

MASTER

Partner selection in a corporate venture context

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Eindhoven, February 2008

**Partner selection in a corporate
venture context**

by

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in partial fulfilment of the requirements for the degree of

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in Innovation Management**

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Sjoerd Renirie
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Abstract

The aim of this Master Thesis project was to provide one of the ventures within the Philips Lifestyle incubator with a partner selection toolbox for ventures. While in need for partners no structured approach towards selection of those partners was available for ventures within Philips. Although a corporate partner selection tool exists it is considered too elaborate and it would take too much time for ventures to apply this tool. Current literature on partner selection is also applied to a corporate context, and therefore differences between corporate partner selection and partner selection for ventures were proposed. The proposed differences were discussed with corporate venture managers using interviews, which led to an adapted partner selection model for ventures which is accordingly turned into a partner selection toolbox. This research is one of the first attempts to apply partner selection to a corporate venture context.

Executive Summary

Large corporations use corporate venturing to keep up with current developments and be ahead of competition. Philips has chosen the road of incubation for its corporate venturing initiative, where corporate entrepreneurs with a good business idea are provided with an opportunity to create their own business with support of the larger parent organization. The corporate ventures pass through different stages from idea to business, at the seed stage the business model is finalized and the need for partners appears. Although the ventures can leverage the parents' resources, not all needs of the venture can be satisfied by the parent organization and the ventures need to go outside of the organization's boundaries to satisfy their needs. This is the point where partners come in for the ventures. Although a corporate partner selection tool is available it is considered too elaborate and it would take too much time to fill in, time which ventures do not have. One of the ventures of the Lifestyle Incubator, New Wellness Solutions (NWS), expressed the need for such a structured approach towards partner selection. The aim of this research is to provide NWS with such structured approach to partner selection by means of a partner selection tool.

In the review of the literature on partnering and partner selection it became clear that partnering and to an even lesser degree partner selection in a corporate venturing context has not yet been a topic of research. Current literature is focused on the corporate application of partnering and partner selection. The current available literature on partnering and partner selection is used to construct a theoretical model (see Figure 1) for partner selection, based on the 'fit' framework.

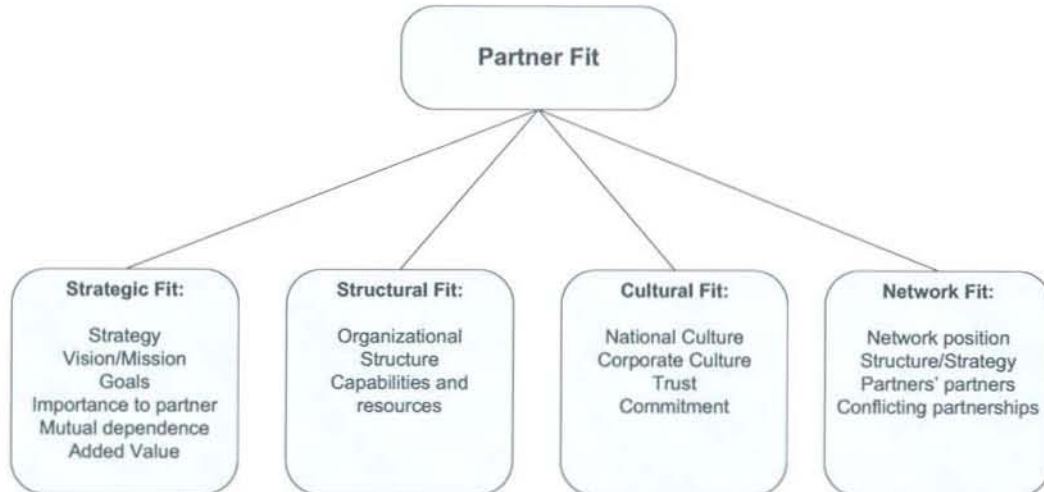


Figure 1: Theoretical model

The fit framework as described in literature provides four fit categories which consist of selection criteria that have to be taken into account when selecting partners. Not taking into account certain criteria can provide a serious risk for continuation of a partnership once established or even a possible source of partnership failure.

The strategic fit category contains criteria that determine the potential of the partnership. The structural fit category presents the current feasibility of the partnership. The cultural fit category provides an indication of the workability of the partnership once it is established.

The network fit category presents the fit of the partner within the network of the venture and the venture in the partners' network.

To arrive at a partner selection model that can be applied by ventures differences between partner selection by corporations and partner selection by ventures are proposed. Partner selection by ventures is proposed to differentiate on fit category level in importance and the sequence in which they are used; on criteria level the interpretation can be a differentiating factor. To validate the theoretical model and the proposed differences general managers of corporate ventures who are currently in the seed phase were interviewed. These managers are familiar with the corporate venturing context and have partner selection experience in this context so were able to answer the interview questions.

The results indicate that the fit categories indeed differ in importance for ventures. Strategic fit, structural fit and cultural fit are applicable for a venture context. However network fit is not explicitly considered by venture managers, not to say that the network fit criteria are not important to consider they are less applicable due to the small size of the venture and possibly its partner. Next to importance differences in fit categories there is a particular sequence in which fit categories are applied when selecting partners. First strategic fit is considered together with structural fit and network fit criteria to establish a strategic rationale for the partnership. Second, after a strategic rationale has been established, the workability of the partnership is analyzed by taking into account cultural fit.

Also on criteria level the results indicate a difference in interpretation of selection criteria by the ventures or even the applicability of some of these criteria. The structural fit criterion organizational structure and the network fit criterion structure/strategy, which states that the network structure should fit its strategic purpose, are not found applicable for ventures. Organizational structure is not applicable to venture partner selection because of the small size of the venture and possibly its partner. Organizational structure was also interpreted as the structure of the partnership, which is determined after partner selection, so again not applicable during partner selection. Structure/strategy is not applicable because of the small size of the ventures network and possibly the network of its partner. These small networks are not likely to be structured to fit a certain strategy. Ventures also expressed a preference for a certain level on some of the fit categories described above as the difference in interpretation. The strategic fit criterion mutual dependence is acknowledged by venture managers to be applicable to partner selection by ventures. However when asked to express the level of dependence on the partner most venture managers expressed a preference for low dependency, from their side and that of the partner. So mutual independence if you like. The reason for this level of dependency is the uncertainty of the ventures situation and the preference of venture managers to remain flexible in their actions. When assessing the structural fit criterion capabilities and resources during partner selection venture managers look only at the complementarity of those resources and are not concerned with the efficiency of those resources. Efficiency is of later concern after the partnership is established. Next to the complementarity of capabilities and resources also the complementarity of the partners' value chain is of importance to venture managers when selecting partners. The last criterion for which corporate venture managers expressed their preference is the corporate culture of the partner. Partners can be large and small as long as they have an entrepreneurial culture. The differences on selection criteria are reflected back on the main differences (flexibility, business orientation, and time) between corporate ventures and corporations. Flexibility determines the level of dependence and preference of corporate culture.

Business orientation determines the need for an organizational structure, focus on specific resources, and corporate culture. The aspect of time determines the use of a particular sequence of partner selection categories, and the preference for a corporate culture. As can be deduced from above is the importance of corporate culture in the main differences between a corporate venture and corporations.

The results on partner selection acknowledge the need for a structured approach to partner selection. Currently ventures use an ad hoc approach towards partner selection. Using the results of this research the theoretical model presented above is adapted to be used as a base for the partner selection tool. The implications of the results are the deletion of organizational structure and structure/strategy from the model. Strategy, and vision and mission are merged because they are often considered together. The preferred level of the criteria indicated as a difference in interpretation is used in the partner selection tool to form the questions which ask for the level of importance of that criterion. The results on the sequence in which venture managers consider fit categories are used to specify the two phases of partner selection as shown below in Table 1.

Table 1: Adapted model criteria

First set of criteria (long-list)	Second set of criteria (short-list)
Strategy, vision, mission	National culture
Goals	Corporate culture
Importance of partnership to partner	Trust
Mutual dependence	Commitment
Added value	Network position
Capabilities and resources	Conflicting partnerships
Partners' partners	

The two columns represent the two phases in which partner selection happens. First using desk research a long-list of partners is collected. Using the first set of criteria (strategic fit, structural fit and network fit) the strategic rationale of the partnership is determined. The best ranking partners of the long-list are made into a short-list. The short-list partners are contacted for initial partnering discussions. With the information of the discussions the short-list partners are evaluated using the second set of criteria (cultural and network) to assess the workability of the partnership. The highest ranking short-list partner should be considered the preferred partner.

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1 Introduction

Due to the shorter time to market and increased competitiveness of the global markets companies cannot keep up with competition using in-house development only. They have to take other measures to carry on with high pace of development in the high-tech industry to reap benefits of their discoveries. Companies can do this by not restricting their view to the boundaries set by the corporation but break out of these boundaries and make use of the resources of other companies. The open innovation theory as proposed by Chesbrough (2003) can do just that.

Large corporations, like Philips, can implement this open innovation theory by using corporate venturing to keep up with developments in their field, or even be ahead of competition. Corporate venturing can be done internally in the incumbent firm or externally to the organization in an external or independent venture. Reason for this external approach is often the rigidity of the parent organization that inhibits proper development of the venture. However, there is also an internal approach that combines the independence of an external venture with the use of resources of the parent organization, called incubation (Philips Intranet, 2007). Philips has chosen to take this incubation approach to corporate venturing. Corporate entrepreneurs with a good business idea are provided with the opportunity to create their own business, within the incubator, with support of the parent organization. The ventures go through several stages to become a mature business and are assessed using a stage-gate process. After being developed to a sufficient level the decision is made to spin the venture into the Philips Corporation and develop it further into a standard business unit or it can be spun-off to go on its own when it does not fit with the strategy of Philips anymore.

A venture will try to leverage as much resources of the parent organization as possible but specific resources might not be available in the parent organization. Because of limited time and resources the venture has to look outside its and its parents' boundaries and consider using resources of others to build its product and bring it to the market. These resources can reside in partners that are in the same value chain as the venture or in adjacent value chains. The subject of this research is the selection of those partners.

The current focus of literature on partnerships is on the management of this relationship and factors that lead to successful cooperation. Partner selection, based on compatibility between the partners, is considered a traditional field of research according to De Man (2005). However, literature on this subject has been applied to mature companies, not ventures. In a review of the literature only one attempt was found which applied partner selection literature to a corporate new venture (Varis et al., 2005).

This research aims to apply current literature to a venture context and reflect the findings back to current literature. This reflection closes the gap between literature that is focused on corporate partner selection and the need of managers to select partners in the venture stage of the business.

One of the ventures in the Philips Lifestyle incubator, New Wellness Solutions (hereafter called NWS) is in need of partners but no structured approach towards the selection of those partners is available for the Incubator environment. NWS is searching complementary partners to develop their solution (horizontal partnership) and partners to act as marketing and sales channel (vertical partnership).

The objective of this research project is to provide NWS with a partner selection tool that can be used to assess the partners it has identified.

To reach the objective of this research the central research question, in line with the exploratory nature of this research, is: **How do corporate ventures select partners, and how do they differentiate from corporations?** This research question consists of two parts. First, the more general question on partner selection as a corporate venture, because literature on partnering and partner selection as a corporate venture is limited. Second, because information about partnering and partner selection is only available on a corporate context and not on a corporate venture context, differences between both contexts are proposed to come to a partner selection approach applicable for a corporate venture context.

Using current literature on partnering and partner selection a theoretical model is build that is applicable for corporate partner selection. Accordingly the differences between partner selection in corporations and as a venture are proposed. Using interviews these proposed differences are tested, which in turn leads to the difference in partner selection between corporations and ventures. The results of the interviews are reflected back on current literature and the theoretical model of the corporate partner selection tool is adapted for use as a venture partner selection tool. This research is conducted from September 2007 till the end of January 2008.

This thesis report is structured as follows. First, the current literature on partnerships and partner selection is reviewed. Special attention is paid to literature that uses the concepts in the context of a venture. From the literature a theoretical model is constructed. Second, possible differences between partner selection as a venture and as a corporation are discussed, which lead to proposed differences. Third, the methodology which is used to arrive at a partnering model for ventures is discussed. Fourth, the results of the interviews are presented. Fifth, the results of the interviews are reflected back on current literature and the impact for a partner selection tool are discussed. Finally, conclusions are drawn on partner selection as a venture.

2 Literature Review

Although cooperation between organizations in the form of partnerships is commonly used by companies a clear definition of the term strategic partnerships is hard to establish because the concept is broad. The array of agreement types that are characterizing strategic partnerships range from subcontracting and licensing via strategic alliances and joint ventures towards alliance networks and mergers and acquisitions (Segers, 1993). These agreement types are considered governance modes. When investigating the possibilities for partners the governance mode used is not yet an issue therefore the whole spectrum is represented in this research by strategic partnerships. In case of partnerships for ventures alliances are expected to be the main form of governance mode used eventually. Alliances range from non-equity contractual agreements to joint ventures. However non-equity contractual agreements are expected to be mostly used by ventures because of the low interdependence when using this governance mode.

In their review of the literature on alliance management Spekman et al. (1998) looked at the research that was done until then and to directions of future research. The authors found that up till then research was focused on the rationale for alliances, how alliances should be formed, how they create value for the organizations involved, the importance of informal contact for the relationship, and sources of tension in the partnership. The forming of these partnerships is the topic of this research. Sources of tension are risks for the continuation of the partnership and can lead to partnership failure if not taken into account. The failure rate of alliances is between 50-60% (Duysters et al., 1999). By taking into account the risks to a partnership as early as possible by investigating risk factors when selecting partners the failure rate of partnerships could be reduced.

