Unlocking the Magic of Corporate-Startup Collaboration: How to Make It Work

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Abstract—*As organizations struggle to cope with digital transformation in an innovation environment, partnerships between startups and established companies have become increasingly important. Building upon years of practical experience and empirical research, we present advantages, obstacles, and the keys to successful corporate-startup collaboration.*

Key words: Corporate venturing, corporate-startup collaboration, digital transformation, partnership

INTRODUCTION

ORGANIZATIONS struggle to cope with digital transformation in an innovation environment. They face two simultaneous challenges—exploiting their core business while reinventing themselves. Organizations that can meet these challenges simultaneously are defined as *ambidextrous organizations*. In theory, the dynamics of such organizations are understood; but in practice, successful management remains a significant puzzle in search of a solution.

Established companies usually devote most attention to exploitation, which results in activities that strengthen and extend the core business. Activities include using existing resources and capabilities efficiently and reliably to progress in the same direction; *follow the rules* to drive out the variance and slack; focus on serving existing customers and their needs; manage and refine existing competencies; optimize current organizational rules; and use quarterly financial reporting to become efficient, predictable machines with the goal to *make money now*. These activities revolve around the past and present.

The future—exploration—is what causes organizational headaches. Focusing on innovating, reinventing the organization, and creating the new is harder than expected. For exploration, established companies should search for, acquire and develop new resources and capabilities to go in a new direction; *break some rules* and promote variance and slack; serve new customers with new needs; develop and lead new competencies; develop a new organizational system with new rules; and operate a portfolio of experiments and ventures that—following the notion of startups in the venture capital world—are designed to *make money later*.

Ambidexterity, therefore, requires becoming a *Janus-headed* organization facing both the past and the future. Past and present success for established companies can stand in the way of looking to the future—with innovative outlooks often missing within the company. One way to meet this challenge is to go outside the organization and collaborate with startups.

Bill Joy—co-founder of Sun Microsystems—famously stated: "*no matter who you are, most of the smartest people work for someone else*.*"* This is not a bad thing in the case of exploration—if you can find a way to collaborate with outsiders.

Partnership Advantages and Obstacles

Partnerships between startups and established companies have become increasingly important in recent years, as these partnerships can offer both sides significant advantages (see Figure 1).

Looking at the potential of such partnerships for established companies, Giuseppe Zocco, co-founder of Index Ventures, offered the following.

Big companies are lately waking up to the fact that their industries are disrupted by the innovations led by startups. Instead of thinking "some incumbents are gonna lose, some startups are gonna win," startups should be seen as potential partners. Partners to create more value for your company, more value for the consumer, and the whole industry (Mocker *et al.*, 2015:7).

And big companies are starting to get in the game. This situation is already visible among the German DAX 30 companies, where 29 out of the 30 have institutionalized partnerships in the form of corporate venture capital programs (Dörner *et al.*, 2020).

It is clear that companies are investing in young, innovative, and high-growth startups. But there is more to be gleaned from such partnerships than simply corporate venture capital investments. There are many different forms a corporate-startup collaboration can take, ranging from attending network events, hackathons, and scouting missions to startup suppliers, venture clienting, and strategic partnerships. There are even complete acquisitions of startups by established corporations—for a broader and more detailed overview see Gutmann, 2019; Siota *et al.*, 2020.

Despite the recent profusion of collaborations between established companies and startups—even this journal has seen a recent series of articles (e.g. Gupta *et al.*, 2021a; 2021b; Jug, 2020)—it is not surprising that their success is far from guaranteed. The Boston Consulting Group published a report called, "After the honeymoon ends" (Brigl *et al.*, 2018), to describe best practices on how to make corporate-startup collaborations work; two years later McKinsey weighed in with a study called, "You can't buy love: Reimagining corporate-startup partnerships in the DACH region" (Dörner *et al.*, 2020). Despite their ironic titles, these reports accurately capture the tensions that arise when corporates try to partner with startups.

Several internal barriers within corporates hinder successful collaboration, ranging from lack of top-level buy-in, misunderstandings of what startups are, misaligned internal corporate strategy and goals to risk aversion, lack of an entrepreneurial culture, and the "not-invented-here-syndrome." Other issues that plague the collaboration include unclear decision-making models, rigid and bureaucratic internal processes, and dysfunctional behavior (see Bannerjee *et al.*, 2016 for more details).

But established companies also face several external challenges at different points in time when looking into collaborations with startups.

