

# Strategic Venture Association

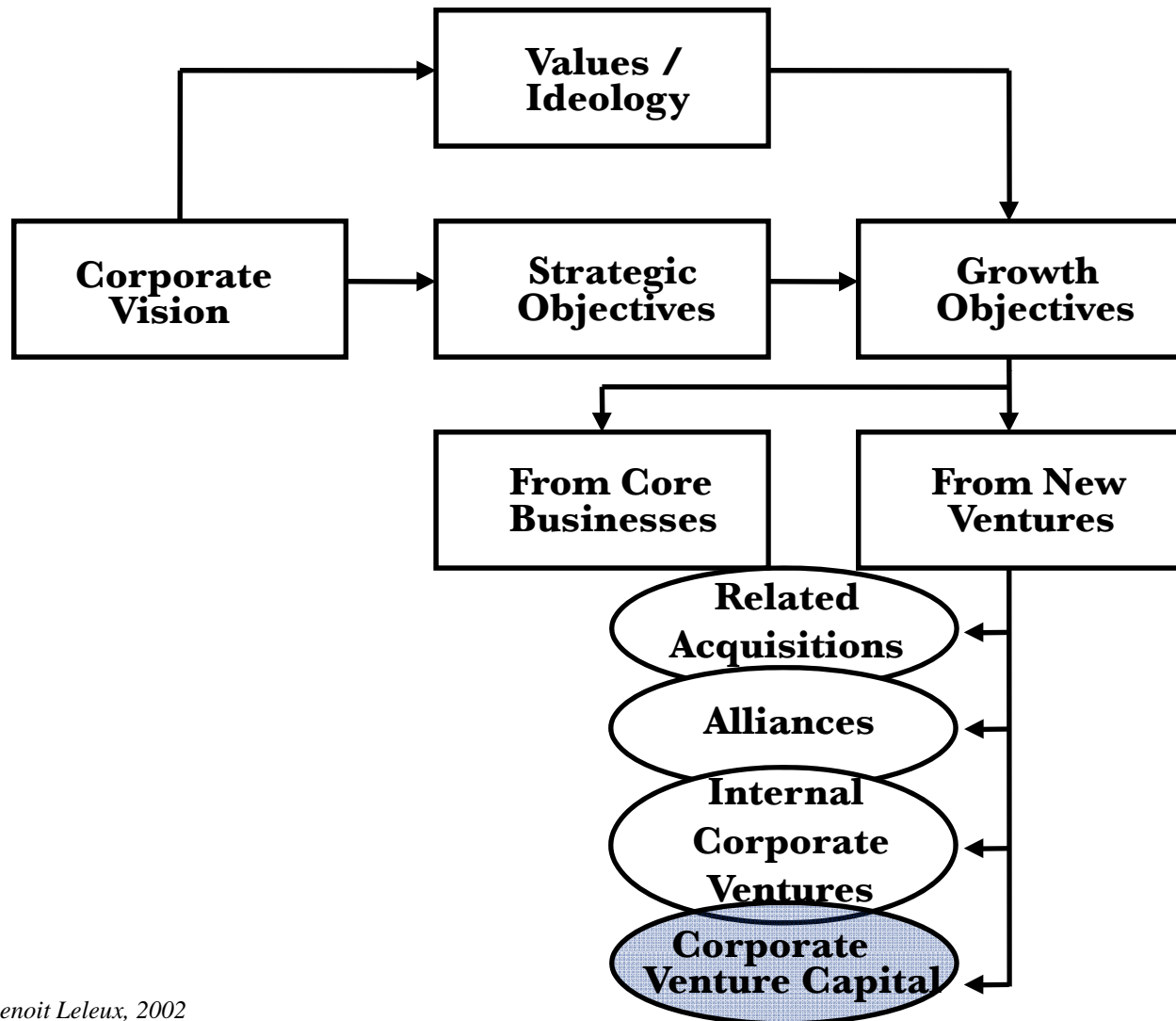
July 16, 2008



## Making Corporate Venture Capital Work