More recent research on alliance management is focused on a whole life-cycle of an alliance from formation to termination and the management in between. This management and the importance in a dedicated alliance management function is currently a popular research topic (Spekman et al., 1998). Because the life-cycle of an alliance includes the formation and thus partner selection this research is also considered in this literature review. This literature review will shortly address past partnership research and continue towards the different types of partnerships and how partnerships relate to ventures. Next, partner selection literature is reviewed which is accordingly used to construct a theoretical model.

2.1 Partnerships

2.1.1 Trends in partnering

The first trend in partnering that can be recognized is the increased number of collaborations between companies. Companies focus on their core competences and use partners for non-core activities. The activities for which partners were initially used consist mostly of manufacturing and supplying, but also for research and development partners were used. The second trend is the increased number of partnerships in the direction of the market in the form of distribution partners. Because markets are dynamic, especially in the high-tech sector, market uncertainty increases. This uncertainty led to the third trend of more flexible forms of alliances in relation to the more dependent forms (Duysters et al., 1999). Related to this trend is the decrease in use of equity and the increase of non-equity arrangements.

The increase of market uncertainty also leads to the use of multiple partners for the same purpose, which creates the need to manage these partnerships by forming a network of partners. This trend towards networks is the fourth trend of partnering (De Man, 2004).

Within these networks partners used to share mostly tangible resources. Due to the knowledge economy the fifth trend is the increase of partnerships that are created to share intangible resources and skills (De Man, 2004).

2.1.2 Rationale for partnering

Reasons for partnering should be based on strategic efforts and are used to cope with uncertainty (Spekman et al., 1998). The main reason, for firms to undertake partnerships, is “to gain access to resources and skills in a timely, more cost-efficient manner” (Mohr et al., 2004, p. 86). Another reason that is important particularly for technology firms is to define standards for new technologies. The value of the product increases with the use of a common standard by different companies because a standard reduces customer fear, uncertainty and doubt about the technology. Partners can also provide access to other markets and business networks (Mohr et al., 2004). The reasons mentioned above can be seen as offensive reasons because they are tailored toward improvement of the current position of the firm. Reasons can be defensive and tailored toward strengthening the current position of the form e.g. sharing financial risk or gaining economies of scale (Lorange and Roos, 1993; in Spekman et al., 1998).

Another reason to establish a partnership can be learning (Hamel, 1991), this is the reason for partnerships who aim to acquire skills and expertise that are largely tacit and cannot be objectified to be transferred between partners in a regular way.

2.1.3 Risks of partnering

Although partnering can provide large benefits to a firm, the risks associated with teaming up with a partner should not be overlooked (Mohr et al., 2004). If these risks are not taken into account they might disrupt the relationship or even lead to the failure of the partnership. When working together to achieve jointly set goals for a partnership each partner must give up some of its autonomy and control over current and future events. Another issue is the loss of trade secrets. Although information will have to be shared between the partners one must be aware not to lose its competitive advantage. Partnerships between large firms have risk of running into legal and anti-trust issues because their corporation can lead to less competition in the market, which is bad for the customers buying power. The largest risk for partnerships is that one of the partners cannot achieve the objectives that were set at the beginning of the partnership (Mohr et al., 2004). This largest risk almost always ends in the failure of the partnership of which the reasons are presented below. When learning is the main reason for partnering risk exist that one partner learns faster than the other and opportunistic behavior like learning races occur (Hamel, 1991; in Spekman et al., 1998).

2.1.4 Sources for partnership failure

In his review of the literature on the reasons of these high failure rates Duysters et al. (1999) found that the most important reasons for alliance failure are related to; incompatibility or divergence of goal and strategy; selection of the wrong partner and improper management of the partnership; partnerships between a strong and a weak company with the risk of opportunistic behavior of the strong partner and partnerships between weak partners who together cannot reach the objectives that they set at the beginning of the partnership;

absence of trust; and non-cooperative cultures. In a later literature review by Ireland et al. (2002) these sources of failure were confirmed.

In line with recent directions of research that investigate the whole life-cycle of a partnership from formation to termination Wildeman (1998) investigated the change of management attention during the selection, management and disbandment stages. He concluded that the factors (complementarity, chemistry, culture and commitment) that are taken into account during the selection and management stages are less reason for partnership termination than factors taken into account to a lesser degree. From this research can be concluded that taking into account failure factors for partnerships as early as possible (partner selection) and keep monitoring them during the partnership leads to less partnership terminations due to failure.

2.1.5 Characteristics of partnership success

According to current research in the field of partnering, alliance success is determined by the way the relationship is managed. Characteristics that can increase the success of a partnership are interdependence, an appropriate governance structure, effective communication, commitment towards each other, trust between partners and cooperative corporate culture (Mohr et al., 2004). Some of these management characteristics that seem to determine alliance success can already be evaluated during partner selection e.g. interdependence, commitment, trust and corporate culture. Interdependence can be evaluated by the level at which risk and rewards are shared. Commitment can be evaluated by the contribution the partner is willing to make to the partnership. Trust is a necessity in a partnership because it leads to information sharing, willingness to commit resources and the sense of mutual benefit. The existence of trust cannot be objectively measured, only the result that it produces can indicate that trust is present. Finally corporate culture determines the ease of working together. For example if one firm is innovative and the partner is conservative on its developments it will be hard to work together (Mohr et al., 2004). Partner selection is not a success factor in itself but facilitates the prevention of failure by taking into account known reasons for failure.

2.1.6 Types of partnerships

Partnerships can be established in any direction of the firms' environment. Most of those partnerships will fall in one of the two major categories; horizontal partnerships and vertical partnerships (Mohr et al., 2004). Figure 2 provides an overview of possible partnership directions (Hamel, 1991; Inkpen et al., 1997; adjusted by Mohr et al., 2004).

Vertical partnerships are formed with members of the value chain and are used to increase the efficiency of the supply chain and provide access to the market. The market can be accessed directly by the firm itself or indirectly by e.g. partners in the distribution like brokers and value-added resellers (VARs) (Mohr et al., 2004).

A more common type of partnership for high-tech firms are the horizontal partnerships, which are at the same level of the value chain. The partnerships with complementors are used to combine the strengths of both partners and deliver a complete solution to the customer. Partnerships with competitors are formed mostly to counter a larger competitor of both partners or to establish a standard (Mohr et al., 2004).

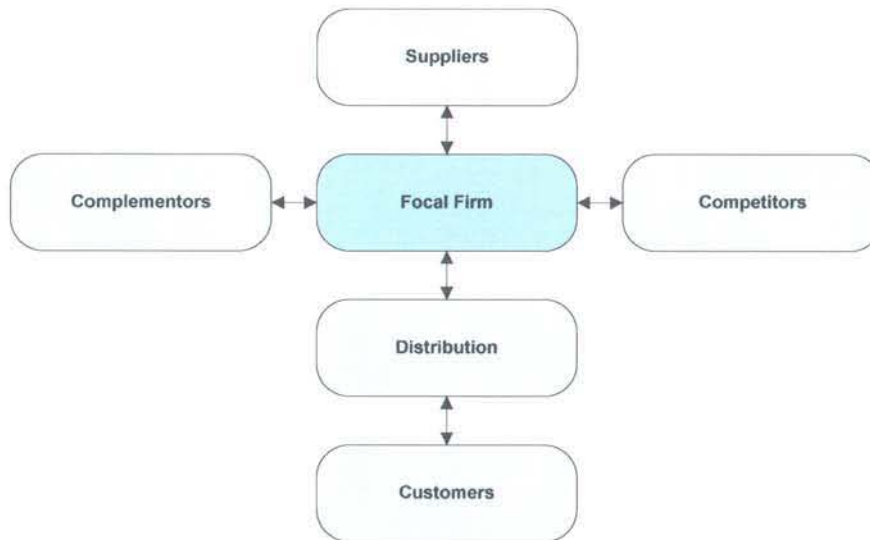


Figure 2: Directions of partnerships (Source: Mohr et al., 2004)

2.1.7 Partnering as a corporate venture

Corporate ventures are entrepreneurial firms situated in a larger corporate environment and are used by its parent to develop a product, technology, or solution which can eventually be spun in the parents line of business as an addition to the current products, technologies and solutions of the parent, or spun off into an external or independent venture when fit with the parents strategy is low. The idea behind corporate venturing is to allow corporate entrepreneurs to build a business based on an idea, which can originate from inside and outside the company, without being hindered by the structure and regulations that are used in the parent firm. Corporate ventures have to build a business with limited time and resources. Because they are in this vulnerable strategic position ventures in their emergent stages are likely to form alliances (Eisenhardt and Schoonhoven, 1996).

Partnerships by ventures are undertaken essentially for three reasons: resources and skills; market access and establishing standards. Because corporate ventures can leverage their parent, partnerships as a corporate venture are likely to differ from corporations and independent ventures (Shrader and Simon, 1997).

Corporate ventures in contrast to independent ventures have fewer problems with limited resources. The independent venture is more likely to use partners to substitute for internal resource deficiencies. A corporate venture uses this reasoning only if the parent company does not have the resources present. When a firm lacks assets that a partner can provide a venture should consider an alliance (Dorf and Byers, 2007). One of the resources a partner can provide is capital. However in case of a corporate venture, capital is provided by the parent firm and is less likely to be a reason for partnering (Shrader and Simon, 1997). Partnerships for resources and skills are most likely to be established with complementors or competitors. A corporate venture can use the value chain of the parent company (Shrader and Simon, 1997) but should make sure that they do not interfere with the parents business. It is again possible that the parent does not have a presence in the ventures market or does approach the market another way and therefore cannot provide a market platform for the venture.

One of the considerations in marketing is branding, an independent venture can partner with an established brand to increase its market credibility. A corporate venture however can use the brand of its parent and is not likely to partner for this reason (Shrader and Simon, 1997). However if a parent does not have brand and reputation credibility in a market, partnerships with companies that do should be considered.

Partnerships for marketing are most likely created with distributors or directly with customers. Partnerships for an industry standard are established during early stages of the life cycle with competitors (Mohr et al., 2004). Because corporate ventures are businesses in their early life cycle this also applies to them, the presence of a parent company is not likely to provide any benefits for establishing an industry standard.

Wildeman (1998) investigated the formation of alliances at different stages of the product life-cycle. The author found that early in the product life-cycle R&D alliances are formed. During the maturation of the product a shift will take place from performance improvement towards cost reduction hence efficiency. For partners this means that when performance improvement is the goal in the start-up phase, alliances should be created with multiple firms with complementary skills to reduce uncertainty. Next when the shift starts towards efficiency these relationships are strengthened to reach the efficiency goals. Finally non-core competences are outsourced to other parties who can do it more cost effectively by economies of scale. In the typology of the type of partnership this means that in the early stages horizontal alliances are the preferred option and towards maturation the type of alliances shift towards vertical, mainly supply side, alliances. It should be noted that for the high-technology sector this life-cycle is short and both performance improvement and cost reduction happen simultaneously (Wildeman, 1998).

2.2 Partner selection

In their review of literature on alliance management Spekman et al. (1998) found that marketing literature approaches the topic of alliance formation differently than management and strategy literature. Marketing literature focuses on processes that precede alliance formation with a micro perspective on the level of selection criteria that are used for partner selection. The management and strategy literature focuses on the actual establishment of a partnership and the steps that have to be taken to reach that goal, including partner selection.

Because this research aims to produce a pragmatic partner selection model the former research direction is used to come up with a partner selection framework. A partner selection framework which is often used in (marketing) literature is the 'fit' framework. The fit framework uses a categorization of the different types of fit that can be present between partners. Literature that discusses the fit framework or part of it is used as a base for the theoretical model. Partner selection is part of establishing a partnership, as described in management and strategy literature, and therefore first the complete partnering process is discussed.

2.2.1 Establishing a partnership

Literature on the establishment of a partnership (e.g. Bronder and Pritzl, 1992; Marxt and Link, 2002) essentially uses a five phased process.

In the first phase a strategic decision has to be made to start cooperation's with other companies. This decision should be based on the current situation of the company, its business model and its value chain. Based on this internal assessment the direction in which partnerships are needed can be assessed. The second phase consists of the actual partner selection which is the topic of this research. This phase itself can be divided into separate parts.

First, an idealized partner profile has to be prepared to act as a reference point when actually evaluating possible partners. Second, a list of possible partners, in the direction identified in the first phase, is drawn up. Third, the list of possible partners is evaluated on fit criteria in comparison with the idealized partner profile and the other possible partners. Fourth, a shorter list of most suitable partners is contacted for partner discussions on possible cooperation.

The third phase in establishing a partnership is the setup of the partnership by negotiating the terms of the partnership agreement and a choice is made which governance mode to use. The fourth phase is the management of the partnership for the duration that is specified in the setup phase. This fourth phase is the topic of current research on alliance management, because the success of the partnership is largely determined by how the relationship is managed. The fifth and last phase of establishing a partnership is the termination and evaluation of the partnership. With termination is not meant failure, because most partnerships are for a limited amount of time termination will come eventually. Evaluating the partnership from start till finish allows for best practice learning so mistakes made during the partnerships are not made again in the future. Figure3 provides a graphical presentation of the phases a company has to go through towards a partnership.

