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**CORPORATE VENTURE CAPITAL AS A CONTRIBUTOR OF CORPORATION'S
INNOVATIVENESS**

Bachelor's Thesis

Management and International Business Department

November 2016

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1 INTRODUCTION

1.1 Introduction to the topic

In today's ever-changing and chaotic world corporations are forced to develop themselves continuously to be able to survive (Kessler et al. 2007). Companies have had a need to develop new services and products to follow the evolution for a long time (Tushman & Nadler 1986), but especially during the past decades the need to innovate has become a necessary and innovating has increased its role as a critical driver of corporations' survival and nations' long-term economic growth (Chemmanur et al. 2014). Large companies are paying more and more attention to changing industries and it is becoming clear that the most successful corporations are those who are able to innovate most efficiently (Stringer 2000). Especially corporations in high-tech industries face problems with decreasing life cycles of products and continuous technological breakthroughs followed by a need to innovate new products all the time (Kessler et al.).

The main problem in corporations' development is that they do not have an idea about how to advance their innovative activities and as a result they tend to become stuck with existing products and technologies (Stringer 2000). Urbancová (2013) states that 21st century is based on knowledge, information and innovative economy. Since there are new business models and technologies arising all the time, companies' own research and development (R&D) activities are not sufficient anymore (Stringer). Consequently, corporations have to move from internal R&D activities to external R&D projects (Brockhoff 1998, Ernst et al. 2005, Fulghieri & Sevilir 2009, Lantz & Sahut 2010).

An external R&D project refers to the process in which a corporation acquires knowledge resources outside the company (Ito & Tanaka 2016). External R&D activity is essential especially for international corporations since there exists higher competitive pressure there compared to domestic markets (Ito & Tanaka). Popular ways of conducting external R&D have been for example joint ventures and acquisitions, but during the last decades corporate venture capital (CVC) investment

has increased its reputation increasingly as an innovation enhancer, especially among big companies such as Intel and Microsoft (Chesbrough 2002, Fulghieri & Sevilir 2009). In practice things acquired from external R&D projects mean expertise, intellectual property and know-how (Ito & Tanaka).

Generally CVC is defined as a process of established firms making investments in entrepreneurial firms (Chesbrough 2002, MacMillan et al. 2008). Chemmanur and Loutskina (2009) describe corporate venture capital units as subsidiaries of non-financial corporations investing their parent corporations' funds in recent ventures. According to Hill & Birkinshaw (2014) CVC units build new skills for the corporation, simultaneously leveraging its already existing capabilities. Generally CVC investors invest in early-stage, entrepreneurial companies and obtain a minority equity stake in it (MacMillan et al.). By doing this, the parent corporation is able to monitor new emerging technologies and complementary companies that can in future become their partners (MacMillan et al.). CVC investors can also combine their capital with that of other venture capitalists to invest in firms with a lot of uncertainty (Lerner 2013).

CVC investments are originally based on the venture capital (VC) investments. Venture capital firms are established to finance high-risk high-reward projects and their goal is to gain as high financial returns as possible (Gompers & Lerner 1998). According to Rind (1981), the modern venture capital era can be considered to have started after the Second World War. Gompers and Lerner and Rind state that another important act for the development of venture capital industry was the formation of the first venture capital firm (American Research and Development) in 1946. During the following decades venture capital companies achieved large gains, which led to the establishment of many new VC companies in the 1960s and 1970s (Rind 1981). The first CVC funds were established about two decades after the traditional venture capital funds in the mid-1960s (Gompers & Lerner 2000).

Since 1960s the development of corporate venturing has followed that of venture capital. The development of these two can be divided into three cycles. The first wave occurred when CVC investments started to arise in 1960s. The second wave began in 1970-1980s mainly because of the fall in capital gain taxes. In 1987 as the stock market crashed, the venture capital lost its grace for a while also. The third wave of venture

capital can be considered to have started in 1990s because of the boom of telecommunications and Internet-related companies. Nowadays venture capital forms a significant part of corporations' investment portfolios and its popularity keeps increasing all the time. (Gompers & Lerner 2000, Gompers 2002, Singhal 2015.)

This thesis examines the key success factors of the CVC investments as a source of parent corporation's innovation growth. It is stated in almost all literature according to innovation that companies are forced to look for external sources of innovation to be able to keep growing and stay competitive. Especially in technology-intensive industries, firms need to innovate to retain their competitiveness (Wadhwa et al. 2016). This need can also be found in news almost daily and there is a lot of discussion about large firms' lack of creativeness and entrepreneurial culture leading to their failure (for example Nokia's case).