**Prof. James Henderson**

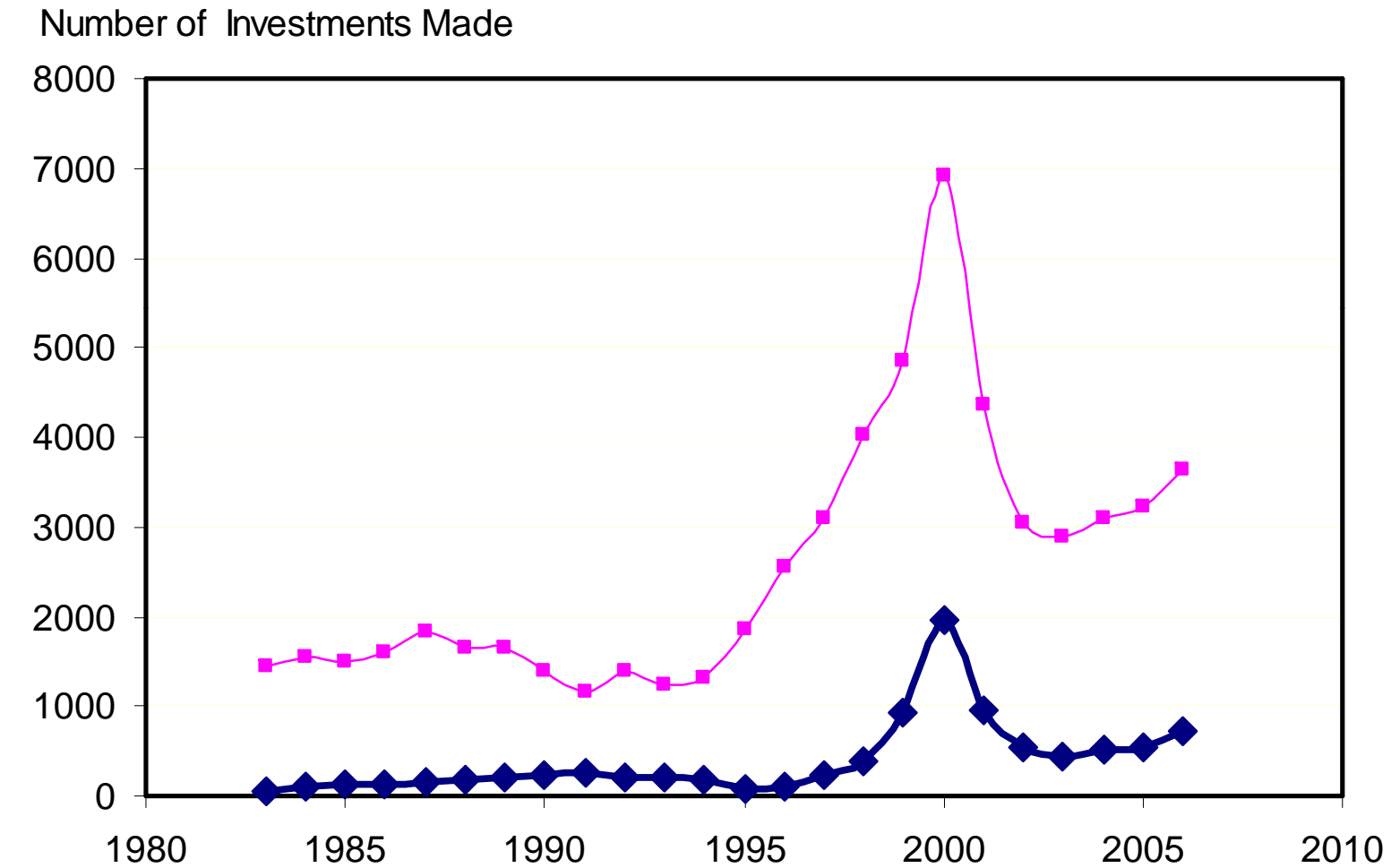
# Where does corporate venture capital fit into driving profitable growth?