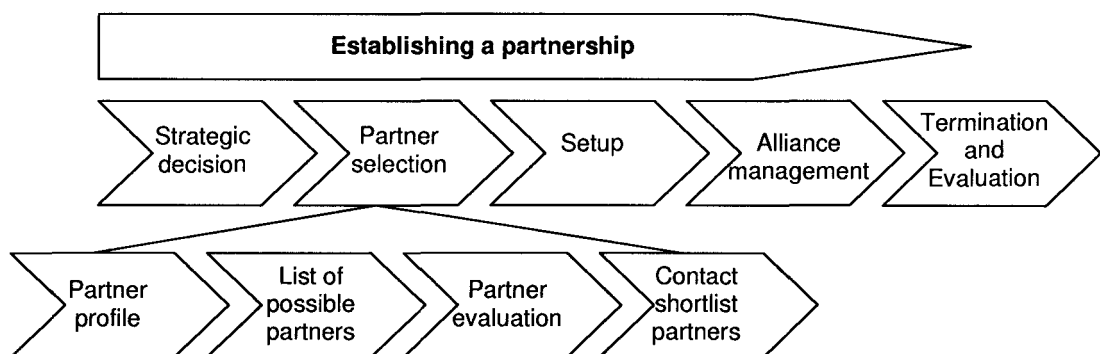


Figure 3: Phases towards a partnership

2.2.2 Fit framework

The literature on fit framework uses four categories in which partner selection criteria can be placed: strategic fit, structural fit, cultural fit, and network fit. The articles that use these fit categories, or criteria that fit into these categories, are placed into their respective columns in Table 2. The categories are described below separately, for specific criteria additional literature is used.

Strategic fit

Strategic fit can be seen as the potential of the partnership (Douma et al., 2000). The drivers of strategic fit are: shared strategic vision, compatible corporate strategies, importance of alliance for partners, mutual dependency, added value of joint activities, and market acceptance (Douma et al., 2000). The drivers of strategic fit are summarized in Table 3.

As defined by Douma et al. (2000) strategic fit determines the potential or possible future performance of a partnership. This indicates that assessment of a partner should not only look at the short-term but also to the long-term. A firm should also consider the possible influence of the prospective partner on future business (Medcof, 1997). The choice of establishing a partnership should be based on the strategic rationale of both the company and the partner. A possible partner should fit the strategy of the company, which not means the rationale has to be the same but they should be compatible (Medcof, 1997; Marxt and Link, 2002). A shared vision for the future of the partnership is an incentive for both partners to resolve issues along the way. Partners should recognize that the strategy for the partnership might not be completely in line with the strategy of the partners (Douma et al., 2000). A good strategic fit is needed to reach the strategic business objectives that are set by the firms involved.

Understanding of each others wants and needs is of high importance in this respect (Medcof, 1997). Goal assessment is important for partner selection. Both firms should evaluate each other's goals and avoid ambiguity in those goals. The goals should be in line with the goals of the alliance and the firms involved (Bronder and Pritzl, 1992; Brouthers et al., 1995; Marxt and Link, 2002).

Commensurate levels of risk are needed for the firms involved in the partnership to stay together. Although risks are shared by a partnership, competitive risk might appear when establishing a partnership. Therefore one should always evaluate the importance of the alliance for the other party, verifying their commitment and avoiding opportunistic behavior (Brouthers et al, 1995). This type of commitment can be called pragmatic commitment, which is the strategic importance for the partner (Medcof, 1997). Cooperation between different companies means making resources available for this cooperation, which is only done if the partnership is of strategic importance to a partner (Douma et al, 2000). This strategic fit criterion is closely related to the cultural fit criterion commitment, which is the willingness to make resources available (Medcof, 1997).

Both partners should be mutually dependent on each other in reaching the goal set for the partnership. Mutual dependency can be seen as the level of complementary resources each partner brings to the partnership. This way it is ensured that the partners cannot reach the goal of the partnership on their own (Douma et al., 2000). When selecting a partner, equality should be aspired. Both in complementarity of the resources contributed to the partnership and the sharing of risks and rewards. However dependence can have a negative side because it can lead to opportunistic behavior (Marxt and Link, 2002).

Table 2: Literature on partner selection

<i>Author(s)</i>	<i>Strategic Fit</i>	<i>Structural Fit</i>	<i>Cultural Fit</i>	<i>Network Fit</i>
Bierly and Gallagher (2007)	<ul style="list-style-type: none"> • Firm resources <ul style="list-style-type: none"> ○ Capital ○ Technology ○ Capabilities ○ Firm-specific Assets 		<ul style="list-style-type: none"> • Trust 	
Bronder and Pritzl (1992)	<ul style="list-style-type: none"> • Goal compatibility 		<ul style="list-style-type: none"> • Cooperative cultures <ul style="list-style-type: none"> ○ National ○ Corporate 	
Brouthers et al. (1995)	<ul style="list-style-type: none"> • Compatible Goals 	<ul style="list-style-type: none"> • Complementary skills 	<ul style="list-style-type: none"> • Cooperative cultures <ul style="list-style-type: none"> ○ National ○ Corporate 	
De Man (2004)				<ul style="list-style-type: none"> • Network position • Structure/strategy • Partners' partners • Conflicting partnerships
Duysters (1999)			<ul style="list-style-type: none"> • Commitment • Culture • Trust • Chemistry • Communication 	<ul style="list-style-type: none"> • Direct Business network (Partners' partners)
Douma et al. (2000)	<ul style="list-style-type: none"> • Shared strategic vision • Compatible strategies • Importance of partnership for partner • Mutual dependency • Added value • Market acceptance 	<ul style="list-style-type: none"> • Organizational structure 	<ul style="list-style-type: none"> • Management style • Corporate values 	
Hacklin et al. (2006)	<i>Use of category, no criteria specified</i>	<i>Use of category, no criteria specified</i>	<i>Use of category, no criteria specified</i>	<i>Included in previous three categories</i>
Hitt et al. (2000)		Complementary resources		

Table 2: Literature on partner selection (continued)

<i>Author(s)</i>	<i>Strategic Fit</i>	<i>Structural Fit</i>	<i>Cultural Fit</i>	<i>Network Fit</i>
Marxt and Link (2002)	<ul style="list-style-type: none">• Strategic definition• Clear goals• Interdependence	<ul style="list-style-type: none">• Similar company size• Similar organizational structures	<ul style="list-style-type: none">• Corporate culture• Commitment• Personal attributes<ul style="list-style-type: none">○ Trust○ Openness○ Honesty	
Medcof (1997)	<ul style="list-style-type: none">• Business strategy• Importance of partnership for partner		<ul style="list-style-type: none">• Commitment	
Steensma et al. (2000)			<ul style="list-style-type: none">• National culture<ul style="list-style-type: none">○ Uncertainty avoidance○ Masculinity○ Individualism	

The possibility of opportunistic behavior can be assumed larger when partners are unequal or if one partner is less dependent on the other partner.

Other drivers of strategic fit identified by Douma et al. (2000) are the added value of the partnership for both partners and the acceptance of the market. A partnership should not be established for the sake of having a partnership e.g. if two executives decide to work together just because they know each other. The partnership should actually add value for both partners that cannot be added by one of the partners alone.

Market acceptance is related to partnerships between large industry players. Those players will gather such a large market share when cooperating, that competition does not stand a chance. This last driver is not important in the context of this research because ventures are small companies and cooperation with other companies is not likely to lead to anti-trust issues.

Table 3: Strategic fit drivers

Strategic fit	
Strategy	Compatibility between the partners' strategy and that of the focal firm
Vision/Mission	An incentive to resolve issues along the way
Goals	Clear, not ambiguous and in line with the goals of the partner
Importance to partner	To ensure commitment and avoid opportunistic behavior
Mutual dependence	The goal of the partnership can not be reached by one of the partners alone
Added value	The result of the partnership provided to each partner

Structural fit

The structural fit category contains criteria that present the current short term feasibility of the partnership by evaluating the current capabilities of the partner (Douma et al., 2000). Resources, firm size, organizational structures can be criteria to consider for use in the construct of structural fit (Marxt and Link, 2002). The drivers of structural fit are presented in Table 4.

Recognizing that the organizational structure of a partner is likely to differ is crucial for the cooperation between partners, because when differences are known they can be addressed (Douma et al., 2000). Some authors say that similarity in organizational structure can improve the cooperation between partners, because it increases the understanding of each others situation (Meckl, 1996; in Marxt and Link, 2002). The aspiration to have partners of similar size (Bleeke and Ernst, 1991; in Marxt and Link, 2002) is closely related to the perceived relationship between size and corporate culture. Also when company size is seen as the total availability of resources, it can be compared with the resources that are actually made available by the partner indicating the importance of the partnership to the partner.

The skills, experience and know-how of both partners should contribute in a specific and applicable way to the partnership (Brouthers et al., 1995). Resource alignment (supplementary, complementary, surplus, wasteful) effects alliance performance through the contribution of those collective strengths (Das and Teng, 2000). A resource profile of a partner includes: financial, physical, managerial, human, organizational, and technological resources (Das and Teng, 1998; p. 41). In alliance formation four resources are often considered; financial, managerial, technological, and physical (Das and Teng, 1998). Bierly and Gallagher (2007) see a partner firm resources (capital, technology, capabilities, and firm-specific assets) and partner firm market as part of strategic fit.

However because strategic fit is defined in this research as future partnership potential and structural fit is current feasibility of the partnership resources and skills are considered under this latter category.

Table 4: Structural fit drivers

Structural fit	
Organizational structure	Recognizing differences in organizational structures now can prevent problems later
Capabilities and resources	The capabilities and resources of the partner and the focal firm should contribute in a specific way to the partnership

Cultural fit

Cultural fit consists of intangible criteria such as culture (national, corporate), trust and commitment. Cultures of partners should not be neglected in the partner selection process, the attitude toward cooperation is important for partnership success (Bronder and Prtizl, 1992). Commitment and personal attributes (trust, openness, and honesty) can provide the right attitude towards cooperation (Marxt and Link, 2002). The drivers of cultural fit are presented in Table 5.

National culture can be described by the level of individualism, power distance, uncertainty avoidance, and masculinity (Brouthers et al., 1995; Hofstede, 1983; Steensma et al., 2000). For example when an individualistic culture like North-America is looking for a partner in the Far East which culture is characterized as communitarian then problems in cooperation should be expected because e.g. the American is allowed to make decisions for himself but the colleague from the Far East has to go back to his boss before making a decision. Understanding and reconciling the differences in culture is an important part when cooperating between partners from different national cultures.

Culture in a firm has three different levels (Marxt and Link, 2002). The first level is artifacts which are visible as the structure and processes within a partner firm. Second level, stated values, is normative and related to strategy of the company (Douma et al, 2000; Marxt and Link, 2002). Third, basic premises are the hardest level to access because they are mostly tacit. Cooperative cultures are those cultures that are compatible. This compatibility of organizations can be enhanced by creating symmetry in firm size, financial resources, working environment, and management style (Brouthers et al., 1995; Douma et al, 2000; Marxt and Link, 2002). This latter factor is related to cultural fit and can increase the mutual sense of trust.

Trust is defined as “mutual confidence that no party to an exchange will exploit another’s vulnerabilities, because opportunistic behavior would violate values, principles and standards of behavior that have been internalized by parties to an exchange” (Bierly and Gallagher, 2007, p. 138). Trust can be a substitute for formal control mechanisms. When information is limited trust becomes important. The uncertainty that comes with limited information might lead partners to act opportunistically. In their review of the literature the authors found four drivers of trust: social networks, cultural and organizational similarity, reputation, propensity to trust. However there are problems with trust. Trust can be based on false antecedents like on the relationship between individuals, trustor’s propensity to trust and cultural similarity (Bierly and Gallagher, 2007). A trust relationship between individuals from both the focal firm and the partner is no indication that the firms themselves do not act opportunistically, so also on firm level there must be proof points of trust.

Also trust in a partner should not be based on the trust the decision maker has in the partner because everyone has their own level of propensity to trust and cannot be used objectively as an indicator of trust, again organizational proof points are necessary. As is argued above cultural similarity is often preferred between partners because it eases cooperation. However trust should not be based on the similarity of the cultures because a partner with the same culture can still act opportunistically (Bierly and Gallagher, 2007).

Commitment is determined by the level of comfort which is built on culture, trust, chemistry, and communication. Commitment together with the factors mentioned above could make establishing a partnership easier (Duysters et al., 1999; Marxt and Link, 2002). According to Medcof (1997) commitment has two levels. The first level of commitment is the commitment of resources. The second level is the level of commitment that keeps both partners in the partnership even when difficulties arise. During partner selection both the commitment of the focal corporate venture and the commitment of the partner should be assessed. Another distinction made in commitment is between pragmatic and psychological commitment. Pragmatic commitment was already described above as the strategic importance of the partnership to the partner. Psychological commitment is believe of the partner in the partnership. The level of psychological commitment determines the levels of the other commitment types mentioned above (Medcof, 1997).

Table 5: Cultural fit drivers

Cultural fit	
National culture	Understand differences in culture and reconcile these differences
Corporate culture	Cooperative corporate cultures can increase the sense of trust
Trust	The amount of confidence that the partner will not act opportunistically
Commitment	Make resources available and stick with the partnership

Network fit

Due to the increased use of partnering a fit should also be established on network level. Hacklin et al. (2006) use the strategic-culture-structure framework, as proposed by Marxt and Link (2002), and add inter-firm fit or network fit to all three categories. The drivers of network fit are presented in Table 6.

Partner selection should not be based solely on the individual level of a partnership but evaluation of a possible partner should be extended to its position in and access to business networks (Duysters et al., 1999). When selecting a partner its position in its current network should be analyzed because being part of a network does not imply that the partner has the benefits of the network and can leverage those benefits (De Man, 2004). One can imagine that partners in the center of a network gain more benefits than the partners on the outside of the network because e.g. information and knowledge flow to the center of a network. Next to the partners position in its own network also the new position of the partner in the focal firms' network should be taken into account.