The topic of this thesis is chosen because existing literature lacks an integrative study about the factors affecting the CVC investment's ability to foster the innovativeness of the parent corporation. CVC investment's role as a source of new innovation growth has increased during the past decades and in 2013 CVCs portion of all venture capital investments was over 10% (Weiblen & Chesbrough 2015). This may be a result of nowadays' situation, in which large and established companies face numerous obstacles lacking the innovativeness typical to entrepreneurs and are forced to start looking for new ways to keep growing. Since there is a clear lack of research concerning the topic, this thesis will help companies to get familiar with the concept and the benefits of it as a source of innovativeness. The study focuses on an international context, not aiming to highlight any specific country or continent. Since venture capitalists tend to invest mostly in high-technology companies (Fenn & Liang 1998), the focus will be mainly on that industry.

1.2. Research question and objectives

Corporate Venture Capital has been discussed in today's literature generally as a way to access new markets and new technologies (Dushnitsky & Lenox 2006, Napp & Minshall 2011). This study aims to clarify what kind of factors there are behind the success of CVC investment as a source of innovativeness of the parent corporation.

The goal is to find out the key factors in the structure and goal setting in CVC units and also in the qualities in the parent corporation affecting the success. This thesis also aims to bring together the main factors behind the competitive advantage of the CVC investments in the innovation process compared to traditional venture capital investments.

Even though corporate venture capital has been studied more widely during the last years, there is still a lot to investigate. Especially when the existing research of CVC is compared to the existing literature of venture capital, there is a wide range of aspects to study in the topic. Since there exists only little research about the factors affecting CVC as a source of innovativeness of the corporation, this thesis complements the existing literature by gathering the key factors according to the topic. The goal is to offer a deeper understanding of corporate venturing, especially CVC as a phenomenon and to explain the factors affecting its relationship with innovativeness for the readers.

The research question of this thesis is:

What are the factors influencing the success of corporate venture capital investments in the innovation process of the parent companies?

Additional sub-questions are also presented. The purpose of these questions is to offer a deeper understanding according to success factors of CVC investments:

What are the most important differences between traditional venture capital and corporate venture capital investments?

How the structure and goals of the CVC unit affect the innovation process?

1.3. Research methods

This thesis uses a qualitative research methodology and the research is conducted as a review of existing literature. The literature review is chosen because multidimensional literature about the topic exists and the objective of this thesis is to integrate and compare the information of different kind of sources. The used literature varies from

basic theories of venture capital and corporate venture capital to recent studies in the topic of CVC as a source of innovation growth for the parent companies.

Though this thesis is conducted purely as a literature review it combines the knowledge integrated from the well-known studies with the perspectives of more practical empirical studies. Many researchers have conducted empirical studies according to the topic which provides relevant information for this study. Still the existing literature seems to lack of integrated study about the topics studied, which is why this study is conducted. The comparison of the literature from different countries and different kind of sources will be done to ensure the validity of the information and the findings emerging from this study. Information will be integrated from recent articles but perspectives and definitions will be also studied from older sources to better understand the development of the phenomenon.

The articles used in this thesis are chosen strictly and they aim to provide a multidimensional perspective to the topic. Most of the articles have been found from Business Source Complete (EBSCO) and ProQuest Business -databases. All the articles analyzed are peer reviewed which highlights the validity of them. During the reading process some significant authors (for example Gompers & Lerner, Dushnitsky,) have also been found because many other researches refer to them and through this process, some relevant articles have been found. The focus has been on finding material from different decades and stages of development of the corporate venturing in order to provide more relevant and universal perspective on the topic. The articles have been found mainly with the following words: “corporate venture capital”, “corporate venturing”, and “venture capital”. Later these words have been searched together with word “innovation” to be able to limit the search results to the most relevant ones.

1.4. Structure of the study

This thesis consists of four chapters, which will be assembled as follows. The first chapter introduces the topic, the research question and the choice of research methods. The choice of the topic is also justified in this chapter. In chapter two the main concepts of this thesis; venture capital, corporate venture capital and innovation, are defined

separately to better understand the purpose of them for this study and each of them as a phenomenon. The relationships between these concepts are also clarified after the definitions and earlier findings according to the them are discussed.

Chapter three focuses on the main research problem and aims to explain the main factors in the CVC investment influencing the innovativeness of the corporation. Also the role of the parent corporation and its relationship between the CVC units are discussed and the most significant factors in these affecting the success of the investment are explained.

Chapter four will sum up the conclusions of the thesis. In this chapter the main findings are presented and the initial research question is answered. In the end the limitations of the study and the suggestions for the future research are presented.

2 CORPORATE VENTURE CAPITAL AND INNOVATION

This chapter clarifies the importance of the main concepts of this thesis and the relationships between them. The chapter aims to describe the concepts of venture capital and corporate venture capital, the main differences between these concepts and the significance of them in today's financing environment. The description aims to provide a broad understanding of the concepts and their development, since without the comprehension of the similarities, differences and development of these concepts, the later discussion loses its significance. In the end, the concept of innovation is defined and connected to corporate venture capital. All of the concepts are described and interrelated since they form the theoretical base for the later discussion in this thesis.