1) When **initiating** a collaboration, they need to find the right partner, establish the right contact points, and identify internal problems worth solving with external startups.
2) When **establishing** a collaboration, they need to build trust, outline the form of collaboration, tackle cultural and language differences, and manage expectations both for the startup, but also within the complex and multifaceted stakeholder network of the corporate.
3) When **progressing** in a collaboration, they need to

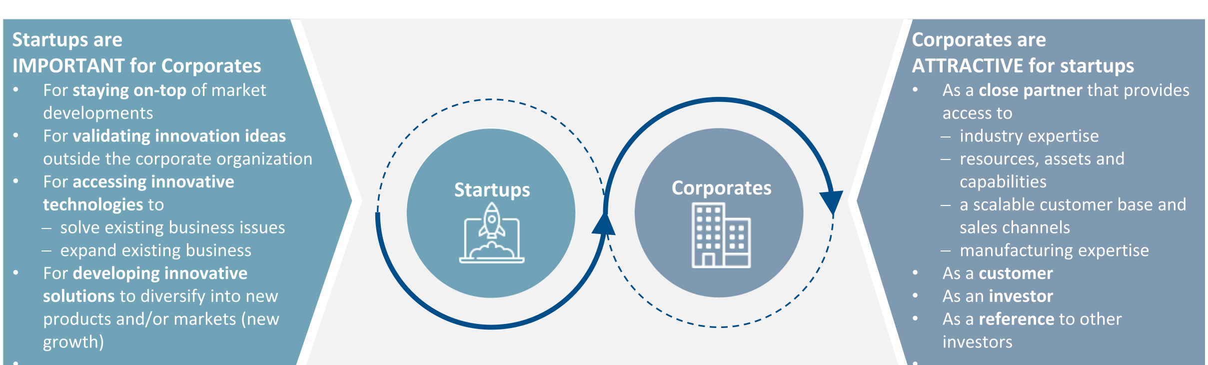

Figure 1. Why startups are important for corporates and vice versa—own illustration.

negotiate terms and conditions within a contract, smoothly navigate through the slow decision-making processes of the corporate, manage the power imbalances, and agree on intellectual property rights.

4) When **sustaining** a collaboration, they need to resolve conflicts and maintain communication when internal stakeholders change jobs or lose interest, strategic priorities shift, or the organizational setup is being reconfigured.

Talking the Same Language

Despite these obstacles, many examples illustrate that successful startup collaborations are possible. Over the last couple of years, we and our team conducted more than 300 interviews with over 100 different companies to deeply immerse ourselves in how corporate-startup collaborations work. We talked to corporates and startups across the globe, talking to C-level executives, VPs, board members and (corporate) investors, business unit heads, innovation managers, sales reps, business developers, engineers, programmers, researchers, strategists, and employees from IT, procurement, manufacturing, legal, HR, and marketing—almost every role we deemed important for the collaboration to flourish. Moreover, we investigated the different forms of corporate-startup collaborations, including corporate venture capital programs, corporate accelerators, venture client units, and open innovation formats.

For this article, we want to highlight some best practices regarding how to build successful corporate-startup collaborations. The insights we present are based on our research and observation stemming from our interviews and scholarship—which included a literature review spanning various research articles, and practitioner and consulting reports.

But before we introduce these best practices, we want to start by ensuring we are using the same language and talking about the same things. For example, we noticed that there is often confusion as to where scholars and practitioners draw the boundaries between *proof-of-concept*, *pilot*, and *production offering* in corporate-startup experiments. As Figure 2 highlights, it is crucial to understand that they are different in scope and time horizon.

- **Proof-of-Concept (PoC):** A PoC validates whether technology will work within the corporate environment and is hypothesis-driven. Depending on the domain of the corporate and the complexity of the tasks involved, it takes weeks to a couple of months for setting up a PoC.
- **Pilot:** A pilot project validates use cases with real user/ customer feedback and signals the feasibility of larger-scale deployment. Building a pilot usually takes several months.
- **Production:** A production offering works within a real, usable, and typically commercial environment, fully deployed across the organization. It can take many months or even years to build something within this category (regardless of whether