According to De Man (2004) within a network three types of fit should be taken into account for a network to work effectively. The structure (tie strength, size, mix, governance and clustering) of the network should fit the strategy (quasi-integration, vertical-supply, solution, standardization, R&D) of that network. To create the right network fit these structural issues should be taken into account. De Man (2004) provides relevant questions for determining network fit.

These questions relate to competitors in the partners network, competitors of partners in the current network, conflict of interest, opportunities for leveraging new partners, and conflicting alliances of other business units, industry associations or partners of the parent company. The type of selection criteria used varies with the type of network strategy chosen. For example when the network strategy is to provide a solution, the selection criteria should be: complementary offering and competencies next to strategic, organizational, cultural and network fit. However, partner selection in a network may be limited by; the force of a current partner to select a sub-optimal partner; uncertainty when selecting partners; and lock-in to a partnership by e.g. contract. To avoid interference of current partners in selection of new partners one can use compartmentalization to minimize the overlap between current and new partners. Uncertainty might be reduced by inquiring on the partners' partnering reputation (De Man, 2004). However due to time constraint there is no way to be certain, therefore a level of trust should be present. By using more flexible partnerships lock-in can be avoided however a certain level of lock-in is needed to show commitment towards the partnership (De Man, 2004).

Table 6: Network fit drivers

Network fit	
Network position	The position of the partner in its network determines the ability to use it
Structure/strategy	Networks are structured in accordance with the networks' strategy
Partners' partners	The network of the partner can provide opportunities for other partnerships
Conflicting partnerships	The partners in the current network of the focal firm can conflict with partners in the partners' network and vice versa which must be taken into account

2.3 Theoretical model

Using the current literature a theoretical model can be constructed for partner selection. The application of the theoretical model and its criteria in the venturing context is discussed next. As a result of this discussion propositions are stated about partner selection as a venture.

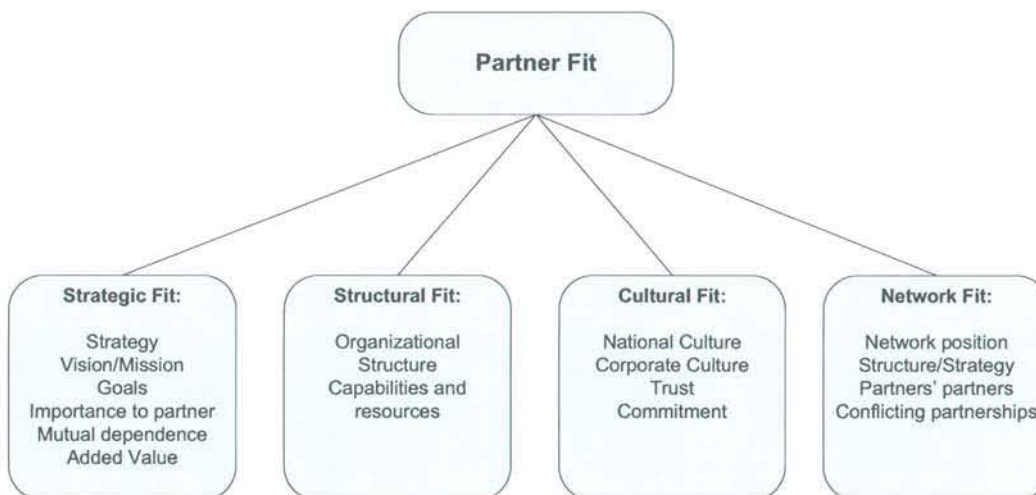


Figure 4: Theoretical model

In line with current literature the theoretical model consists of four fit categories: strategic fit, structural fit; cultural fit and network fit.

The strategic fit category contains criteria that provide an image of the potential of the partnership. The structural fit category contains criteria that present the current short term feasibility of the partnership by evaluating the current capabilities of the partner. The cultural fit category includes criteria that give an idea of the relationship between the partners and the likelihood of future cooperation. The network fit category presents the fit of the partner within the network of the focal firm and the focal firm in its partners' network. The theoretical model is presented in Figure 4.

2.4 Partner selection by ventures

Till now partnering as a corporation, partnering as a corporate venture, and partner selection as a corporation are discussed. The next step is to relate partner selection to the corporate venture context. Literature on partner selection by corporate ventures is limited, only one attempt was found of an exploratory study on partner selection by an entrepreneurial corporate new venture. Varis et al. (2005) used a single case study to provide a view on how a corporate venture can and should evaluate and select possible partners. This study does not provide enough information to relate partner selection to the corporate venture environment. Therefore differences between partner selections by a corporation and partner selection by a corporate venture are proposed.

The partner selection model used by corporations as described in literature and the model used by corporate ventures is expected to differentiate on: the importance of the criteria and the sequence in which they are used; interpretation of certain criteria; and the availability of information. Because this research is one of the first attempts to put partner selection in a venture context the propositions could not all be based on literature. Most of the propositions are based on discussions with my company supervisor and the discussion during my mid-term presentation. Because this research is qualitative instead of quantitative it is hard to validate or reject the statements made. Therefore the choice is made to keep the statements as propositions instead of hypotheses.

2.4.1 Difference in importance/sequence of use

When selecting a partner the importance of criteria, and criteria categories, differs with the kind of partner the venture is selecting. Some criteria or categories might be more important than others. It might be even so that some of the criteria of the theoretical corporate model are not applicable for ventures.

Dorf and Byers (2007) stated in their book that entrepreneurial ventures should consider alliances on strategic goals instead of going at it alone. When a venture is selecting a partner it has to look for resources it is missing and build a trust relationship with that partner (Doz and Hamel, 1998; in Dorf and Byers, 2007). This stresses the importance of the three initial selection criteria categories: strategic fit, structural fit, and cultural fit. The network fit category which was also added later in corporate partner selection literature, might just not yet be applicable for ventures because their networks are small. Also their possible partners are likely to be small, because similarity in size is preferred (Bleeke and Ernst, 1991; in Marxt and Link, 2002), and having a small network decreases the importance of this category.

What characteristics ventures look for first in a partnership is related to the reasons for partnering by ventures in the first place. The reasons for ventures to indulge in a partnership can be resources and skills of the partner, access to its market, and establishing a standard with their technology. As the market can also be considered a resource of the partner, resources are the prime reason for ventures to look for in a partner, this goes also for corporate ventures if the parent firm cannot deliver those resources.

Because resources are the prime need for partnering it is expected that ventures first look at structural fit of the partner, and because partnering is a strategic decision also at strategic fit. Cultural fit is probably discussed later because without a solid strategic rationale the workability of the partnership is not an issue. This leads to the following propositions:

P1: If a corporate venture is evaluating possible partners than strategic fit, structural fit and cultural fit are considered more important than network fit.

P2: If a corporate venture is evaluating possible partners than strategic and structural fit are considered before cultural fit.

2.4.2 Difference in interpretation of criteria

The theoretical model uses four fit categories that differentiate in their applicability and sequence for partner selection by ventures as proposed above. Also the criteria used and the interpretation of those categories can differ between corporations and corporate ventures. The main differences between ventures and corporations are the level of flexibility, the business orientation and the time that is available to reach the goals of the alliance. Ventures are more flexible and tailored towards building a business in a short amount of time. Corporations are less flexible or even rigid and tailored towards reaching goals as efficiently as possible for a longer period.

Strategic fit

A difference between ventures and corporations is the level of desired dependence on the partner and the partner on the venture or corporation. On the one hand ventures profit from being less dependent by being more flexible. On the other hand dependence can take away some of the uncertainty and risk that remains in a venturing situation by sharing it with a partner. Corporations might use dependence as a control mechanism over their partner. Because of the contradiction in literature and the exploratory nature of this research both sides are stated in a proposition. For both ventures and corporations mutual dependence can be seen as a level of commitment. It is expected that the difference is not in the mutuality of the dependence but the level of preferred dependence itself. This leads to the following propositions:

P3: When evaluating partners on strategic fit, corporate ventures prefer low level of dependence on a partner because they want to remain flexible.

P4: When evaluating partners on strategic fit, corporate ventures prefer moderate level dependence on the partner to share risk and reduce uncertainty.

Structural fit

The level of current feasibility differs between ventures and corporations. For ventures the organizational structure is of less importance because of the ventures own size and possibly also that of its partner. Resources are the most important reason for ventures to start looking for partners.

The alignment of the resources can be expressed by the supplementarity and the complementarity of those resources. Supplementary resources are those resources which are the same between partners, and complementary resources are those resources which are different but useful to the other partner.

A corporate venture is less concerned about the partner having supplementary resources but focus at the complementary resources of a partner. A corporation would like to minimize the supplementary resources and increase complementarity of resources because this increases the efficiency of both organizations. This leads to the following propositions:

P5: Because of the size of a corporate venture and its partner, organizational structure is not yet an issue during partner selection.

P6: When evaluating partners on structural fit, ventures look at leveraging complementary resources rather than minimizing supplementary resources.

Cultural fit

Corporate culture itself is already different between corporate ventures and corporations. A corporate venture has an entrepreneurial culture while a corporation has a culture that might be characterized by bureaucracy. Corporate ventures are likely to prefer partners with the same entrepreneurial culture, for reasons such as flexibility and rapid decision making. These partners can be large and small. This leads to the following proposition:

P7: When corporate ventures are selecting partners, they prefer partners with an entrepreneurial culture.

Network fit

Although the network of a venture is small in comparison with the network of a corporation network no difference is expected in the interpretation of the selection criteria.

2.4.3 Difference in availability of information

The problem with strategic decision making, like partner selection, is that information should be available to make a decision. This information might not be available because knowledge transfer issues in the firm or non-availability of information outside the firm (Bierly and Gallagher, 2007). During the creation of a long list of possible partners, direct contact with possible partners is not desirable because the venture could lose its competitive advantage by contacting partners and discussing possible partnership opportunities.

The size of the possible partner is an indication on how much information should be available on strategic level. Large partners are mostly publicly traded or have other obligations to inform the community at large about their business. Most of the time these companies have a website on which information about the company is available.

Although the existence of the internet is a rich source of information, additional to annual reports and other documentation, it might be hard to collect information on the smaller partners. For smaller partners it might be necessary to have a discussion with the management of that partner to answer the questions for partner selection.

A corporate venture can leverage sources of information within the parent firm who might already have experience with the partner. Strategic, structural and network fit should be assessable using desk research. Cultural fit however can better be assessed in discussions with the partner.

3 Methodology

This part of the report will elaborate on the methodology used in this research. The research should be considered exploratory because it is one of the first attempts to provide an insight into partner selection by ventures. Related to the aim of providing insights the research should also be considered qualitative and therefore it is based on propositions on partner selection by ventures, rather than hypotheses that are otherwise used for quantitative research. This part of the report starts with the research environment of the case study site in which the research is conducted. Next, the sampling logic and method are presented to show the sample is valid for the purpose of this research. Following, the data collection and analysis method used in this research are presented. Finally, attention is turned to quality aspects of doing research that should be taken into account.

3.1 Case study site

This research will take place at Philips. Philips is a multinational with approximately 125.000 employees in over 60 countries with a head office in Amsterdam. Philips is market leader in the fields of medical systems, energy efficient lighting and products for personal care and consumer electronics. Currently Philips is focusing on healthcare, lifestyle and technology in particular. To establish growth in these areas Philips was in need of new technologies and business models for these areas and therefore started the Incubators for each area.¹ These incubators are the way Philips structures its corporate venturing initiative.

The interests of this research are ventures in the Incubators. Because the venture that initiated this research project is a Lifestyle incubator venture and most ventures in the seed phase are Lifestyle ventures, Lifestyle Incubator ventures are the main source of information. Next to these ventures also ventures of the other two incubators are considered to identify possible differences in partner focus and way of partner selection between the incubators.

The Lifestyle Incubator focuses on solutions that enhance the way people experience their daily activities, helping them to look, feel and live better. The key is a product combined with a service business model, which means that the product should be brought to market as a service or in combination with a service. The customers can be Business-to-Consumer (B2C) as well as Business-to-Business (B2B). The incubation time for a lifestyle venture is between 2-4 years.²

The Healthcare Incubator uses ideas from inside and outside Philips that have the potential to be turned into a business using Philips resources and capabilities. The business plan of those ventures is driven by customer insights.²

The Technology Incubator builds ventures based on technology and staff originating from Corporate Research and Development and does not invest in external ventures. The business structure of Technology Incubator ventures are build around the technology. This will allow customers and partners to use the technology and possibly integrate the technology into their own product.²

During the incubation period a venture goes through different stages, starting with the pre-seed phase for exploration of an idea. The next phase is the seed phase in which an initial business model is drawn up and capital is invested by the parent firm.

¹ www.philips.nl (2007)

² Philips Intranet: <http://pww.nbd.philips.com/> (2007)

The alpha phase is next which encompasses initial sales of the product to test market viability. After the alpha phase has shown that a market exists, the venture moves to the beta phase, building the venture into a business. Figure 5 provides graphical presentation of the process which has the shape of a funnel². At every transition to another phase the ventures are screened and a go/no-go/conditional-go decision is made.