2.1. Venture Capital

Founders of new companies do not always have sufficient funds to finance their projects and they have to seek funds outside the company. These young companies are often seen as unattractive targets of investments for the banks (Vasilescu & Popa 2011). Especially during the financial crisis, financing through banking was highly limited and firms were forced to look for financing from alternative sources (Vasilescu & Popa). Venture capitalists (VCs) are the ones providing funds for these new firms generally when they are creating new products and services at potential markets (Lerner 1995, Singhal 2015). During the 1960s and 1970s, relatively small part of firms used venture capital as a source of financing but in 1990s it started to raise its status as a form of financing (Singhal). Nowadays venture capital can be considered as a significant actor in financial market.

Venture capital organizations are firms that focus on financing high-risk, potentially high-reward projects (Gompers & Lerner 2000). Compared to banks, which only monitor the financial activity of the firms they lend to, venture capitalists also keep their eye on the investment decisions and the strategy of the firm, and they advice the firms by providing for example consultants and lawyers to them if needed (Gompers & Lerner 1998). Venture capitalists tend to oversee firms' activities intensively, for

example by visiting firms frequently, arranging meetings with customers and by involving themselves in strategic decision-making processes (Lerner 1995).

VC funds have generally quite complicated corporate structures (Singhal 2015). The most common life-time of a VC fund is about ten years, but often they raise new funds every few years (Gompers and Lerner 1998). In the end of this life-cycle, venture capitalists look for a clear exit, such as public listing or third party acquisition for the investment (Singhal).

2.2. Corporate venturing and corporate venture capital

Corporate venturing exists in the field of venture capital and is generally seen critical for corporations' strategic development (Burgers et al. 2009). Corporate venturing is defined as a process in which already existing corporations develop new businesses (Burgers et al., Sharma & Chrisman 1999) and it is generally divided into internal and external venturing (MacMillan et al. 2008). Internal corporate venturing refers to a process of creating entrepreneurial firms inside the company (MacMillan et al.). When corporate venturing leads to the arrangement of a new organizational entity that acts semi-autonomously, it is called external venturing (Sharma & Chrisman). Corporations get a look inside new technological fields and new markets through corporate venturing, which is why they are able to improve their ability to respond to market transformations (Lerner 2013).

The focus of this thesis is on a specific form of external corporate venturing, corporate venture capital (CVC). During the last decades CVC has become an important actor in venture capital industry, covering 15% of all venture capital investments in 2000 (Dushnitsky 2011). Corporate venture capital has been defined in many different ways but there can be found some similarities between these definitions. According to Napp and Minshall (2011), CVC units are entities established by large corporations that make investments in entrepreneurial firms. Gompers and Lerner (1998) state that CVC refers to a direct minority equity investment in privately-held entrepreneurial ventures made by established corporations. CVC investments have also been defined as direct investments of corporate funds to external start-ups excluding the investments made by a third party through an external managed fund (Chesbrough 2002). A conjunctive

factor of different definitions is that the goal of a CVC investment generally is to help the parent company to grow its business for example by getting access to new technologies or enabling an enter to new markets (Chesbrough 2002, MacMillan et al. 2008).

Even though CVC is considered as a form of venture capital, it differs a lot from the traditional venture capital funding for example in organizational structure and in the nature of services offered to portfolio companies (Gompers & Lerner 2000). While the goal of a traditional VC investment is to benefit from the investment purely financially, CVC units are established to fulfill both strategic and financial or just strategic objectives of their parent corporation (Chemmanur et al. 2014, Chesbrough 2002, MacMillan et al. 2008). According to MacMillan et al. and Lee and Kang (2015), 65% of the CVC investments have primarily strategic goals and also financial goals are set. The most important strategic goals of investments seem to be support for existing business, window on new technology and search for totally new directions (Lee & Kang, MacMillan et al.).

Compared to traditional VC firms that generally operate on their own behalf, CVC units are normally organized as subsidiaries of the parent corporations with lower incentive-based compensation system (Gompers & Lerner 2000). Since CVC units tend to co-operate with other venture capitalist, they can gain access to monitor and identify innovate ideas developed by entrepreneurial firms without a huge amount of funds (Dushnitsky 2011). This is an important benefit compared to other forms of external financing (for example joint ventures) that have to make greater financial efforts to be able to even make new investments.

