

**NAVIGATING THROUGH EXTREME ASYMMETRY:
GO-TO-MARKET PARTNERSHIPS BETWEEN YOUNG SOFTWARE FIRMS
AND LARGE PLATFORM COMPANIES**

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Abstract

In this study, we analyze the evolution and outcomes of “ecosystem partnerships” between small start-up companies on the one hand and very large platform companies on the other. More concretely, we focus on the information technology (IT) sector and analyze the timing and outcomes of decisions by young software companies (also called ISVs, independent software vendors) to become an ecosystem partner of the largest company in the IT sector, IBM, by customizing their application software to run on the latter’s proprietary hardware and middleware infrastructure.

In theoretical terms, this phenomenon is interesting because it directly violates some of the common arguments, assumptions, and observations in the literature regarding (a) the governance of economic interactions between companies, and (b) the effectiveness of strategic alliances between companies. Literature on transaction cost economics tells us that investments in partner-specific assets lead to serious hazards; yet, in the context of the ecosystem partnerships that we study, small companies appear to voluntarily engage in increasing degrees of highly asset-specific investments. Similarly, literature on strategic alliances tells us that the effectiveness of alliances is positively related to the degree of similarity between alliance partners; yet, in the context that we study, extreme asymmetry between alliance partners is the rule rather than the exception.

We address three key questions: (1) *Decisions to make/increase asset specific investments*: What factors explain variance in the speed with which ISVs increase their level of commitment to IBM’s infrastructure technologies? (2) *Winners vs. losers in the competition for attention*: What factors explain why some ISVs are proactively selected by IBM for “teaming agreements” and others are not? (3) *Value creation and appropriation*: At each formally specified level of partnership between ISVs and IBM, what factors explain variance in the extent to which the ISV is able to create and appropriate value from its partnership with IBM?