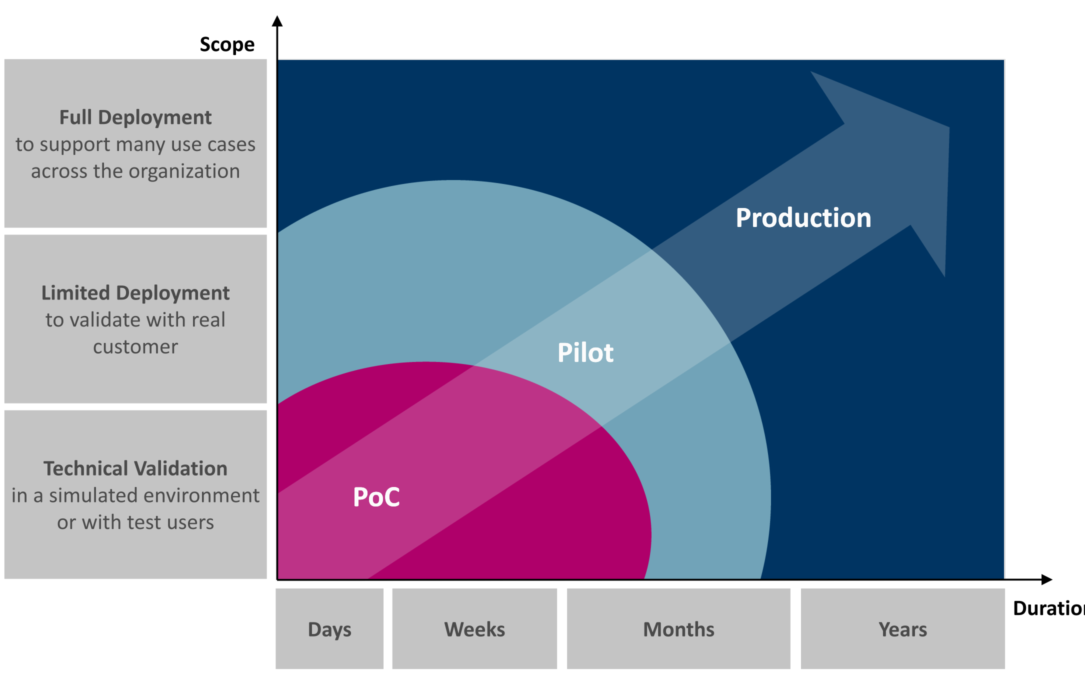

Figure 2. Corporate-startup experiments, finding success with proof-of-concepts (PoC)—adapted from Alchemist Accelerator "Evaluating an Enterprise Software Platform" (500 Startups, 2021).

companies build it with or without startups assisting them).

Agreement on these terms is critical for understanding how the collaboration should unfold.

The Keys to a Successful Partnership

In established companies, it is common practice to install venture units—such as corporate innovation units, open innovation departments, corporate venturing firms, corporate accelerators, or venture client units. These venture units are dedicated sub-units tasked to operate the end-to-end startup collaboration value chain (Gutmann *et al.*, 2019, Gutmann *et al.*, 2020). Because corporates thrive on structure, venture units need to provide a stage-gate process to guide the corporate and hide the creative chaos of startups.

Every great collaboration needs careful preparation and execution. Therefore, it is a must-have to outline and proceed through the various phases as summarized in Figure 3. There is simply no *silver bullet* alternative to achieve quick success.

The *Setup Phase* focuses on the collaboration's *well-thought-out* conception and operational preparation. Setting the boundary conditions for matching corporate strategic intent and expected outcomes is crucial to avoid disappointment. It demands top-level commitment and early involvement of respective employees.

1) **Strategy:** Top-level executives articulate their strategic choice by deciding on the type of innovation (product, process, business model), time horizon (short-term problem solving or long-term option development), experiment boundaries (PoC, pilot, production), their expected outcomes, and follow-up scenarios.
2) **Search Fields:** Top-level executives and venture unit management derive matching search fields from an analysis of strategy, environmental trends, and/or corporate needs with respective prioritization.
3) **Operation Setup:** A powerful collaboration team is formed, procedures defined (process, time, budget, decision-making committee, evaluation criteria, external partners, communication plan), and respective corporate departments involved.

In the *Discovery Phase,* the examination of search fields and choice of a startup is at the core. The deeper the corporate's understanding of those fields, the better to know who to select for collaboration. Key to this phase is a defined but lean evaluation process that avoids long lists of criteria and whose decision-making committee has a set time frame to decide.