Source: Adapted from Benoit Leleux, 2002

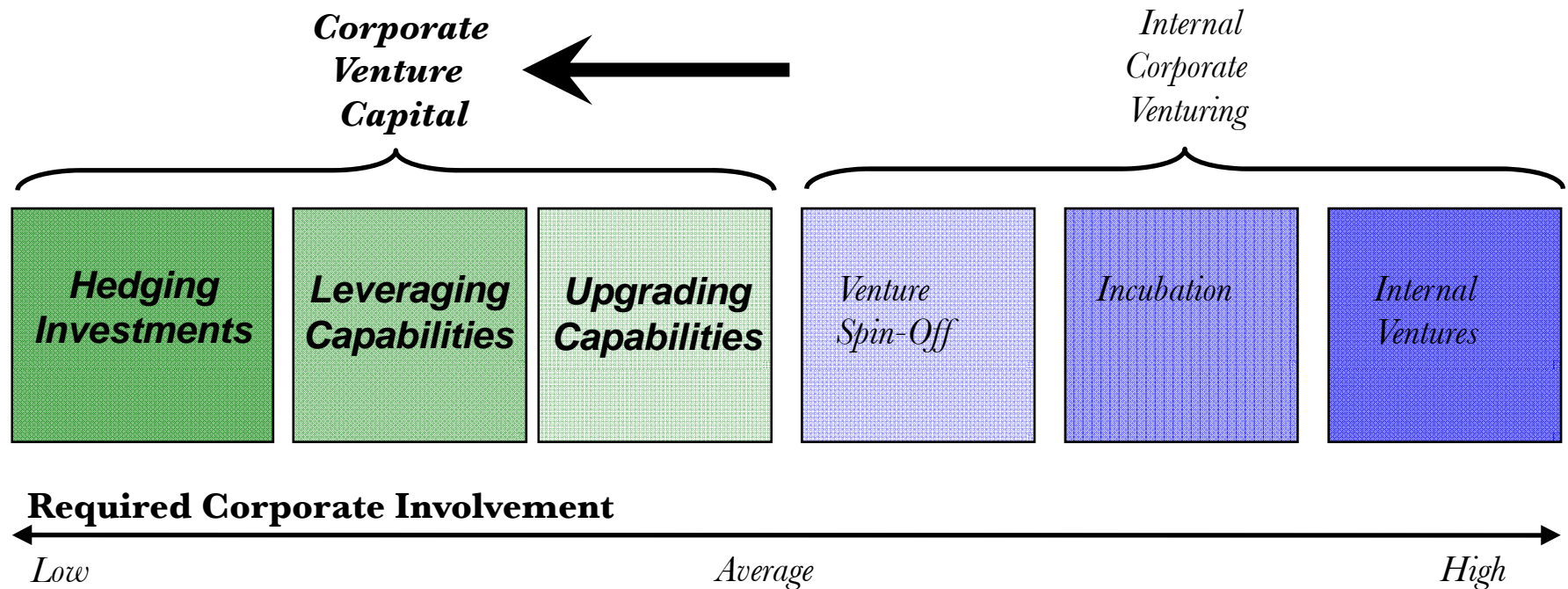
© 2007 IMD International. Not to be used or reproduced without permission.