2.3. Innovation

The term innovation is not an easy concept to describe, since there does not exist a specific universal definition for it. Tushman and Nadler (1986) define the term as a process of managing today's actions while building the conditions for tomorrow. According to Urbancová (2013), innovation is not only technological changes and inventions, but instead can be defined as something new originating from research. Another perspective to innovation is offered by Gaffard (2008), who describes

innovation as a process of creative destruction. This process stands for a building of new productive capacity and at the same time destructing the old one.

Innovation is seen as a crucial factor in corporations' growth and competitive advantage nowadays (Fulghieri & Sevilir 2009, Lewandowska 2013). Recently many entrepreneurs and managers have understood the importance of creating and implementing innovations to be able to compete in global markets (Lewandowska). Since firms are not able to create enough innovations inside the company, they have to move to look for external sources to get access to new technologies and markets (Fulghieri & Sevilir, MacMillan et al. 2008). Hence, large companies have started to recognize increasingly the strategic value of the external corporate venturing as a tool to enhance the innovation (Napp & Minshall 2011). This is the context in which existing literature relates the concepts of innovation and CVC often (Fulghieri & Sevilir, Napp & Minshall).

Tushman and Nadler's (1986) definition is highly connected with the theory of ambidexterity. This theory refers to a situation in which corporation is able to simultaneously use corporation's internal resources to keep its existing innovation activity going on and acquire external innovative knowledge about new technologies and markets (Lee & Kang 2015). According to O'Reilly III and Tushman (2013) corporate venture capital is one way to create innovativeness through external sources.

Open innovation theory provided by Henry Chesbrough gives an understanding of nowadays' firms innovation processes. According to the theory, companies improve their innovativeness by using both inflows and outflows of knowledge. The theory was presented for the first time in 1960, and in today's world the changing market conditions are forcing firms to change their original models of innovation to open innovation model (Naqshbandi 2016). One key fact highlighted in Chesbrough's theory is the importance of corporation's internal capabilities and that corporations need to be able to exploit and transform the knowledge acquired from outside to benefit from it.

Lewandowska's (2013) statement, that nowadays the hindering factor of the creation of innovative products and processes is not the lack of ideas but instead the lack of

necessary resources, supports Chesbrough's theory of innovation. Even though corporation is able to get access to new knowledge and technologies through a CVC investment (Lee & Kang 2015), the knowledge will not serve the corporation if their internal resources are insufficient.

3 CVC AS A TOOL FOR INNOVATION AND GROWTH

This chapter focuses on the research question of this thesis and aims to define the main factors influencing the success of a CVC investment in the innovation process of the parent company. The main differences between the more traditional VC investments and CVC investments are analyzed to highlight the role of the CVC as a source of the innovation growth in the companies but also other key aspects are presented.

3.1. The choice of corporate venture capital as a source of financing

Before corporations are able to start to invest in early-stage companies through corporate venture capital, they to find right kind of target firms to invest in. To be able to do this, corporations have to offer to these companies something in return. Though the focus of this study is on the factors making CVC investment successful, the start-ups' choice to look for financing through CVC should be justified and discussed briefly also.

Many early-stage start-ups are either forced or willing to look for external financing to enable their development through corporate venture capital (Chemmanur & Loutskina 2008). Since some small companies seem too risky and uncertain for banks and independent venture capitalists to invest in, CVC can be the only source of financing these companies can have to be able to grow (Chemmanur & Loutskina). Other firms choose CVC as a source of financing because having a large corporation as an investor can later attract other investors also (Chemmanur & Loutskina).

Because CVC units tend to act as subsidiaries of their parent corporations, they have wider knowledge of the technology and industry than IVCs (Chemmanur et al. 2014). Start-ups consider these large corporations as good partners to advise them and for example help them to develop their own R&D projects (Chemmanur et al.). The relationship between the start-up and the parent corporation can also be seen as a possible future co-operation, which can foster start-ups to get involved in these processes (Napp & Minshall 2011). CVC investment units are also likely to be more risk-tolerant, which enables them to better nurture innovation in the early-stage

companies since early-stage failures are almost necessary for successful new innovations to arise (Chemmanur et al.).

3.2. The key factors

3.2.1. Objective of an investment

While the investments made by traditional venture capitalists are purely based on financial objectives, CVCs normally aim to fulfill both strategic and financial, or only strategic goals of the parent company (Chesbrough 2002). Investments based on more financial goals aim to gain good returns for the parent firm, while the investments focused on more strategic goals try to achieve growth of sales and profits of the parent company (Chesbrough). Generally investments with strategic goals will create more value to the corporation than the ones with financial goals (Dushnitsky 2006) and nowadays big names like Google have started to use CVC as a tool in their innovation strategy (Dushnitsky 2011).

According to Chesbrough (2002), CVC investments are categorized by two main characters: the objective of the investment and the degree of how linked the operations of the investing company and the start-up are. Chesbrough proposes a more detailed categorization of investments into four categories according to the linkage between corporation's and entrepreneurial firm's operations and the amount of the strategic goals. These four categories are driving, enabling, emergent and passive investments.

