

Industrial and Systems Engineering

Special Seminar

Licensing Contracts: Control Rights and Options

Monday, November 17

3:30 PM – Special Seminar

1130 Mechanical Engineering



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Research and development (R&D) collaborations, though common in high-tech industries, are challenging to manage due to technical and market uncertainty as well as incentive problems in R&D and marketing. We investigate the impact of control rights and options, payment terms and timing decisions on R&D collaborations between an innovator and a marketer. Control rights allocate future decision rights while options give rights to future actions in exchange for a pre-agreed fee. Our study reveals a counterintuitive result; the innovator may, under certain conditions, prefer to grant launch control rights or buy-out options to the marketer despite the fact that both terms restrict its downstream actions. The inclusion of control rights and options remedies project allocation and incentive alignment concerns. The adverse selection problem can be addressed without the need for a menu of contracts as a single option contract replicates a menu of contracts. Studying renegotiation and postponed contracting we demonstrate that contract timing as well as the careful allocation of control rights and options can have a significant influence on the success, market-potential and profitability of collaborative R&D. We provide recommendations on the optimal contract structure and timing based on the R&D project characteristics.

BIO: Niyazi Taneri is an Assistant Professor at Singapore University of Technology & Design. He holds Masters and PhD Degrees from the University of Cambridge where he studied as a British Chevening and Commonwealth Scholar. Prior to Cambridge, he studied at the University of Wisconsin-Madison as a Fulbright Scholar and worked for Tesco as an Operations Analyst. He is the recipient of the 2013 ISPIM-Wiley Best PhD Dissertation in Innovation Management Award. He has held visiting positions at the Massachusetts Institute of Technology and Singapore Management University. His research interests are broadly in Operations Management with a focus on new product development, supply chain contracting and sustainability in the supply chain.