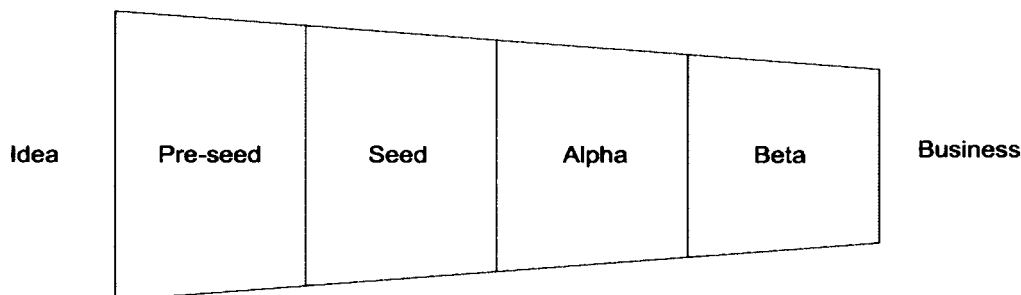


Figure 5: Venturing funnel at the Incubators (Source: Philips Intranet, 2007)

3.2 Sample

3.2.1 Sampling logic

As the objective of this research is to provide a corporate venture with a partner selection tool the sample of interview participants that is used to test the theoretical partner selection model should be able to provide the appropriate information needed. To ensure that the right information can be gathered the participants should:

- Be in or familiar with the corporate venture context
- Be familiar with the corporate partner selection approach
- Have partner selection experience (in the corporate venture or corporate context)
- Have a possible future partner or current partner to evaluate

Because partner selection in a venturing context is investigated the participants should be in or familiar with this context. The theoretical model is based on literature that describes a corporate approach to partner selection. This research aims to investigate the usability of such a corporate model in the venturing context. Therefore the participant should have experience in partner selection to contribute to a usable result. As an incentive for the interviewees to participate, the results of this research in the form of a partner selection tool for corporate ventures is made available to participants.

Next to the participants that are used for the evaluation of the theoretical partner selection model the venture that initiated this research project can be used for a pilot study on the usability of the partner selection tool. NWS is excluded from the evaluation sample to prevent bias in the results on the usability of the venturing model and partner selection tool.

3.2.2 Sampling process

The target sample of this research is a group of general managers of internal corporate ventures within the Incubators. This sample is most likely to be able to provide the needed information because these ventures are in the same situation as NWS.

At first they are contacted by the General Manager of NWS to improve their willingness to participate in the research. After they have agreed to participate in the research e-mail contact is established to further inform them about the research, to validate their knowledge on the research topic and ask for possibilities to make an appointment for the interview. Both contact happened through e-mail and their contents can be found in Appendix I. Once a date is planned confirm the time, place and duration of the interview and send interview questions to the participant so they can prepare.

3.2.3 Sample

The actual sample for this research consisted of six general managers of ventures within the Incubators. Of which four are in the Lifestyle Incubator, one in the Healthcare Incubator and one in the Technology Incubator. All ventures are currently in the seed phase, which is the phase at which most ventures start using partners to develop their business. All sample ventures had partnering and partner selection experience as a venture and were able to answer the questions of the interview. This sample includes all ventures currently in seed phase within the Incubators, so this is the maximum sample possible which can provide relevant information.

3.3 Data collection

Yin (1984) provides a list of six sources of evidence that can be used for data collection:

- Documentation
- Archival records
- Interviews
- Direct observation
- Participant observation
- Physical artifacts

During this study multiple sources of evidence are used to improve construct validity. The main source of evidence in this case study is interviews; next to this source is documentation, and participant-observation of the venture and its members.

3.3.1 Interviews

Interviews are an essential source of evidence. During this research interviews are used to evaluate the theoretical model and the related propositions by applying the model to the selection of partners of ventures. The theoretical model is not directly presented to the interviewees but instead questions are asked in such a way that evaluation of the model and its propositions is possible.

After all interview questions were answered the model was presented to the interviewee and summarizing statements are made on the model and the interview results. The interviews are kept as open as possible to allow the interviewee to tell their experiences, using a predefined set of interview questions it is made sure that all information needed is collected during the interviews.

The interview guide including questions and the logic behind the interview questions can be found in Appendix II. To come to the interview questions with as input the theoretical model and its propositions the CRQ-TQ-IQ algorithm is used (Wengraf, 2001).

This algorithm is used in the construction of interview questions for qualitative research as a way to relate the central research question (CRQ) via theory questions (TQ) to interview questions (IQ). Figure 6 illustrates this methodology.

Using this methodology the results of the interview questions will relate to a certain theory question and that theory question in turn to the central research question. When defining the interview questions from theory question the language in which they are asked should be taken into account, because the interviewee may not be familiar with the theoretical language used in theory questions. Also putting the theory that one tries to validate directly into the interview questions might bias the interviewees' interpretation of the question and the validity of the results.

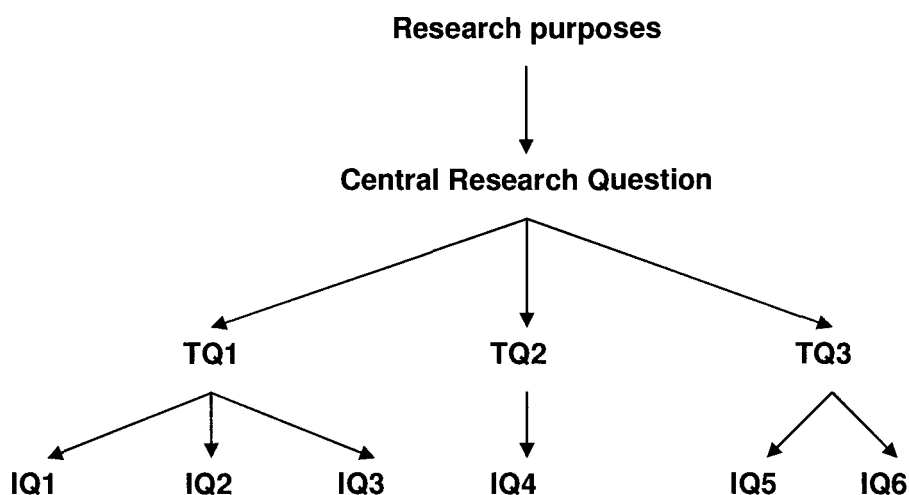


Figure 6: CRQ-TQ-IQ Algorithm (Source: Wengraf, 2001)

3.3.2 Documentation

Documentation is often used for verification, provision of further detail, and sources of further investigation. However one must not be too reliant on documentation because it might be written for a specific audience or purpose and not necessarily applicable to the case under investigation. For this research project documentation on the available partner selection tool of Philips is used as comparison with the theoretical model based on literature to verify that important criteria are not left out of the model.

3.3.3 Participant-Observation

This type of observation has the unique opportunity to have access to evidence that might otherwise not been collected. Another opportunity is the ability to perceive the reality from the inside viewpoint. Also one has the opportunity to manipulate situations. Of course this also leads to problems such as, bias towards advocacy or supportive behavior, and more emphasis on participation than on objective observation. This source of evidence can be used for the usability of the tool that is produced and point towards directions of improvement.

3.4 Data analysis

Yin (1984) has provided an overview of analytic strategies. This research relies on theoretical propositions on partner selection and the venture context. The data collected by interviews is compared with the theoretical propositions and a reflected back on current literature.

Yin describes three modes of analysis that can be used. These are pattern matching, explanation building, and time-series analysis. For this project pattern matching will be used, because the empirically validated partner selection model is compared with the theoretically build model. If those models coincide it strengthens internal validity.

Before pattern matching can be used to draw conclusions on the results of the interviews the answers to the interview questions have to be reflected back on the theory and central research questions.

The earlier method used for the construction of interview questions can be used in reverse for analysis of the interview material. The algorithm can then be referred to as the IM-ATQ-ACRQ algorithm. This is the reflection of the interview material (IM) back to the Answer to the Theory Question (ATQ) further to an Answer to the Central Research Question (CRQ).

3.5 Research quality

The quality of a research project can be assessed using several criteria, which are described below, and how they are controlled for in this project. The definitions of the criteria are derived from Van Aken et al (2007).

3.5.1 Controllability

Controllability is the ability to track the way the research is conducted, its propositions and the assumption made during the research. This is taken care off in this research project by an accurate description of the events in the methodology section of the final report. Controllability is also a prerequisite for the other criteria reliability and validity.

3.5.2 Reliability

The result of a research project are reliable if the result follows from the input and is not biased by the researcher, the instrument used, respondents, and environmental circumstances. Presenting a Chain of Evidence increases reliability. This means that an external observer can follow the line of reasoning of the researcher and thus arrive at the same conclusions.

3.5.3 Validity

Validity is defined as the relation between the research result and the way it has been generated. There are three types of validity which are discussed below.

Construct validity is the correct measurement of evidence. This is facilitated in this project by using a chain of evidence and multiple sources of evidence. Internal validity is the validness of conclusions about the relationship between phenomena. This is facilitated in this project by using the pattern-matching mode of analysis. External validity refers to the possibility to generalize of research results and conclusions to other persons, organizations, countries and situations.

As empirical validation the intent is to interview several persons in leading positions in different ventures thereby making the partner selection categories and criteria that can be generalized for ventures which are positioned as corporate ventures.

4 Partner selection results

The results of the interviews provide a comprehensive view on partner selection by ventures. The results of the individual interviews are compared and consolidated. The interview transcriptions from which this consolidated result is presented can be found in Appendix III. To present a complete view on partner selection as a venture also questions were asked about the ventures business, the types of partners the venture has or is looking for, and the process that was used to select those partners. These latter insights are presented first before continuing with the answers to the propositions and results on the theoretical model.

4.1 Corporate venture partners

Corporate ventures due to their size, available resources, and time constraints are not able to do every part of the business development themselves. The ventures need to focus on their core business and use partners for the other (non)-core parts of the business. The specific need for a partner can be deduced from the business proposition and the value chain needed for that proposition. The positions in the value chain that cannot be filled by the venture or its parent are filled by partners. Most ventures have partners that take important positions in the value chain (vertical) or provide significant additions to the product of the venture (horizontal). Ventures are looking for partners that can preferably fill more than one position in the ventures business environment.

Ventures search for partners in both horizontal and vertical directions. In the horizontal direction partners provide complementary additions to the product which are needed to bring the product to the market. In the vertical direction partners are mostly market oriented and less supply oriented. Because corporate ventures are building their business and have a focus towards bringing their proposition to the market partnerships are tailored towards that goal. Some ventures use the supply chain of the parent organization to get their products to the market. This is appropriate if the target market is the same as that of the parent organization or as the parent already has established a distribution relationship for that market.

Vertical partnerships with suppliers are less common because they are often used for supply chain efficiency which is not the first concern for ventures. Most ventures subcontract the parents' resources they need for the development of their proposition. Partners on the supply side should only be considered when the supplier has a unique technology or service that is vital to the ventures proposition.

An important distinction that should be made here is between the different incubators. The sample of corporate ventures used for this research consists mostly of Lifestyle Incubator ventures. These ventures are combining a product with a service business model, which means that the product should be brought to market as a service or in combination with a service. Largely the same goes for the Healthcare Incubator where the business plan is driven by customer insights. The Technology Incubator uses a different approach. The business structure of Technology Incubator ventures are build around the technology. The technology that originated from the parent is developed, possibly using partners, till the technology is ready to be used. For Technology Incubator ventures which are focused on technology partners on the supply side have a higher priority than partners on the market side. Market side partners exist for these ventures but they develop an application for the technology and bring that application to the market.

A reason why partners want to partner with the ventures is the complementary addition of the corporate venture's business to the partners' business on product (horizontal) and value chain (vertical) level. The presence of Philips Corporate as the parent organization was also a reason for partners to work with the venture. Philips Corporate is an established company in the electronics industry and a large player in technology research and development with a global presence. Partners hope to be able to get access to or leverage Philips Corporate resources. The fact that an organization with a reputation such as Philips has confidence in the corporate venture and is willing to finance it ensures partners in their decision to cooperate with the venture.

4.2 Corporate ventures approach towards a partner selection process

The partner selection processes used differentiates between the ventures. The approach used by ventures is relatively ad hoc. Some ventures applied a structured approach, though for every partnership another approach was used. Not using a structured approach was indicated by multiple interviewees as a negative experience of the partner selection approach they used. The partner selection used differentiates with size of the partner and the related positioning of the corporate venture towards the partner. Ventures that are looking for a large partner position themselves as Philips Corporate to increase similarity between the partners, ventures that contact smaller partners position themselves as a corporate venture again for reasons of similarity.

Ventures who position themselves as Philips Corporate tend to go for the largest player in the industry. The results indicate that a comparison with other possible partners is not explicitly made. The selection of a partner in this way might better be called partner evaluation. If the partner has a sufficient score on certain criteria and matches the ideal partner profile to a certain extent a partnership is established.

Ventures who positioned themselves as a venture within Philips contacted smaller partners. Ventures who contact smaller partners tend to use comparison, although when a suitable partner is found they stop the search and establish the partnership in such a way that they can switch between partners later if needed. For these partners a comparison is made between possible partners and partner selection is applicable.

Earlier experience with a possible partner by venture personnel was a reason for the corporate venture to cooperate with that specific partner based on previous experiences. Earlier experiences allow for faster decision making because information about the resources and skills and more intangible criteria such as corporate culture of the partner are already known.

The possible partners on the supply side are selected based on specifications they can deliver and not on selection criteria as used for possible partner selection on the product and market side. Again the difference between the incubators should be taken into account. The Technology Incubator ventures are more likely to apply a partner selection approach to supply partners because of the strategic importance of these partners in their business model. One of the ventures uses a staged partnering process that is not structured on criteria or category level. The stages are: selection, first discussion, NDA discussion, discussion on terms of cooperation, and the establishing of the partnership. The selection is done by desk research on different possible partners (long-list), followed by a first discussion with possible partners (short-list).