Driving investments consist of strategic goals and extremely tight links between companies' operations. These investments serve corporations if they aim to explore new areas and want to see which are the ways to succeed and the possible pitfalls. *Enabling investments* focus mainly on strategic goals, but the links between the companies are not so tight. These kind of investments are meant create value-added through complementary products or processes and can be a valuable source of growth for the corporation. *Emergent and passive investments* do not aim to gain strategic benefits for the parent at all, which is why the first two types are beneficial for the innovation growth in companies, and the two others do not have an effect on corporation's innovativeness directly. (Anokhin et al. 2016.)

The success of the investment is not only dependent on the fact that its goals are strategic instead of purely financial, but also on the clearness of its objectives (Lerner 2013, Napp & Minshall 2011). It is important to adjust the goals of the three performers in the investing process; the parent company, the CVC fund and the start-up, to be able to succeed (Lerner). One of the key problems in goal setting is the diversification of the goals between different industries and technologies (Wadhwa et al. 2016). Many corporations invest outside their core industries aiming to get access to different kind of technologies and industries (Dushnitsky 2011). If a corporation centralizes its investments too much in the same industry, the knowledge acquired will be quite one-sided (Wadhwa et al.).

Another problem arising from the goal setting according to Lerner (2013) is that CVC funds tend to have too many goals since they aim to please different units of the parent company. Therefore, in addition to the clearness of the goals the CVC funds should only have a few goals to ensure an effective and appropriate performance of it. Nowadays corporations more often establish many CVC units instead of just one in the company (Dushnitsky 2011), which enables them to for example set more CVC units with separate goals. This facilitates units' concentration on their main goal and results in better achievements.

3.2.2. The compensation system

Personnel compensation is another critical aspect discussed when it comes to the CVC personnel management and the success of the CVC investment. For the investment to succeed, it is remarkably important for the parent company to have a supportive and fitting compensation system for the managers of the investment. If CVC investors are treated like other managers the outcome seems to be the loss of talent, motivation and focus. The lack of a suitable compensation system also often leads to the loss of talented personnel to work on traditional venture capital options if they are rewarded better there. (Lerner 2013, MacMillan et al. 2008.)

CVC units' rewards are generally based on a fixed salary, sometimes with annual bonuses (Dushnitsky 2006). This is one of the main reasons leading to the loss of key personnel and seems to be one of the key problems in the units (Dushnitsky 2006).

The compensation model of the traditional funds, where the pay is linked to the success of the investment, appears to be an applicable choice for the CVC units also, resulting in better results than the other types of compensation (Lerner 2013). Nowadays more corporations are developing the compensation system to be more supportive for the managers (Dushnitsky 2011) and to look more like that of traditional venture capitalists, which hopefully will lead to better performances and longer employments of talented persons. The most important thing is to find a system that motivates the managers at the same time to reach for the financial and strategic goals of the parent company (Lerner).

Many studies highlight CVC investment's risk tolerance as a key to its success as a source of innovativeness. The compensation system of the corporation should also support the possible early failures and the risk-taking acts in the CVC units for them to be able to invest in riskier firms and this way to find innovative entrepreneurs. Generally this is achieved by setting long-term goals and incentives instead of short-term ones, and not punishing the CVC units when early failures or losses take place. (Lerner 2013.)

3.2.3. The relationship between parent company and CVC unit

According to Gompers & Lerner (2000), CVC investments are generally structured as corporate subsidiaries. This arrangement, where the parent corporation is not too much involved in the operations of the unit, provides the unit the speed, freedom and flexibility it requires in order to succeed (Weiblen & Chesbrough 2015). According to Ernst et al. (2005), the clear separation of these two organizations is required for the investment to be successful. In practice this means that managers of the parent corporation should be there to support and help the unit if needed but at the same encourage them to experiment and take risks, and work autonomously (Tushman & O'Reilly III 1996).

In addition, a suitably formed team managing in the CVC unit is critical for the success of the investment (Ernst et al. 2005). Best possible team includes persons who have experience from entrepreneurial activities since they are able to use that information while operating in the unit (Ernst et al.). There should be also few highly skilled seniors

in the team to keep corporations' vision clear during the operations. (Tushman & O'Reilly III 1996).

Even though the parent corporation and the portfolio firm should have a tight technical co-operation, CVC unit should be able to make decisions independently without dependence and views of the parent (Ernst et al. 2005). If the CVC unit and the parent corporation are too tightly linked, the flexibility and the entrepreneurial culture, which are essential features of the investment, do not work properly (Rind 1981, Simon & Houghton 1999). Then again, these two should be able to find a way to communicate and transfer their knowledge for the company to best benefit from the investment.