1) **Understand:** The venture team generates a deep understanding of search fields, records

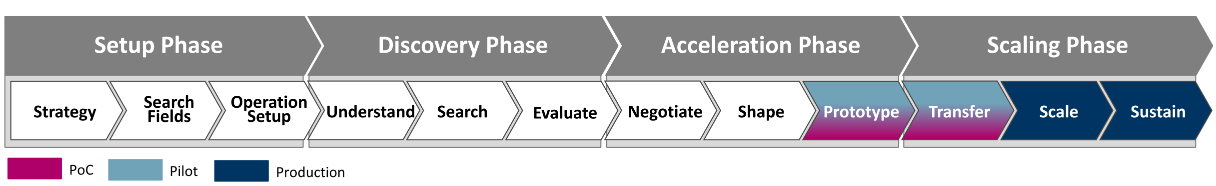

Figure 3. Corporate-startup collaboration process.

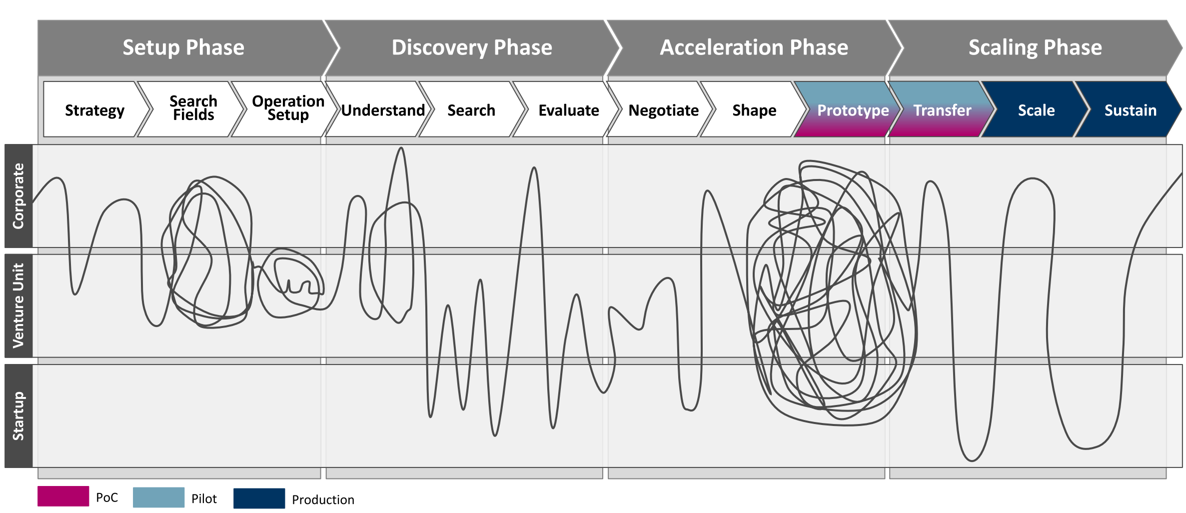

Figure 4. Corporate-startup collaboration process with swimming lanes.

respective ideas for startup search, and outlines corporates' offerings.

2) **Search:** Start of a visible access point for startups and scouting internationally using different options (e.g., continuous scouting, call for application, using own scouts or scouting providers, platforms, and events); establish a pool of startups and enter first dialogs.
3) **Evaluate:** The decision-making committee first gets a long list of startups (∼20), evaluates them based on defined criteria to create a shortlist (∼5), and then selects a startup for collaboration—sometimes with the involvement and agreement of top-level executives.

The *Acceleration Phase* emphasizes the rapid joint development of a solution or prototype. Figuring out a common understanding of the type of partnership and desired solution—the *what* and *how*—is critical for success. Aligning with corporate top-level executives increases the chance of implementation.

1) **Negotiate:** Goals of both sides are brought together and coordinated while conditions—intellectual property agreements, time, and budget. The roles are jointly specified; typically in a lean, startup-friendly contract.
2) **Shape:** Working mode and milestones established concerning who works on what and how—together or separately—and how to synchronize efforts.
3) **Prototype:** Joint creation of the solution by using respective resources and competencies.

The core goal of the *Scaling Phase* is to establish a self-sustaining venture or product offering. To achieve this goal, it requires defining the product offering's destination, settling on scaling strategy, and identifying responsibilities. It is helpful to establish exchange routines between the top-level, project team, and startup with regular reporting and performance measures.

1) **Transfer:** New venture project is transferred from the innovation to the business unit context as a new business unit or embedded in an existing one.
2) **Scale:** Team is assigned for growth with respective resources and skills; realistic scaling goals and performance measures are set and communicated to the project team.
3) **Sustain:** Venture project is set up such that it stays a fixed part of the corporate business portfolio.

Corporate, venture unit, and ventures are involved to varying degrees along those stages. Special effort is required in view of conception and implementation to sensitize, involve, and coordinate all parties; crossing of *swimming lanes* of responsibility and duties are often crossed many times (see Figure 4).