Another venture (which was more focused on large partners) signed an NDA before further discussion on collaboration. It might be possible that this was done to prevent opportunistic behavior from the large partner.

Information used by corporate ventures to support the decision to collaborate is gathered using desk research, and preliminary discussions with the partner.

Desk research has as main source of information the internet, but also books, management literature and magazines can be a useful source of information. For larger partners annual reports should be available which contains information on the partners' strategy. The result of the desk research should be a view on how the possible partner fits the strategy of the corporate venture, and how the partners might cooperate.

For smaller partners this information is best gathered using initial discussions with the board of management. In both cases, for small and large partners, discussions can be used to validate earlier gathered information from desk research. As already mentioned above also earlier experience with the partner of venture personnel or parent personnel can be used as a source of information. This last source of information might be the richest source because it can provide information on the operational side of the partnership, and also intangible information such as corporate culture might be available.

4.3 Answers to the propositions

The answers to the propositions as presented below are summarized in Table 7.

4.3.1 Proposition 1

The first proposition on the difference in importance states: *if a corporate venture is evaluating possible partners than strategic fit, structural fit and cultural fit are considered more important than network fit*. The importance of the fit categories can be deduced from the criteria and categories used by the ventures in their partner selection.

All interviewees acknowledged the importance of strategic fit as the base of a cooperation with a possible partner, without strategic fit there is no reason to partner. Structural fit in the form of the criterion resources and skills is also considered important. Resources and skills are considered strategic assets and therefore could also be presented as a strategic fit criterion. Resources are a main reason for ventures to search for a partner and can therefore be considered of strategic importance. Cultural fit is a determining factor for the workability of the partnership, without this factor a partnership does not last long. Interviewees emphasized the importance of trust and commitment in establishing and continuing a partnership. Network fit is a fit category which in most cases not explicitly considered by the venture managers. Network fit issues were stumbled upon during the partner selection process like e.g. partners' partners and conflicting partnerships. For example, one of the ventures who came into contact with its partner through earlier employment in the parent organization had a network conflict with the partner.

The partner was already a system integrator and a distributor for the parents' business unit and this business unit supplied to the venture. To avoid partner role conflict the partner had the role of agent for the venture and continued the role of system integrator and distributor for the parent corporation.

The interview results indicate that all categories are important when partners are selected however network fit is not considered as explicitly as the other categories.

4.3.2 Proposition 2

The second proposition on the sequence of use states: *if a corporate venture is evaluating possible partners than strategic and structural fit are considered before cultural fit.* This proposition is related to the partner selection process used by ventures. Although the processes used are relatively ad hoc, conclusions on sequence of use of selection categories can be drawn.

A partnership starts with a need of the corporate venture. This need is based on the business model and therefore the strategy of the venture. This indicates that strategic fit is the first issue to discuss when searching for a partner, when a partner does not fit the strategic rationale or the rationale is absent there is no need to discuss possible cooperation further.

The next step to take, when a strategic rationale is present, is to assess the ability of the partners to achieve the strategic objective that is set for the partnership. The partner should have resources and capabilities to reach the goal of the partnership and have them available. This indicates the importance of structural fit and the close relation between strategic and structural fit.

Cultural fit is seen as the workability of the relationship between partners. Possible partnerships with partners with a small amount of cultural fit are preferably avoided because managing the relationship would take too much effort and time, which corporate ventures do not have. Because cultural fit is about the workability of the partnership it is considered after strategic and structural fit which determine if the partner can actually deliver on the need of the venture. However cultural fit can be a differentiating factor when a list of possible partners is available that can deliver on the need of the venture. The interview results indicate that indeed strategic and structural fit are considered before cultural fit.

The network fit category was harder to place in the sequence of use of the categories and criteria, because this category was not explicitly considered by the general managers. Network fit is related to strategic fit because the network of the venture includes the value chain. The value chain is a result of the strategy chosen by the venture to bring its product to the market and therefore should be considered as early as possible. However analyzing a partner's network for possible opportunities to leverage partners' partners or conflicting partnerships is time consuming and therefore, if considered by general managers, analysis was restricted to the direct network of the possible partner.

The following statements are based on proposed difference in interpretation of certain corporate selection criteria by ventures. Venture's interpretation of dependence, organizational structure, resources and skills, and corporate culture differs on the usability of the criterion in a venture context or the preferred level of a certain criterion.

4.3.3 Proposition 3 and 4

The third and fourth proposition on the preferred level of dependence between the corporate venture and its partner state respectively: *when evaluating partners on strategic fit, corporate ventures prefer low dependence on a partner because they want to remain flexible; and when evaluating partners on structural fit, corporate ventures prefer higher dependence on the partner to reduce uncertainty.*

Ventures prefer not to be too dependent on their partner in case they have to switch partners because of a shift in strategic direction. They try to lower dependence by considering alternatives, and not give exclusivity to partners.

For example, one of the ventures has a partner of which the corporate culture does not fit with that of the venture. As a result trust is low for this partner and the venture remain as independent as possible in relation to this partner and is considering alternative partners for the future.

On the other hand ventures use one-stop shopping. In multiple cases the partner fulfilled several roles for the venture e.g. complementary resources and a road to the market. This form of single sourcing increases the dependence on a partner. Flexible formal agreements are used to lower this level of dependence.

The interview results acknowledge the third proposition that ventures indeed prefer a lower dependence because they want to be flexible and able to switch between partners because of the uncertain situation they are in. The interview results show the opposite than stated in the fourth proposition because ventures prefer a lower dependence on the partner due to the uncertainty of their situation.

4.3.4 Proposition 5

The fifth proposition on the usability of the criterion organizational structure states: *because of the size of a corporate venture and its partner, organizational structure is not yet an issue during partner selection.* The interview results indicate that for the ventures that contacted small partner's organizational structure was not considered a valid selection criterion because of the size of the partner. For ventures with a larger partner organizational structure was not considered an issue in the partner selection stage of establishing a partnership. Organizational structure interpreted as the structure of the partnership is considered when a governance mode for the partnership has to be chosen, this is after a partner has been selected and therefore not an issue during partner selection. However the other criterion of structural fit, resources and skills, is very much an issue for ventures because it is the main reason for ventures to search for partners.

4.3.5 Proposition 6

The sixth proposition on the direction of interest for resources states: *when evaluating partners on structural fit, ventures look at leveraging complementary resources rather than minimizing supplementary resources.*

The resources of interest are the complementary resources the partner can provide. Complementary resources are the resources that the venture does not have but the partner does, not only complementary in the product sense but also in market sense. For example, Lifestyle Incubator ventures are looking for partners who can provide complementary resources and for partners who can provide a road to the market the venture does not have and its parent cannot provide. Add to this the tendency of ventures to look for a partner that can satisfy all needs you get a partner that provides all complementary resources in the product and the market sense.

In case of a small partner all resources are taken into account, in case of larger partners all resources that are useful to the venture are taken into account. Most ventures are looking for the ideal partner that possesses all needed additional resources. This is dangerous, because single sourcing of resources increases the dependence on one or a small number of partners. How resources are used by the partner (efficiency) is of later concern. One of the interviewees said "first do the right things, later do things right".

Minimizing supplementary resources which is a form of creating efficiency is of later concern, leveraging the partners resources is more important. Ventures look at both current and future possibilities. For some ventures, partly due to the uncertainty of the venturing environment or small partners that have uncertainty themselves, the focus is on current possibilities.

The interview results indicate that ventures are only interested in leveraging complementary resources and consider minimizing supplementary resources, hence increasing efficiency of those resources, something for later in the partnership, after partner selection.

4.3.6 Proposition 7

The seventh proposition on the preference for a corporate culture states: *when corporate ventures are selecting partners, they prefer partners with an entrepreneurial culture.* Culture was interpreted by the interviewees in different ways. Culture was found important for the cooperation between the partners but should be considered in a second stage.

Culture is hard to assess in advance by desk research however during the first discussions corporate culture can be assessed. Corporate culture is an important difference that should be taken into account like e.g. technology push versus market pull, hierarchical versus entrepreneurial culture, and cost versus time orientation. This proposition stated the hierarchical versus entrepreneurial culture preference, though the other differences (mentioned during the interviews) are also worth considering. For example, as the parent company of the ventures is a high-tech corporation they can be oriented toward putting their technology on the market instead of listening to what the market needs. This increases the risk of overshooting estimated performance which gives customers the sense that they are overpaying because they pay for more than they need. When a company is driven by market pull it provides exactly what the customer needs. The conflict between these two orientations is that the technology push side wants to make the best possible solution while the market pull side wants to make a sufficient solution. An example of the other difference, cost versus time, was illustrated by one of the ventures. The partner is a company that started from scratch with only small investments and a low cash flow, it rather spend more time on a task than increasing the investment needed. The venture, due to its parent orientation, is oriented towards time which is the crucial target. The venture rather spends more money to get the job done in time. This difference in orientation is a continuing discussion between the partners. Ventures prefer the entrepreneurial culture, also if the partner is large. The problem with small partners is that a corporate culture might not be present, although they are often considered entrepreneurial.

The main reason why ventures prefer an entrepreneurial culture is because this type of culture allows for rapid decision making, which is a crucial aspect for ventures. For example a hierarchical culture would take too long to reach a decision because the contact person has no authority to make that decision.

Table 7: Summary of results on propositions

Number	Proposition	Result
1	If a corporate venture is evaluating possible partners than strategic fit, structural fit and cultural fit are considered more important than network fit	Corporate ventures acknowledge the importance of the fit categories strategic fit and cultural fit, they also acknowledge the importance of the structural fit criterion resources and skills. Corporate ventures do not explicitly consider network fit. The results confirm the difference in importance as stated in the first proposition.
2	If a corporate venture is evaluating possible partners than strategic and structural fit are considered before cultural fit	The sequence in which the fit categories are used by corporate ventures can be divided in two phases first is strategic fit, structural fit, network fit and second cultural fit with additional network fit criteria. So the results confirm the proposed sequence in the second proposition.
3	When evaluating partners on strategic fit, corporate ventures prefer low dependence on a partner because they want to remain flexible	Corporate ventures preferred a low dependence on the partner because they wanted to be able to switch if strategic direction changed because of the uncertainty of their situation and because small partners have uncertainty themselves. This result confirms the third proposition.
4	When evaluating partners on strategic fit, corporate ventures prefer higher dependence on the partner to reduce uncertainty	Corporate ventures preferred a low dependence because of the uncertainty of their situation and because small partners have uncertainty themselves. A higher dependence between partners will not change the level of uncertainty because it is inherent to the ventures' situation. This result denies the fourth proposition.
5	Because of the size of a corporate venture and its partner, organizational structure is not yet an issue during partner selection	Corporate ventures consider organizational structure not an issue at the partner selection stage. Because of the size of the ventures themselves and possibly their partners. Another interpretation is that organizational structure is related to governance mode and therefore also not an issue during partner selection. This result confirms the fifth proposition.
6	When evaluating partners on structural fit, ventures look at leveraging complementary resources rather than minimizing supplementary resources	Because resources are the main reason for partnering for corporate ventures is resources deficiency these resources should be complementary to the resources of the venture. Increasing the efficiency of the partnership by minimizing supplementary resources is an issue for later. This result confirms the sixth proposition.
7	When corporate ventures are selecting partners, they prefer partners with an entrepreneurial culture	Corporate ventures with large or small partner both prefer an entrepreneurial culture. Although small organization might not have an identifiable culture they are often considered entrepreneurial. This result confirms the seventh proposition.

4.4 Results on theoretical model

The results on the partnerships, the partner selection process and the propositions stated above have an impact on the use of the theoretical corporate model for corporate ventures. Below these differences are pointed out. Also the venture managers were asked to point out the most important criterion in each of the four categories. Table 8 provides a graphical presentation of the research implications on the theoretical model.

4.4.1 Strategic fit

The strategic fit category is entirely applicable to the corporate venture context. Strategy, and vision and mission were often considered closely related and could therefore be considered together in the future. Mutual dependence is acknowledged as important however ventures like to keep their flexibility and therefore prefer low dependence on a partner. For strategic fit goal compatibility was seen as the most important criterion.

4.4.2 Structural fit

Organizational structure was not considered an issue by ventures for two reasons depending on the interpretation of organizational structure. On the one hand organizational structure was not an issue because partners of the ventures were also small.

On the other hand organizational structure relates to the governance mode choice which is made after partner selection. Ventures prefer complementary resources that are currently available. For structural fit capabilities and resources is pointed out by all interviewees as the most important criterion, this is also because the other criterion organizational structure is in most cases not found applicable for the venture context at least not for the partner selection phase.

4.4.3 Cultural fit

The cultural fit category is also entirely applicable to the corporate venture context. For this sample of ventures national culture was not an issue which was taken into account in the partner selection stage because most partners are situated in the European theater. Interviewees acknowledge the increased importance of this criterion when partnerships with partners in the United States are selected. Ventures acknowledge the importance of cooperative cultures in the possible partner firms. Ventures prefer a partner with an entrepreneurial culture, this goes for small and large partners. For the cultural fit category trust and commitment are often mentioned together as the most important criteria.


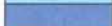

4.4.4 Network fit

The network fit category was not explicitly considered by the corporate venture managers. The criterion network structure/strategy is not at all applicable to the venturing context, because networks are not explicitly considered let alone network structure and strategy. Network position and conflicting partnerships were also not explicitly considered but rather stumbled upon in the partnering process. Some interviewees said to have analyzed the direct network environment of the partner for the possibility to leverage its first tier partners but not for possible conflicting partnerships. Although network fit is not explicitly considered leveraging the partners' partners could be indicated as the most important criterion of this category.