3.2.4. The qualities of the parent corporation

Tushman and O'Reilly III (2013) and Hill and Birkinshaw (2014) state that if firms do not develop existing capabilities and search for new innovations at the same time, in other words if they are not ambidextrous, they will not be able to succeed over a long-term period. In practice this means that organizations need to have skills to compete in mature markets and at the same time they have to be capable of developing new products and services (Tushman & O'Reilly III). The success requires a suitable choice between the opportunities not linked to the key strengths of the corporation and opportunities that are linked too tight to the parent corporation (Hill & Birkinshaw). Tushman and O'Reilly III suggest that corporations should create two separate units for this process to succeed: one that aims to exploit existing business and another to explore new possibilities outside the firm.

A well-developed internal R&D activity is seen as one of the critical factors in corporation's ability to increase its innovation activity through a CVC investment (Dushnitsky & Lenox 2005). According to Tortoriello (2015), individuals' ability to create innovations from the external knowledge is also dependent on individual's position in corporation's internal knowledge-sharing network. The formation of multidimensional internal networks can enable better and more effective use of external knowledge in creating innovations by integrating different points of view and perspectives in the corporation (Tortoriello 2015). Dushnitsky and Lenox state that when corporation's absorptive capacity is higher than the median of the industry, it

will more likely benefit from the investment. By investing in different industries managers of corporations are able to wide their social networks and their understanding of startup performance, which can result in wider investment opportunities in the future (Basu 2011). According to Basu corporations with wider existing resources and internal capabilities get partners and find firms to invest in also more easily because start-ups feel that they can get more of multidimensional investors than from corporations with more limited knowledge.

A common problem in the attitudes of corporations is their unwillingness to give up control of their R&D or even a part of it (Stringer 2000). For long-term success of the firms, it is also inevitable that managers from time to time are forced to destroy what they have created before in exchange for construction of a more suitable organization structure for new innovations (Tushman & O'Reilly 2013). Large companies should also be able to have fewer rules, less compromises and take more risks in order to succeed in developing their innovativeness (Stringer).

The benefits related to the innovation are realized only if corporation is able to integrate the new knowledge and technologies into its own operations (Gaba 2011). The personnel has to be creative and able to adapt new knowledge and changes (Stringer 2000). Adopting of the knowledge can be risky and challenging since for the personnel since the internal R&D persons have to overcome the so-called "not invented here" –syndrome to be able to benefit from the acquired knowledge (Gaba).

3.2.5. The long-term time horizon

As mentioned above, the compensation system of corporate venture capitalists differs from that of traditional venture capitalists. According to Manso (2011), the most effective way to motivate innovation is to be able to tolerate early failure and reward success in the long run. Stringer (2000) also states that corporation has to let the units also fail to be able to gain long-term strategic value. CVC investments tend to have significantly longer investment horizon compared to traditional venture capital, which enables them to be more open to exploration and experimentation (Chemmanur et al. 2014). Because of the stronger balance sheet that CVCs parent company has, ventures

are not either forced to generate immediate financial returns, which allows CVCs nurture innovation process more likely (Chesbrough 2002).

Gaffard (2008) states that in an innovation process, gains are not instantly realized. One of the key factors in the successful activity of CVC unit is that corporation bears in mind the fact that the strategic benefits from the investment are generally long-term, insecure and difficult to quantify (Gaba 2011). If the corporation starts to highlight too much investment's short-term performance instead of paying attention to the achievement of long-term goals, the result is generally a failure (Ernst et al. 2005). Even though the life of a CVC investment is usually shorter than that of traditional VC (Dushnitsky 2006), its goals are set significantly further away. The gap between the time-horizon of traditional venture capital and CVC investments has decreased recently, which highlights its position as future's investing method.

3.3. CVC fostering the innovation

Innovation is critical for organizations to perform well and have a long life (Wadhwa et al. 2016). According to Ernst et al. (2005), external innovation can be managed through an acquisition of companies, by licensing new technology or by investing in new, innovative start-ups (Ernst et al.). The latter is also called corporate venturing. Lerner (2012) suggests that the success of CVC investments as a contributor of innovation is based on the relationship between the two actors, the venture-backed start-ups and corporate research laboratories, in the investment. In addition, Chemmanur et al. (2014) state that the structure of the CVC fund enables the companies to invest in riskier and more innovative start-ups. CVC is also considered to be more flexible and lower-risk investment than for example joint ventures or other ways of external funding, which strengthens its state as a road to innovation growth in the corporation (Lee & Kang 2015).