# Corporate venture capital is coming back but as usual with a lag...



Source: Asset Alternatives and National Venture Capital Association

# Corporate venture capital comes in three flavours!

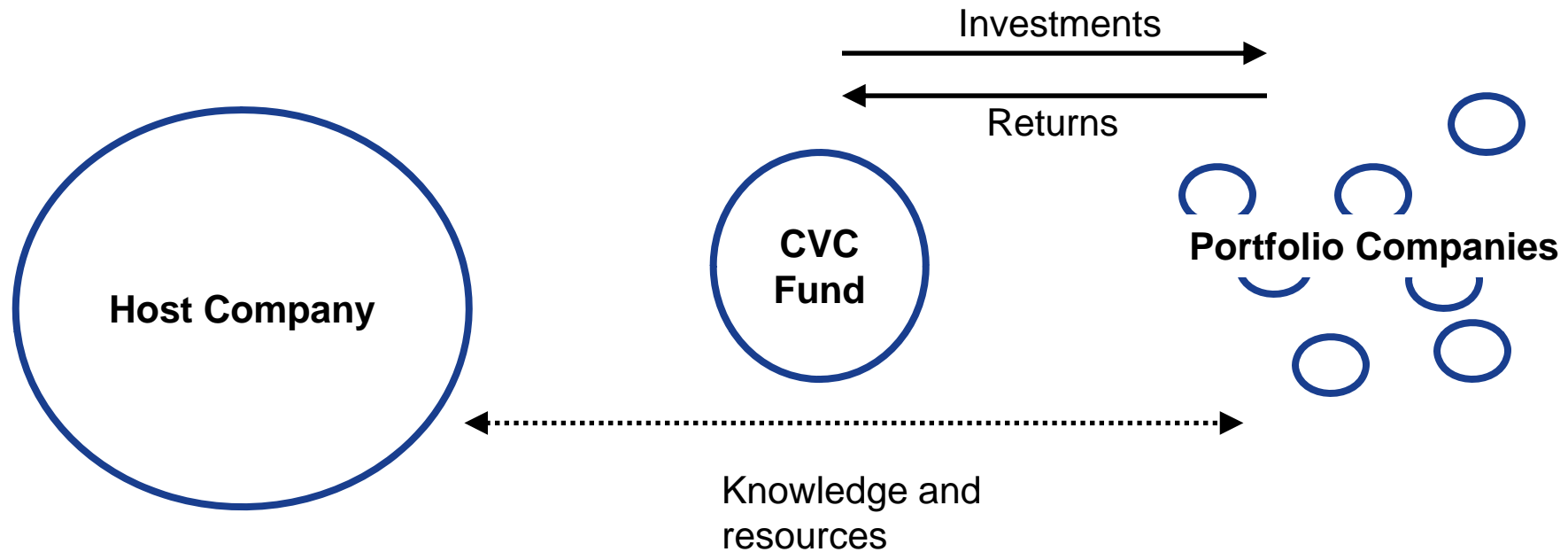


Source: Adapted from Benoit Leleux, 2002

© 2007 IMD International. Not to be used or reproduced without permission.



