Start-up Innovation: Who Else Shares Your Partner’s Bed?

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Strategic partnerships can be essential to a start-up’s innovation output. But are your partner’s other alliances affecting the value you get out of the relationship?

A new company’s performance is often judged by its innovation outputs. The greater the output the greater the competitive advantage it will have in the marketplace, and the more likely it is to attract the financing and resources necessary to survive. Gaining access to diverse sets of knowledge and recombining this knowledge in new and interesting ways are key drivers of innovation output, particularly for early stage start-ups. Forming strategic alliances is an important route to accessing these knowledge-based resources.

But a strong partner for your company is often a good fit for your company’s competitors as well. It’s generally the case that when it comes to young businesses the more like-minded companies there are working in close proximity with one another, the more innovative and productive they are likely to be, but what is often overlooked is the competition that arises when these companies compete for the attention and resources of a shared alliance partner.

Although the value your company might achieve when it comes to a future M&A or IPO might be higher with a more connected alliance partner, when it comes to relationships where deeper, ongoing interactions are necessary – like R&D alliances – the “non-scale free” nature of your partners’ resources could mean that you end up fighting for your partner’s time and attention.

When it comes to the knowledge production process, valuable innovation outcomes are more likely to arise when your partner can devote a larger share of mind to your relationship.

My recent study **Alliance Portfolios and Resource Competition: How a Firm’s Partners’ Partners Influence the Benefits of Collaboration**, looked at 281 fledgling venture capital-backed biotech companies and found that when a start-up’s R&D alliance partners had a higher share of R&D alliances in their portfolios, together with a greater overlap in the R&D function between their own relationship and that of their partners’ partners, then access to shared resources was diminished, innovation output was lower, and the benefits for the start-up of collaborating with the partner were thus significantly reduced.

But not all alliances will have this effect. The study also found that when start-up firms in the sample could draw on a larger pre-existing knowledge base, thereby capturing a higher share of the knowledge spillovers that occurred through ongoing interactions between themselves and their partners, the downsides of any R&D alliance overlap were diminished. In addition, a higher level of functional overlap between a firm’s alliances and those of its partners were found to be beneficial in boosting the firm’s legitimacy and enhancing its value when it became time to exit, particularly when the alliances in question were marketing-oriented.

It’s a complicated scenario, but one that highlights the importance of knowing who else shares your partner’s ‘bed’, what their relationship involves, what resources they need, and how much attention they are receiving from the alliance. It also highlights the need for companies to ensure that they are more attractive to the shared partner. If resources are constrained, then it is the start-up with the larger knowledge base and the mechanisms to codify incoming knowledge and put it to productive use that will be more likely to attract the shared partner’s attention and resources.

Strategic partnerships are essential to innovation, but scrutinising a potential partner’s resource portfolio is not enough. The nature of those resources is conditioned by the characteristics of the potential partner’s other relationships. It’s important to think about how they have configured these relationships and the number of other partners who will be competing for their non-scale free resources.

Before entering into alliances start-ups should identify what their objectives for the relationship are, what resources and space will be allocated to them, and how much time and attention the strategic partner is able and willing to give. Not taking these issues into account can affect the future innovation prospects of your company.

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