According to Chemmanur et al (2014) and Manso (2011) the tolerance of failures is essential for a successful innovation process. Since CVC investments are generally not aimed to gain purely financial returns but instead the importance of strategic goals is highlighted, the tolerance for financial losses is higher (Chesbrough 2002). This combined with the earlier mentioned long-time horizon of the investments makes the

CVC investment's role in the success of the innovation remarkable. One of the key factors in creating innovativeness for the parent is that the focus of the investment also stays strategic and corporation does not focus too much on gaining short-term financial returns, since this may lead to the failure in achieving the strategic goals (Ernst et al. 2005).

Besides the new technological skills and knowledge of the markets, CVC investment can also help the parent corporation to strengthen the entrepreneurial culture in the corporation (Ernst et al. 2005). According to Stringer (2000) entrepreneurial culture is the thing making small entrepreneurial firms more innovative than the large established corporations. Ernst et al. also state that lack of entrepreneurial spirit in large corporations is a general problem and can prevent them from being innovative, which is why the possible acquisition and adaption of entrepreneurial culture from the firms is another way to foster the innovation growth.

External innovation can be defined as a process in which corporation monitors technological activities outside the firm and acquires these technologies to develop corporation's existing capabilities (Ernst et al. 2005). Since there is not so much to learn from the companies when investing in same kind of technologies, corporations tend to benefit more from CVC activity when they invest in different technology (Dushnitsky & Lennox 2005). Corporations are not able to keep an eye on all new developments in technologies with purely internal R&D activities, which is why external R&D, in this case CVC investment, serves as an important tool to observe the potential new chances outside the company to innovate (Ernst et al. 2005).

Earlier studies have also paid attention to the failures of CVC investments aiming to create new innovativeness for the corporation and investigated the reasons behind the failures (Gompers & Lerner 2000). Even though Chemmanur et al. (2014) and Gompers and Lerner state that the unique structure and compensation system of CVC unit allow the investments to operate in a more supportive way with risky and innovative activity, they can also lead to the failure of them (Gompers & Lerner).

As stated before, CVC units are established to help the parent corporation to achieve mainly its strategic goals. Since CVC investments are made outside the company, the

unprofitable and useless projects can be eliminated more efficiently and easily than that created in the internal R&D units. While internally created innovations tend to stay in the company years even if they do not make profits, external projects are faster left. One of the reasons is that despite the attitudes of the parent company's managers, the co-investors in the project may force them to stop the project when it seems to be going nowhere. This makes the innovation process of the corporation more efficient and more time is used to focus on worthwhile projects. (Lerner 2013.)

4 CONCLUSIONS

The purpose of this study was to investigate what kind of factors in CVC investment's structure and goal setting foster the innovation process of the corporation. This chapter concludes the thesis as follows. First, main findings are presented and linked to the theoretical framework. Second, managerial contributions of this study are stated. Finally, the limitations affecting this study and the suggestions for future research are proposed.

4.1. Findings

This study has examined the key factors affecting the success of CVC investments as a source of innovation growth for their parent companies. The objective of the study was to gather the main factors in the structure and goal setting of the investment affecting the success of CVC in the innovation growth in corporations by analyzing existing literature related to the topic. This study shed also light to the parent corporation's qualities that support CVC unit's activities.

The key factors found in this thesis can be categorized to four sections: the qualities of the parent corporation, the goal setting of the unit, the compensation system of the unit and the relationship between the unit and the parent company. The key qualities in the parent corporations seem to be the ambidexterity of the corporation, a well-developed internal R&D-activities and the ability to give up the excess control. Three key factors in the goal setting of the investment were found: the clearness, the diversification and the good amount of goals. The main finding in the compensation system of the unit was that it should be performance-based to motivate the personnel to stay in the company and to work efficiently and also the long-term success should be highlighted in the system. The key factors in the relationship between the unit and the parent were the sufficient autonomy of the unit and the support of the parent in its operations.

The concept of innovation was discussed in the context of organizational ambidexterity, which refers to corporation's ability at the same time to exploit existing business and explore new territories. In this theory, innovation is divided into

incremental and radical innovations. This study has examined how CVC investments are able to foster both types of innovation by either introducing new technologies and markets to the corporation, or strengthening the existing capabilities. One of the key ideas behind the innovation growth in large companies is their ability to be ambidextrous. Without this, corporations are not able to succeed over a long-time period.

One of the key factors in the internal R&D activity is parent corporation's ability to let go of the old habits to be able to create new and more innovative solutions. A well-developed and multidimensional internal R&D is essential for the parent corporation to be able to adopt the innovations and the knowledge coming from the external sources. This statement relates the findings of this study strongly to the Chesbrough's open innovation theory presented in chapter two, since the importance of good internal R&D in the adaption of new knowledge was one of the key factors in the theory also.