# Let's focus on capability upgrading and leveraging investments



## Capability Upgrading

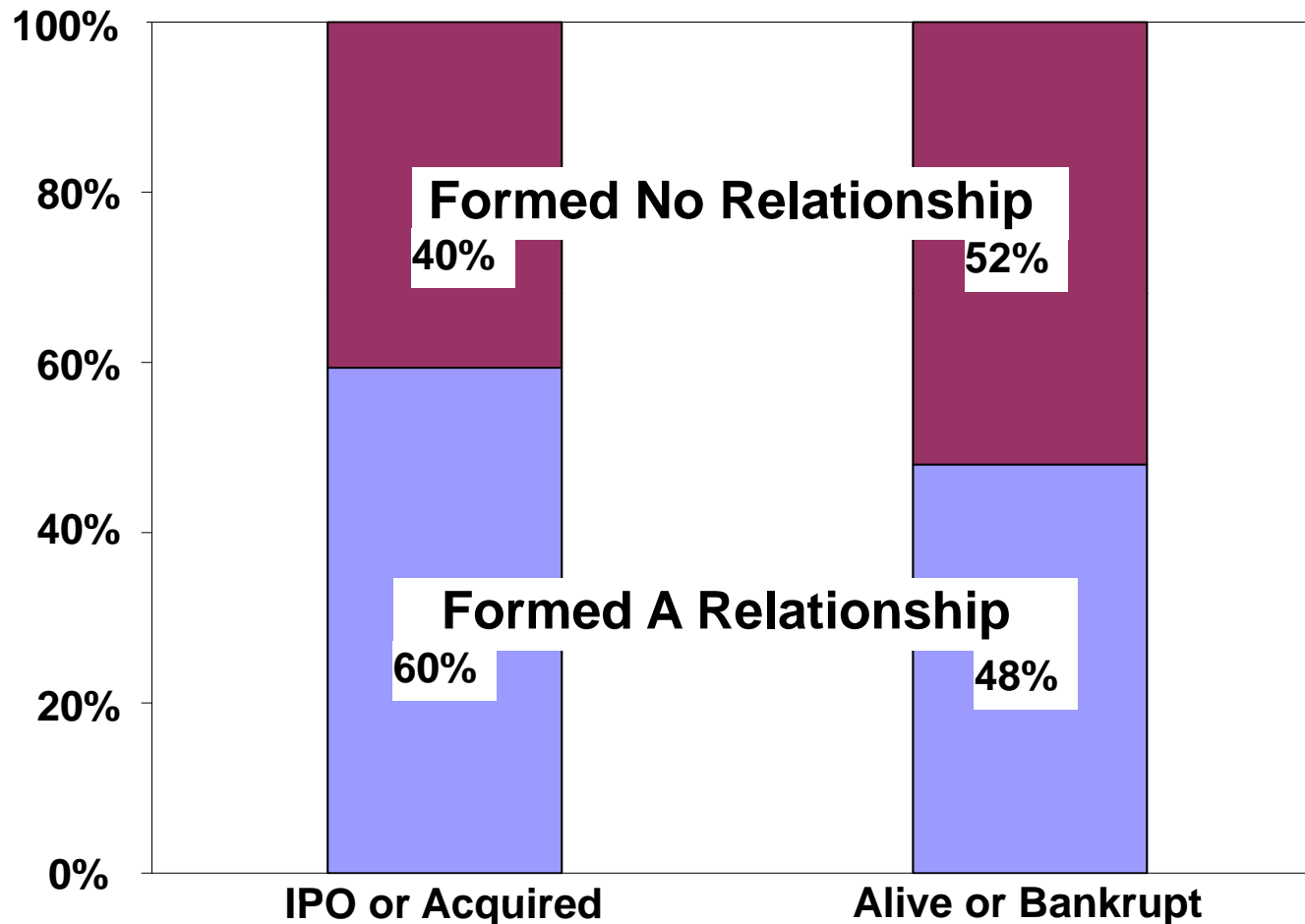
- Business models
- New market segments
- Access to new technological expertise
- Product development expertise

## Capability leveraging

- Support of a known brand
- Technological support
- Distribution channels
- Industry contacts

# Do leveraging and upgrading capabilities matter for subsequent venture success?

Study of CVC investments in the Global Network Operator Industry, 1974-2003



Source: J. Henderson and B. Leleux, 2005. "Learning from Experience in Corporate Venture Capital Programs: in J. Butler (ed.) *Information Age Series on Venture Capital and Entrepreneurship: Venture Capital and the Changing World of Entrepreneurship*.

© 2007 IMD International. Not to be used or reproduced without permission.



# Early results suggest that focusing on upgrading capabilities also lead to greater exit success...

## Study of CVC Investments in the Life Science Industry

	Lilly	Novartis	Pfizer	Merck	GSK
Leveraging	15	48	30	36	21
Upgrading	69	23	20	64	64
Hedging	15	29	50	0	16
Percentage IPO/Acquisition	50.0	40.2	38.5	63.7	53.1
Percentage Private/Bankrupt	50.0	59.8	61.5	36.3	46.9

**A win-win for both the corporate and new venture...**

Source: J. Henderson, "The Role of Corporate Venture Capital Funds in Financing Biotechnology and Healthcare: Differing Approaches and Performance Consequences" *International Journal of Technoentrepreneurship*, forthcoming.