While all collaborations need to progress through these stages, new ventures need to be generally attuned to four mutually influencing dimensions as they develop: these dimensions include: (i) the characteristics of the individual innovator or team; (ii) the organizational structure in which the new venture is established, (iii) the processes by which this is accomplished; and (iv) the environment in which the new venture is established (see Figure 5).

Established companies tend to focus on the two dimensions of process and organization because they can be managed with hard facts—process descriptions and organizational charts, for example. The somewhat softer factors—such as individuals and environment—are usually left out of the picture. However, these are of enormous importance to successfully build new business. In business circles,

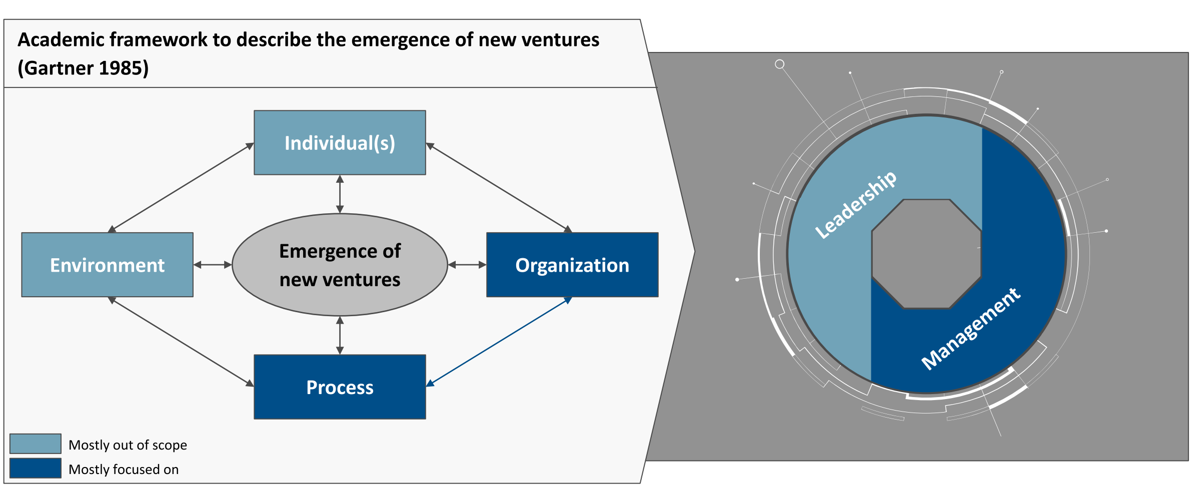

Figure 5. Emergence of new ventures framework—adapted from Gartner (1985).

this is often referred to as the difference between management and leadership (Zaleznik, 1977).

Final Thoughts

We want to conclude by emphasizing that successful corporate-startup collaborations require both management and leadership—and end our thoughts by offering the following tips:

1) **Vision:** Without an entrepreneurial vision for the future, any new business-building effort (whether with or without startups) is doomed to failure. A vision gives energy, purpose, and direction to the venture. It helps define short- and long-term goals and make important decisions.
2) **Process:** Established companies can set up a structured blueprint process that directs the collaboration with startups. However, they should see this more as supporting hints rather than an exact guide. The entrepreneurial process is inherently characterized by creative problem solving and cannot be replaced by checklists and recipe-like step-by-step processes.
3) **Organization:** Clear structures in the company are part of the organization, but successful embedding in a corporate network is also an important consideration. Where the startup collaboration unit (venture unit) is added or connected can vary, but what is crucial is the support it receives. Above all, the long-term support of top management for the collaboration, as well as clear budgets for several years and clear communication—both internally and externally—in the organizational context is of high importance.
4) **Individuals:** Employees with an entrepreneurial mindset and a willingness to change are crucial for the success of corporate-startup collaborations. The right experience, competencies, networks, and skills each play an important role. As these characteristics are often not available within established companies, external partners can provide support in setting up and operating venture units—for example, in sourcing startups, strategy development, venture evaluation, and project management.
5) **Environment:** It is important to create an environment in which individuals and teams can successfully drive innovation. This goal includes freedom for entrepreneurial development and experimentation. It also includes allowing everyone involved to break out of the typical corporate confines, gain access to customers, and interact accordingly with the outside world without having to overcome corporate bureaucratic hurdles and fight political power struggles.

We hope these insights lead to mutually advantageous and successful corporate-startup collaborations—when your organization seeks to cooperate with *the smart people who work outside your organization*.

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