should choose to integrate or separate your ventures, please contact us.



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