Innovation Partnerships - Loosely or Tightly Coupled?

Key Concept
'Loosely coupled' research partnerships — in which the flow of new ideas and new knowledge tends to be one-way — are often considered the 'poor relation' in the quest for innovation. They can, however, be just as successful as 'tightly coupled' and more reciprocal alternatives. Much depends on the conditions at the 'in-sourcing' company.

Idea Summary
Increased emphasis on continual innovation — and increased awareness that it demands knowledge beyond the confines of a single organization — means research partnerships have become a more common and more important strategic tool. These inter-organizational arrangements fall broadly into two camps: the tightly coupled partnership; the more loosely coupled alternative.

The former is characterized by interdependencies and ongoing exchange of knowledge. Costly to create and maintain, tightly coupled partnerships are reciprocal arrangements in which each company commits the resources — including R&D personnel — necessary for joint innovation. The latter, in contrast, is usually limited to an exchange of knowledge for money and involves relatively little sustained interaction between partners. The pure licensing agreement, in which one business buys the right to re-use the knowledge of another or 'in-sources', is typical of the loosely coupled partnership.

Tightly coupled partnerships are commonly associated with 'concrete' innovations and new products, processes and services; loosely coupled partnerships more with incremental improvements. This, however, could be a false distinction.

Empirical research by Thomas Klueter of IESE Business School, L. Felipe Monteiro of INSEAD, and Denise R. Dunlap of D'Amore-McKim School of Business, Northeastern University, Boston, suggests that, in the right environment, loose research partnerships can create products completely new to an industry. One of the first studies to look at the role of loosely coupled partnerships in direct innovation, the research is based on analysis of 50 of the world’s biggest bio-pharmaceutical companies, using data for 1998-2007.

The results lend some support to the idea that tightly coupled partnerships generally have more direct influence on innovation. But they also demonstrate that, given the right 'internal context', the limitations or deficiencies inherent in loosely coupled arrangements can be overcome. Three conditions in
particular are identified as necessary for the ‘optimum environment’ for loosely coupled partnerships. These are:

- **Strong ‘experimental orientation’:** a willingness to pioneer new solutions and take risks makes a business more likely to re-combine ‘bought in’ knowledge in innovative ways and more likely to encourage scientists to use knowledge outside their current projects.

- **Financial slack:** having an unallocated pool of funds for innovation enables a business to provide a ‘cushion’ for loosely coupled partnerships and ensure development projects are not ‘cut off’ before their prime. (It provides the freedom for experimentation and, crucially, trial and error and failure.)

- **Managerial focus and attention:** the success of the loosely coupled partnership in generating innovation depends partly on management time, and this is most likely to be available in organizations where attention is focused on relatively few problems and solutions.

Together, these three conditions, say the researchers, provide ‘fertile ground’ for loosely coupled partnerships and innovation.

**Business Application**  
The findings of the research are, perhaps, particularly applicable to sectors heavily dependent on science and technology such as chemicals, biotechnology, telecommunications and electronics. They could, however, relate to any industry where large, established companies are converging with young, smaller and more agile businesses and where research partnerships and knowledge-sharing are increasing.

They do not suggest that loosely coupled research partnerships are better than tightly coupled ones. (Lots of companies combine both as the ‘optimal’ solution.) But they do suggest that, given the right conditions, they can be a productive and cost-effective path to innovation.

The research might be particularly good news for businesses that lack the resources to set up and maintain tightly coupled partnerships — or that worry they will prove difficult to exit.

**Further Reading**


**Further Relevant Resources**

Thomas Klueter’s profile at IESE Business School  
L. Felipe Monteiro’s profile at INSEAD  
Denise R. Dunlap’s profile at Northeastern University D’Amore-Kim School of Business  
IESE Business School Executive Education profile at IEDP  
INSEAD Executive Education profile at IEDP