Table 8: Result implications on theoretical model

Fit categories/criteria	Result implications	Venture (based on interviews)	Corporate (based on literature)
Strategic fit			
<i>Strategy</i>	Also important for ventures, seen in combination with vision/mission		
<i>Vision/mission</i>	Also important for ventures, seen in combination with strategy		
<i>Goals</i>			
<i>Importance of partnership for partner</i>			
<i>Mutual dependence</i>	Ventures acknowledge the need of mutual dependence however they like to be as independent as possible		
<i>Added value</i>			
Structural fit			
<i>Organizational structure</i>	Not considered of importance during partner selection for ventures		
<i>Capabilites and resources</i>	Ventures look at complementary resources that are currently available		
Cultural fit			
<i>National culture</i>	Because of European orientation of the sample not an issue. National culture is an issue when partner is from the US		
<i>Corporate culture</i>	Ventures prefer an entrepreneurial culture that is cooperative with that of a venture		
<i>Trust</i>			
<i>Commitment</i>			
Network fit			
<i>Network position</i>	Not explicitly considered		
<i>Structure/strategy</i>	Not considered an issue for ventures during partner selection		
<i>Partner's partners</i>			
<i>Conflicting partnerships</i>	Not explicitly considered		

Legend

-  No differences between venture and corporate
-  Different interpretation by ventures
-  Not applicable in a venture context

5 Discussion

The current focus of literature on partnerships is on the management of this relationship and factors that lead to successful cooperation. Partner selection, based on compatibility between the partners, is considered a traditional field of research according to De Man (2005). The use of partnering by corporate ventures, the partnering process, and the selection of those partners are not yet sufficiently described. This exploratory research applies current literature on partnering and partner selection to a corporate venture context. This research closes the gap between literature that is focused on corporate partner selection and the need of managers to select partners in the corporate venture stage of the business. Using the results of this research project a partner selection tool for corporate ventures is constructed, which will further be discussed in the managerial implications. Using interviews with six corporate venture general managers partnering in general, the partnering selection process used by the ventures, and the proposed implications for ventures are discussed, which in turn leads to a qualitative description of partnering and partner selection by ventures.

This section of the report is structured as follows. First partnering and partner selection are discussed briefly. Next, the main research findings including the proposed differences for partner selection by ventures and the answers to the research questions are discussed, followed by the effects of the results on the theoretical model in the managerial implications.

5.1 *Partnering and partner selection*

The results on partnering of this research are largely in line with what is written currently in literature. When the trends towards partnering are considered ventures also focus on their core-competences and use partners for non-core competences. Although for ventures it might be needed to also use partners for core-competences because the resources are not available internally in the venture to develop these core-competences. Corporate ventures are also focusing their partnering efforts more to the market side because corporate ventures are trying to build a business and bring their solution to the market. Although a difference should be made here between the Incubators from which the ventures originated. It is fair to say that for ventures that are building a technology instead of bringing a product to the market this trend is less applicable. Because the corporate ventures and their parent are active in a high-technology market also the third trend applies for the corporate ventures. The uncertainty of the market, and for ventures the additional uncertainty of their existence, has led ventures to use flexible forms of partnerships instead of more dependent forms (Duysters et al., 1999). Also the uncertainty about the existence of small partners was a reason for ventures to choose for flexible forms of partnerships. Because the related trend towards an increased use of non-equity arrangements is of concern when choosing a governance mode, which is after partner selection, no conclusions can be drawn on this trend. Although it might be expected that in line with the trend towards flexible arrangements non-equity arrangements are preferred over equity arrangements by corporate ventures. Although ventures use partners for multiple purposes a trend towards partner networks of partners with the same purpose, as described by De Man (2004), is not found. On the contrary corporate ventures try to find partners that can fulfill multiple purposes for the venture e.g. product complementarity and market access.

The fifth trend towards partnerships for intangible resources and skills (De Man, 2004) might be more applicable for ventures that are building a technology than for ventures that are bringing their solution to the market, because these ventures are combining the knowledge of the partners into a new technology. Though ventures due to their size and limited resources learn from every partner, which is mostly intangible knowledge.

The directions in which corporate ventures search for partners is in line with the framework as described by Mohr et al. (2004). Ventures also use partners in both the horizontal and vertical directions. In the horizontal direction partners with complementary resources are the preferred option over partnerships with competitors to establish a standard or counter large competitors. In the vertical direction partners with complementary market access are preferred over supply partners which are used mostly for efficiency. The direction in which ventures are looking for partners is illustrated by Figure 1.

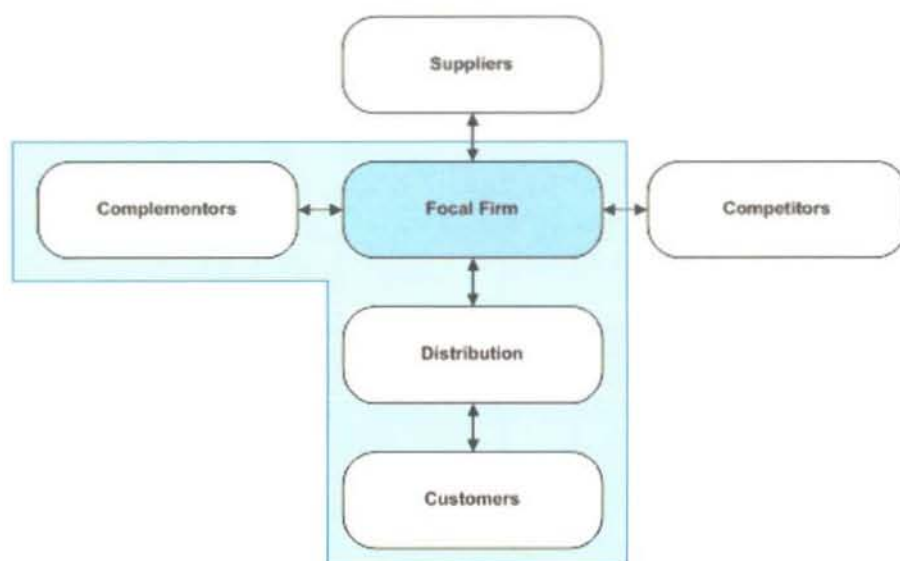


Figure 7: Partnering directions for ventures (adapted from Mohr et al., 2004)

The literature on partnering as a corporate venture is limited. It was argued in the review of the literature that for a corporate venture partnering for resources is less of an issue compared to independent ventures because a corporate venture can leverage its parent resources. For the sample that was used in this research the partners' resources were the main reason for partnering. Here market access is also seen as a complementary resource of the partner. Establishing standards as a reason for partnering was not found in this sample. Because establishing a standard is most of the time related to a technology standard this reason may be applicable for a Technology Incubator venture.

The parent is mostly used as supplier to the venture or as the provider of a value chain that is used by the venture to bring its solution to the market. In the latter case the partner of the venture is most of the time large, and the value chain of the parent in line with the proposition of the corporate venture. Another way the parent is used is a supplier of capital; the parent is the main investor in the venture till it reaches a positive cash flow. Another advantage which corporate ventures have is the established brand of the parent, which a corporate venture can use to open doors that would have remained closed as they were an independent venture.

The fact that such an established organization is behind the venture gives the partners trust to go into a relationship with the venture. In some of the cases the ventures were not able to leverage the parents' resources and value chain because it was not available in the parent organization and they had to look outside for partners who could provide them with the resources they needed.

A structured approach towards establishing a partnership and the selection of a partner as described by e.g. Bronder and Pritzl (1992) and Marxt and Link (2002) is seldom used by corporate ventures in the sample. For the selection of large partners merely an evaluation was made of the possible partner in comparison with a partner profile, for the selection of smaller partners a partner selection approach is more applicable. Also for supply partners a structured selection approach might not be applicable because most of the time supply partners are selected on specifications they can deliver, and no strategic partner selection is made. Again differences between the Incubators should be noted. Complementors and market side partners are the type of partners for which a structured partner selection approach is most applicable, because these partners are of strategic importance to the venture certainly in its early stage of business. The absence of a structured approach was expressed by venture managers as a negative experience during the selection of their partner. This research provides such a structured approach for the selection of a partner in the form of a partner selection tool which is further discussed in the managerial implications.

5.2 Proposed differences

To reflect on the results on the proposed differences between corporate ventures and corporations, the results are viewed in the light of the main differences between corporate ventures and corporations. The main differences between corporate ventures and corporations, as described in the second section of this report (2.4.2), are the level of flexibility, the business orientation, and the aspect of time. Where ventures are considered more flexible, tailored towards building a business, and time constraint, corporations are considered less flexible, tailored towards maintaining a business by reaching goals as efficient as possible for a longer period of time. Although the results only can be reflected back upon from the corporate venture perspective, there are implications for corporations on the main differences. A summary of the reflection is presented in Table 9.

Flexibility is important for corporate ventures. Due to the uncertainty of their situation corporate ventures prefer to be as independent as possible on their partners. In contrast a corporation might prefer a higher dependence and less flexibility because it wants to be able to control the partner. But when a partner is small and has yet an uncertain future it is expected that also corporations prefer to be less dependent on such a partner, and more flexible.

Corporate culture determines the way of working of organizations. Because corporate ventures have an entrepreneurial culture themselves they prefer a partner which also has an entrepreneurial culture. A corporation can also have an entrepreneurial culture but also a hierarchical culture, the difference in corporate cultures can inhibit the workability of the partnership therefore corporation prefer cooperative cultures, that are often the same. An entrepreneurial culture is seen as flexible while on the other hand a hierarchical culture is not.

Table 9: Reflection on propositions' results

Main differences	Corporate venture	Corporation
Flexibility		
Dependence	Preferred low dependence because of the uncertainty of the venturing situation	Preferred level of dependence dependent on partners level of uncertainty
Corporate culture	Preference of an entrepreneurial culture	Preference for a cooperative culture
Business Orientation		
Organizational structure	Organizational structure is not an issue for corporate ventures because they are building a business and no organizational structure yet exists	To reach its strategic objective a corporation requires some kind of structure therefore it is an issue for corporations
Resources	Because of limited resources a corporate ventures is interested in complementary resources instead of supplementary resources	To maintain a business resources should be used as efficient as possible, therefore corporation not only look at complementary resources but also at minimizing supplementary resources
Corporate culture	Preference of an entrepreneurial culture	Preference for a cooperative orientation
Time		
Importance/sequence	Because of limited time and resources the most important issues are considered first, when no compatibility on the most important issues there is no need to look further	Can be the same as for a corporate venture but extra research is needed for confirmation.
Corporate culture	An entrepreneurial culture allows for faster decision making	An cooperative culture allows for faster decision making

The business orientation of an organization determines the way in which organization is structured, in what way the resources are applied, and what kind of culture is preferred. Because corporate ventures are still small organizations an organizational structure is lacking it is not considered an issue during partner selection. For corporations organizational structure is an issue during partner selection because similarity in size and structure should be aspired (Meckl, 1996; in Marxt and Link, 2002)

Because corporate ventures are building a business and they have limited resources they are interested in resources that are complementary to theirs. Creating efficiency by minimizing supplementary resources is an issue for after partner selection. Although Wildeman (1998) has argued that for high-tech organizations improving performance and creating efficiency happen simultaneously, this research does not confirm this argument. Because corporations try to maintain a viable business case they have to be as efficient as possible, therefore corporations next to an interest in the partners' complementary resources are also interested in minimizing supplementary resources.

Because corporate ventures' business orientation they prefer a partner with the same corporate culture, who is willing to build business together. For a corporation the business orientation is different from a venture but this does not mean the corporate culture has to be different. Corporations are expected to prefer a cooperative business orientation, next to a cooperative culture.

For corporate ventures time is often limited to build their business, while corporations focus at the long term and in general have more time available. Although it can not be argued that importance of fit categories and the sequence in which are used are different between corporate ventures and corporations, this research indicates that corporate ventures use a particular sequence so early on in partner selection possible partners can be eliminated which saves time in finding the preferred partner.

Because venture has limited time, fast decision making is important. Again an entrepreneurial culture has a facilitating role. A corporation which has a hierarchical culture is often not able to make decisions fast. When two corporations with a hierarchical culture are partnering they are both used to the fact that decision takes a while and therefore conflicts are not expected.

5.3 Answers to the research question

With the results and discussion above the research question stated in the introduction can be answered. The central research question was **'How do ventures select partners, and how do they differentiate from corporations?'** As mentioned in the introduction this research question consists of two parts. The first part of the research question can be answered on category level while the second part of the question is answered in criteria level. The first part focuses on the process currently used by venture managers while the second part describes the differences identified between partner selection by ventures and corporations.

The current corporate ventures at Philips do not use a structured approach towards partner selection. The ventures that are selecting large partners perform partner evaluation in comparison with an ideal partner profile rather than partner selection and comparison with other possible partners. Ventures which are selecting small partners do make a comparison with possible partners. Ventures with smaller partners prefer to stay as independent as possible on these partners because the uncertainty of the ventures situation and that of the partner and therefore consider alternative partners or establish partnerships that can be terminated with relative ease. When ventures select partners they start with an evaluation of the strategic rationale behind the partnership. Partnerships should only be considered if a strategic rationale is present, without this rationale a partnership lacks the intention to pursue its potential. After a strategic rationale is found for the partnership, when the resources are available and possibilities of leveraging the partners' network are considered the workability of the partnership is assessed. Because the success of the partnership is largely determined by how the relationship is managed it is important to make an estimation of the effort that has to be put into the management of the partnership. This estimation is made using cultural fit criteria. As complementary resources are the main reason for ventures to start partnerships resources are of strategic importance to the partnership currently and in the future they should also be considered under strategic fit. Network fit is not explicitly considered by the corporate ventures during partner selection. The ventures that did look at the partners' direct environment are looking for a possibility to leverage the partners of the partner. Although network fit is not explicitly considered it is strongly related to the ventures value chain and should therefore be considered as soon as possible. So ventures select partners using a particular sequence of fit categories and network fit is not considered as explicitly as the other fit categories. This result is related to one of the main differences between ventures and corporations, time. Because of the limited time ventures have to build their business they have to focus on the most important issues first which allows decisions to be made faster.

