

Farrell Center for Corporate Innovation and Entrepreneurship

SMEAL COLLEGE OF BUSINESS, PENN STATE.

Research Note

Topic: Maximizing the benefit from technology-based acquisitions.

Summary:

Many larger corporations have added an acquisition strategy to supplement their own R&D to ensure a pipeline of continuing innovations. However, the integration of the smaller firm within a culture that is very different and often antithetical can limit the actual benefits from the acquisition.

A recent research paper¹ explores the dilemma faced by the management of larger companies acquiring small high-tech firms for their innovation and technology development prowess. On the one hand, the acquisition can retain a high-level of autonomy which promotes a continued high level of innovation coupled with a heightened ability to retain key technical contributors. Alternatively, close integration into the organizational structure of the acquirer provides access to scaled-up commercialization resources not normally found in a small firm.

By examining new product launches by acquired companies over a significant time period, the authors reach the following conclusions:

- If the acquired company has not yet launched its first product (i.e. it is still in the exploratory stage of innovation), performance is better if autonomy is retained.
- Structural integration however, improves innovation outcomes if the acquired firm has reached the exploitation phase of its innovation path., i.e. it has already launched one or more products into the market.
- In either case, immediate integration slows the innovation output of the acquired firm but improves the longer term innovation output.
- Gradual integration is not recommended.

Of course, innovation is a continuing process and the authors therefore recommend that the key to minimizing disruptions stemming from integration is *not* to integrate gradually *per se*, but to avoid the transition from autonomy to integration during the most exploration-intensive phases in a sequence of innovations.

¹ “Organizing for Innovation: Managing the Coordination-Autonomy Dilemma in Technology Acquisitions”, Puranam P., Singh H., & Zollo M.; AoM Jnl. 2006, Vol. 49, No. 2, 263-280

Implications: The results provide valuable guidance for larger firms in the acquisition mode for technology rich companies. Specifically:

- The acquirer must understand where the target is in the innovation path so that the optimum structure can be designed and implemented.
- The change from autonomy to integration should be made at an appropriate time and then executed promptly
- Acquisitions should be targeted partly on their fit to the integrative culture of the acquirer.
- Timing in the innovation cycle can be critical for success.

The importance of timing and maturity is succinctly illustrated by a quote from a Cisco Manager in Fortune Magazine – “....one sweet spot in the development of a start-up is when it is old enough to have a finished and tested product, yet young enough to be privately held and flexible in its ways”.

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For further information on this topic please contact or other questions regarding corporate innovation research please contact:

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