The most important factors in the goal setting of the unit seem to be the right amount of objectives, clearness of these objectives and suitable diversification of objectives to different kind of industries and technologies. When corporations keep the amount of their goals quite small, it is also easier for them to control them and they can be sure that the CVC units are performing effectively and appropriately. By setting clear goals corporations can ensure that units do not try to achieve wrong things but instead they will fully focus on their main goal. The importance of diversification between different industries is justified because corporation's internal R&D units can not be able to keep an eye on all new novelties (Ernst et al. 2005), and without external sources they can miss some important and relevant new technological innovations.

The importance of compensation system and the long-term time-horizon can be discussed together since there are few factors bringing them together. Since CVC units' goals are generally set for a long-time horizon, early financial or other failures should not be seen as a failure of its activity and the managers should not be punished financially for these. If the managers of the corporation keep in mind that though CVC investments have shorter life-times than that of IVCs, the goals will be achieved later, they tend to be successful more likely than the ones worrying about the short-time performance.

CVC unit's managers' salaries are generally based on fixed payment, sometimes with annual bonuses (Dushnitsky 2006). This kind of compensation system seems not be working good for them and the better option would be to adapt a system more related to that of IVCs (Lerner 2013). The essential thing is to find a system that really motivates the personnel to be innovative and most importantly to support their entrepreneurial activities because if the workers feel like they are not supported in their current workplace, they tend to move to places where their work is appreciated more.

The relationship between the parent corporation and the CVC unit have significant influence on the successful strategic performance of them. In the best situation, parent corporation gives the CVC unit a freedom to operate, just providing support and advices when needed. An autonomous activity of the unit enables it to work flexibly in an entrepreneurial atmosphere and results in better innovative performance of parent corporation also. The CVC unit should be constructed to be multidimensional meaning that there should be few seniors who have clearly in mind the vision the parent corporation, mixed with persons with entrepreneurial experience and attitudes to enable the creative process of the unit.

Though the importance of external sources of innovation is highlighted in this study, one of the findings is also that corporations should build an innovation strategy that includes both external and internal sources of innovation. When the corporation has a well adjusted combination of these two, the company is able to successfully adopt the new knowledge acquired from outside to the existing capabilities. The amount of both of these sources in the innovation strategy of the corporation remains unknown.

4.2. Managerial contributions

The findings of this study provide managerial implications to large established companies facing a lot of competition in need of development of innovativeness. The study enables managers of large corporations to understand the concept of CVC and the factors needed to take into account when aiming to the successful innovation growth through this kind of investment. As a result managers hopefully pay more attention to CVC and begin to appreciate it as a tool for enhance their innovation rates. Since the literature of the topic remains quite limited, the deep and detailed

description of the topic given in this study enables companies' to recognize the benefits of CVC investment and challenges them to use it more widely. The study also provides an explanation of what are the company's own qualities it should examine before establishing its own CVC unit. Though main focus is on the factors influencing the success of CVC as an innovation contributor, this study sheds light to the benefits that a company can get if it chooses to establish CVC activity.

4.3. Limitations and suggestions for further research

This thesis provides a multidimensional perspective to the relationship between CVC investment and the innovation process of its parent company. The research has though limited perspective because it is conducted purely as a literature review and it could provide even wider aspects if empirical research would have been done. The results in this study provide a very general view of the topic, leaving the industry-specific factors also disregarded. This should be noted because very likely there are differences between industries, for example when discussing which industries are mostly likely to benefit from this kind of investment mode. Even though there exists older literature and research according to this, it do not serve as well in today's world as it did for example two decades ago. This is because CVC investments' popularity as a part of large corporations innovation strategy has increased a lot during the last decades and more industries have started to consider it as a powerful tool (Dushnitsky 2011).

It has been stated in this thesis that corporations should have a suitable combination of external and internal R&D activity. From the existing literature rises an interesting about what is would be the right combination of these two and what would be the most efficient way for these two different kind of units to co-operate and share their knowledge with each other. This topic would serve as a significant topic for future research and the result would expand the existing knowledge of the topic in a relevant way. This study leaves also other many interesting aspects for the future research to investigate. One of them is already mentioned above: the performance and success of CVC investment in different industries nowadays. This would be extremely current topic to study through an empirical research because many new industries have started to use CVC in last decades so a comparative study could provide a good insight to the development of it. It would also be interesting to conduct an empirical research

according to CVCs and to find out for example the possible differences between different countries' and continents' success factors in the investments too.

Since the field of CVC remains quite unexplored, and especially since it is increasing its part as an investing method all the time, there is a lot to research deeper and new perspectives are needed to complement the present research. In addition to the topics mentioned above, the future research could focus on studying and integrating deeper the possible barriers holding up the innovativeness when it comes to the CVC investments. Also a deeper research according to the relationship between the CVC unit and its parent company could be interesting to conduct. The best way to investigate this would be through a review of existing literature combined with an appropriate empirical research.

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