The difference between partner selection as a corporation, as described in literature, and as practiced corporate ventures is on the level of selection criteria. Some criteria are not applicable for ventures and others are interpreted differently by corporate ventures. Structural fit is a fit category only consisting of two selection criteria. One of the selection criteria, organizational structure, is not applicable for ventures during partner selection, because of their size and that of its partner. As a result of the business orientation organizational structure is not yet important to corporate ventures and already is to corporations. For corporations organizational structure is important because similarity in organizational structure between partners facilitates the partnership.

Network fit although not explicitly considered by corporate ventures in the sample is applicable to both ventures and corporations. The main difference between ventures and corporations in this category is that ventures do not consider the structure and strategy of the network when selecting a partner. The networks of the ventures are too small to have an identifiable structure or network strategy. Corporations with their larger network are more likely to have structured their network based on a certain strategy.

The difference in interpretation of certain selection criteria is related the other two main differences between corporate ventures and corporations, flexibility and business orientation. As corporations prefer a certain level of dependence, possibly for control, ventures prefer independence due to the uncertainty of their situation and possibly that of its partner. However it is expected that when corporations partner with organizations that have an uncertain future they also prefer to be as independent as possible. Related is the desired corporate culture of the partner. Corporate ventures prefer a partner with an entrepreneurial culture. Corporation can have an entrepreneurial culture but also a hierarchical culture.

If the corporate cultures of partners are different it inhibits the workability of the partnership. The result on dependence and corporate culture underlines the difference in flexibility between corporations and corporate ventures.

Ventures look at the complementarity of the capabilities and resources of the partner and do not yet consider the efficiency with which they are used, corporations are more efficiency oriented and do consider the use of the resources next to its complementarity. Ventures have a preference for an entrepreneurial culture that is cooperative with the ventures culture. Although corporate culture in corporations can also be entrepreneurial corporations are considered more likely to be able to accommodate a corporate culture that is not entrepreneurial. The result on capabilities and resources, and corporate culture underline the difference in business orientation between corporate ventures and corporations next to organizational structure.

5.4 Influence of parent organization

The influence of the parent organization on the partnering need of corporate ventures can be assessed by making a comparison between the partnerships undertaken by the corporate ventures and the partnering need of independent ventures as described in the second section of this report.

For the sample used the parent organization is a large player in the electronics market and has a global presence. The parent organization allows the corporate ventures to put off partnering as long as possible by providing its resources to the venture. Some of these resources have to be subcontracted from the parent and others are provided as part of the corporate venturing initiative e.g. capital, use of brand, and value chain. The fact that the parent is behind the venture is even a reason for the partner to want to work with the venture.

An independent venture would have to build its own value chain, contact venture capitalist for equity, and search for partners who can substitute for resource deficiencies.

5.5 Contribution to current literature

This research contributes to current literature on partnering and partner selection in several ways. The current literature as a whole did not consider partner selection as a corporate venture. Therefore this exploratory study provides a first insight into the topic and the related issues that should be taken into account. The contribution to marketing literature, which focuses on the selection criteria used during partner selection, is that selection criteria like organization structure are not applicable to the venturing context, and other criteria such as dependence and corporate culture are preferred to another extend by ventures. The contribution to strategy and management literature, which focuses on the process of establishing a partnership, is the sequence in which criterions and categories are used by ventures and that they should and cannot all be considered at the same time.

5.6 Managerial implications

The next step is to adapt the theoretical model (Figure 4) presented in the second section of this report, based on the results of the interviews. The implications of the interview results are already discussed in fourth section and presented in Table 8, these results are used to construct the adapted model. The adapted model is used as a blueprint for the partner selection tool. The partner selection tool is a structured approach towards partner selection, which lacked in the partner selection by ventures so far. First the effects of the results are discussed, followed by a description of use of the tool for partner selection in NWS.

5.6.1 Adapted model

The adapted model consists of two sets of selection criteria, which indicates the sequence of use that is used by ventures. Both sets of criteria are presented in Table 10. The first set contains selection criteria from the strategic fit, structural fit and network fit categories which are important for establishing a strategic rationale for the partnership. The second set of criteria contains cultural fit criteria, and network criteria that were not explicitly considered by most of the ventures but which cannot be left out of the model because they are important to take into account.

Table 10: Adapted model criteria

First set of criteria (long-list)	Second set of criteria (short-list)
Strategy, vision, mission	National culture
Goals	Corporate culture
Importance of partnership to partner	Trust
Mutual dependence	Commitment
Added value	Network position
Capabilities and resources	Conflicting partnerships
Partners' partners	

The first set of criteria is used to evaluate all long-list partners that result from desktop research. The result of this evaluation is a short-list of possible partners that is accordingly evaluated on the second set of criteria to determine the workability of the partnership. The second evaluation is based on initial discussions with the short-list partners, which can also be used to validate the evaluation result of the first set of criteria. From this second evaluation a choice can be made on which short-list partner is the preferred partner.

The implication of the research results on the theoretical model are: the combination of the criteria strategy, and vision and mission; and the deletion of the structural fit criterion organizational structure and the network fit criterion structure/strategy because they were not considered of importance during partner selection by ventures. Next to these adaptations also the questions asked in the tool for rating the selection criteria are adapted for the criteria which are interpreted differently by ventures. For example the question asked for the strategic fit criterion mutual dependence is 'Is the level of dependence in line with desired flexibility and current level of uncertainty?' is based on the interpretation of the desired level of dependence by ventures.

The partner selection toolbox for corporate ventures that is based on the adapted model described above can be found in Appendix IV and the manual for this toolbox can be found in appendix V.

5.6.2 Tool usability

To validate the partner selection tool for ventures the interviewees were requested to use the tool for the selection of one of their partners, however due to time constraints on the reactions of the interviewees the results could not be incorporated in this thesis. Therefore partner selection in Philips New Wellness Solutions was used as a pilot for the tool. Because specific partnering intentions can not be mentioned on grounds of confidentiality lets assume that the possible partners are situated in the wellness industry. Initial contact with most of the partners is already established by the venture. In this case only long list partners were evaluated.

As a form of desk research I visited the websites of the possible partners and tried to get as much information as possible about these companies using internet search engines. The ventures general manager provided me with additional information about the possible partners. As a result of this desk research I filled in the first set of selection criteria.

Because the venture is presenting itself as a venture the possible partners are small companies. I experienced that information on these small companies was hard to gather. When the general manager provided me with documents on the result of initial discussions it became clear that, when possible partners are small, initial discussions are necessary to make a good judgment on the selection criteria.

After I tried to fill in as much of the criteria ratings for the long list partners I sat down with the general manager and filled in the blanks. At first the boxes in the management summary that force you to think about issues such as the reason for the partnership, a description of how the partnership is expected to look like, and how the ideal partner would look like. After thinking about these issues the first set of selection criteria is filled in easier. The second part is the rating of the selection criteria itself, here I needed the help of the general manager because he is the one who has the vision about what is important and what not. The ranking scale from 0 to 5 (0= not important, 5 most important) is experienced as a usable scale. Next the remaining selection criteria are ranked. Asking your self the questions behind the selection criteria proved to be very helpful in assessing the long-list partners.

With the experience of the general manager who also conducted initial discussions with these partners the remaining long-list criteria were filled. Again the ranking scale 1 to 5 proved to be applicable (1= strongly disagree, 5= strongly agree).

Using calculations with criteria scores and criteria weights the final scores of every partner is calculated automatically and presented in graphs. Using the macro functionality in Microsoft Excel the long-list partners are ranked on their total fit score. The top three of highest scores can be considered the short list.

The output of the partner selection process in the form of graphs provides a comprehensive and understandable view on the fit between the venture and the partner and the comparison between possible partners. Initially the graphs were bar charts but a spider-web graph provided an easier understandable presentation. As mentioned above shortlist is deduced from the long-list by considering the total fit score of the partner. The maximum score for a partnership differentiated however because of the importance scores on the selection criteria. Therefore the choice was made to present the partner scores as a percentage of the maximum attainable score.

After these last changes are made the partner selection tool provides a comprehensive first attempt to provide a structured approach to partner selection by ventures. As more iterations are performed, the tool can be improved even further and possibly be incorporated as an incubator wide partner selection tool.

6 Conclusion

Partnering and partner selection by corporate ventures was not yet sufficiently described in current literature. This exploratory research provides a consolidated description of partnering and partner selection by six corporate ventures in an incubation environment within Philips. The current literature focuses on corporate partner selection while there is a need for venture managers to select partners in a venture context. This research narrows this gap between literature and practice.

Ventures were found to follow most of the partnering trends described in literature. Ventures use flexible forms of partnerships instead of more dependent forms. Ventures focus on their core competences and use partners for non-core competences, although they can be forced to use partners for core-competences because of limited resources in the venture. Most of the ventures focused their partnering efforts on the market side instead of the supply side. However this result is related to the kind of incubator the venture is in. The trend towards the increased use of partner networks was not found for ventures. On the contrary ventures are looking for a partner that can fulfill more than one resource need of the venture. Corporate ventures in comparison with independent ventures were expected to use resources as a reason for partnering to a lesser degree. However complementary resources were the main reason of partnering for the corporate ventures in this research, next to market access. Establishing a standard as a reason for partnering was not found in this research.

Partner selection as described in literature and as practiced by corporate ventures differs in the applicability of selection criteria, and in interpretation of criteria. Network fit is not explicitly considered by venture managers and could therefore be considered of lesser importance to partner selection by corporate ventures than the other fit categories strategic fit, structural fit and cultural fit. The criteria organizational structure and structure/strategy were not at all applicable to ventures because of the size of the venture and its network. Ventures prefer to be as independent as possible and therefore prefer mutual independence over mutual dependence. Ventures look for complementary resources and see efficiency of those resources as a concern for later. Ventures have a preference for a partner with an entrepreneurial culture. This preference is unrelated to the size of the partner. These differences on criteria level are determined by the main differences between corporate ventures and corporations: flexibility, business orientation and time constraint.

Ventures which are looking for larger partners merely make an evaluation of a possible partner using a partner profile and do not apply comparison with other possible partners. Ventures which are looking for smaller partners did make a comparison between possible partners thereby using partner selection. A structured approach to partner selection as described in corporate partner selection literature is seldom practiced by ventures, and not using a structured approach was indicated by the venture managers as a negative experience of the method they used. A particular sequence in which fit categories were used by ventures was found, though it cannot be concluded that this is a difference with corporations. The sequence in which ventures select partners is: first establish a strategic rationale for the partnership using strategic fit, structural fit, and network fit criteria; and second to assess the workability of the partnership using cultural fit criteria and additional network fit criteria. The results of this research, difference in interpretation and sequence of use, are incorporated in a structured approach to partner selection in the form of a partner selection tool for corporate ventures.

6.1 Limitations

Although this research provides an addition to current literature by its description of partnering and partner selection by corporate ventures, and a pragmatic partner selection tool is constructed based on the results of this research, limitations of these research results should be taken into account. The use of interviews as a main source of evidence is a limitation in itself, because the researcher might interpret what the interviewee is saying the wrong way. This limitation is accounted for in this research by first asking the interview questions and providing summarizing conclusions at the end of the interview. Although consolidation provides the opportunity to compare individual interview results and make the results anonymous without using fictive naming, it is also a point where the researcher can bias the interview results and influence the reliability of the research. By using pattern matching as a data analysis method this limitation is accounted for.

Other limitations are the sample size used in this research and the external validity of this research as a result of doing qualitative research. The sample size of six corporate ventures, although maximum sample size possible to provide useful information, is on the small side. Because of this small sample it is hard to make conclusions that are applicable to all ventures. Therefore limitations of the conclusions are mentioned when conclusions are made. Another limitation related to the sample size and the type of sample, corporate ventures, is the external validity of this research. External validity is defined in the methodology section as 'the possibility to generalize of research results and conclusions to other persons, organizations, countries and situations'. By interviewing several persons in leading positions in different ventures results in partner selection categories and criteria that can be generalized for ventures which are positioned as corporate ventures. It is hard however to generalize the results to other type of ventures like external or independent ventures. Generalizing results to other organizations is also hard because of the unique approach of Philips towards corporate venturing. Results indicate that the high-tech environment and the type of incubator the ventures are in influence the interpretation of the results.

6.2 Future Research

Because this is one of the first attempts to provide a description of partnering and partner selection as a corporate venture, and a structured approach to partner selection was not available before this research future research has the opportunity to validate the results and assumptions of this research. Using more quantitative research methods with a larger sample size the venture approach can be validated increasing the external validity of this approach. More detailed research can look into the differences between the different incubators and their effect on partner selection. Also the influence of the parent organization and direction (horizontal/vertical) in which partnerships are established on partner selection are interesting topics of future research. The sequence in which fit categories are used by corporate ventures could not be indicated in this research as a difference between corporate ventures and corporations, future research might look into the use of a particular sequence by corporations.

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