© 2007 IMD International. Not to be used or reproduced without permission.



# Results from another: Motorola Ventures created in 1998 focusing on leveraging and upgrading investments (75%)...

## MOTOROLA VENTURES

TILEFILE

AMBERPOINT

AirPlay

Cedar Point  
COMMUNICATIONS

agion  
SECURITY SOLUTIONS

Orthogon Systems  
(Acquired by Motorola)

4thpass  
(Acquired by Motorola)

gotv

MOBILE  
COMPLETE  
The Devices. The People.

AirClic

apertio  
(Acquired by NokiaSiemens)

RUCKUS  
WIRELESS

DartDevices

vocera  
COMMUNICATIONS

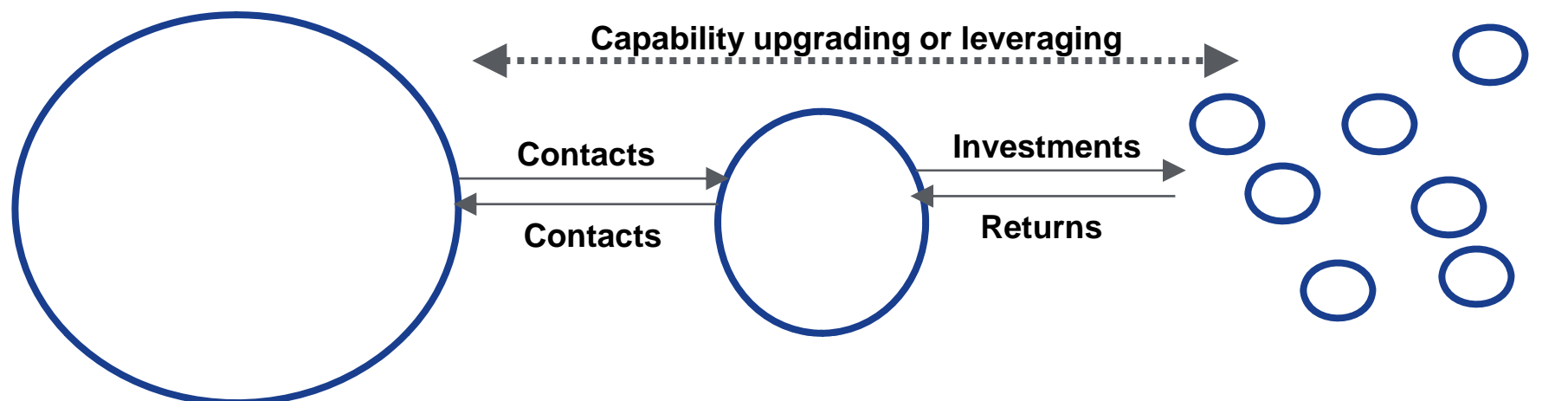
Extricom

Bluefire  
SECURITY TECHNOLOGIES

Second largest technology corporate venture capitalist

Returns are within the top decile of all VC investments in high tech

# But corporate venturing is one of the least satisfactory strategic tools...why?



## Host Company

1. Insignificant top management and BU commitment
2. Lack of incentives – Not enough time

## CVC Fund

3. Mission incompatibility
4. Perceived lack of credibility within organization
5. Desire/need to follow the independent venture capitalist model

## Portfolio Companies

6. Less opportunities to cooperate with competitors
7. Risk of business idea stolen
8. Slower decision making – cultural incompatibility
9. Too much dependence

Source: J. Henderson and B. Leleux. 2005. "Corporate Venture Capital: Realizing Resource Combinations and Transfers" in T. Elving (ed.) *International Studies in Entrepreneurship Research: Corporate Entrepreneurship and Venturing*, Springer, NY.

# Keys to success of running a corporate venture capital program

