LITERATURE REVIEWS

CORPORATE VENTURING: STRATEGIES AND SUCCESS FACTORS

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Abstract

Corporate venturing is a practice whereby a company sets up a separate organizational unit, the corporate venturing unit (CVU), to invest in new technological and business opportunities arising within or outside the boundaries of the firm, for long-term strategic and/or short-term financial purposes. The purpose of this paper is to discuss the practice of corporate venturing, based on a review of the existing corporate venturing literature and in-depth interviews with the corporate venturing managers of twelve European multinational firms from various manufacturing industries. Three research questions are addressed: 1) what are the motives for companies to engage in corporate venturing; 2) which are the success factors of corporate venturing; and 3) does corporate venturing generate (economic) value for firms?

Keywords: corporate strategy; corporate venturing; exploration; innovation

JEL codes: O31, O32, L22

I. INTRODUCTION

Firms operate in environments characterized by fast changes in technologies and business models. To build up a long-term competitive advantage in rapidly changing and unpredictable environments, firms cannot rely exclusively on existing core technologies and business models, but need to explore new technological and business opportunities. Firms that are able to continuously explore and exploit new opportunities, at a faster pace and lower costs than their competitors, avoid lock-in dynamics in times of disruptive change and are

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successful in the long term (Levinthal and March, 1993; Teece et al., 1997 & 2007; Markides and Williamson, 1994; Belderbos et al., 2010; Leten et al., 2010). Using data from 168 R&D intensive firms, Belderbos et al. (2010) found an inverted u-shaped relationship between the share of explorative technological activities in firms’ technology portfolios and their financial performance. In addition, they found that most firms do not reach the optimal level of explorative technological activity, and could increase their (long-term) financial performance by investing more resources in the exploration of new technologies.

However, it appears to be difficult for incumbent firms to (dynamically) renew existing capabilities in the advent of new technologies and business models (Tushman and Anderson, 1986; Tripsas, 1997; Tripsas and Gavetti, 2000). One reason for this is that incumbent firms have existing products and processes in place, which may be threatened/cannibalized by technological and market changes (Reinganum, 1983). Another explanation is that incumbent firms have developed routines, innovation processes (Benner and Tushman, 2003) and customer centered value networks (Christensen and Bower, 1996; Christensen, 1997) that help them to exploit and refine existing competences, but which may be detrimental for the initiation and successful undertaking of exploration activities.

Incumbent firms can undertake actions to improve their capabilities to explore new opportunities, such as engaging in corporate venturing (Christensen, 1997; Burgelman, 1983; Vanhaverbeke and Peeters, 2005). Corporate venturing refers to the investment in opportunities that are new to a corporation (Burgelman, 1983). It involves the creation of an independent organizational unit, the corporate venturing unit (CVU), that is given a mandate and resources to invest in new technological and business opportunities. Corporate venturing is not a new activity. The first corporate venturing funds began in the mid-1960s, and were spurred by the success of venture capital funds (Lerner, 2001). In the 1960s and the early 1970s, 25% of the Fortune 500 companies had a corporate venturing program. These were largely disbanded though, during the late 1970s (Chesbrough, 2000). The interest of companies in corporate venturing has been cyclical across time. Since the 1960s, there have been two other waves of corporate venturing. The second wave took place in the early 1980s and was stimulated by the growth of the computer and electronics sectors. The wave came to an end in the late 1980s because of the recession, and was followed by a new wave in the middle and late 1990s. The third wave was driven by the emergence of new technologies (e.g. the internet, telecommunications, biotech) and a bubble economy that made it seemingly possible to realize quick returns on investments in new technologies (Birkinshaw et al., 2002). In 2000, corporate venturing activity peaked and more than 400 manufacturing and service firms invested almost $16 billion in entrepreneurial ventures (Dushnitsky and Lenox, 2006). In 2001, the market for public offerings dried up and there was a sharp decline in the number

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1 A noticeable exception is Johnson & Johnson, who started with corporate venturing in 1973, and which has had ever since one or multiple venturing units in the organization (Van Dyck and Aelbrecht, 2010).
of firms investing in venturing. Since the early 2010s, we witness again an increased interest in corporate venturing activity in a diverse set of sectors (Lerner, 2012).

Both industry- and firm-level factors have an impact on the decision of firms to set up a CVU.

More corporate venturing activity is found in industries with rich (exploitable) technological opportunities, where complementary assets are important and concentrated amongst incumbent firms, and where firms rely relatively more on secrecy and trade secrets than formal IP protection such as patents and copyright (Dushnitsky and Lenox, 2005; Da Gbadji et al., 2011). Firms are more likely to invest in entrepreneurial ventures when their current business is underperforming, when they have uncommitted financial resources (Burgelman and Valikangas, 2005; Da Gbadji et al., 2011) and the necessary in-house R&D capabilities to learn from ventures are present (Dushnitsky and Lenox, 2005).

A distinction can be made between two types of corporate venturing, based on the locus of investments (Rind, 1981; Miles and Covin, 2002; Hill and Birkinshaw, 2008). **Internal venturing** entails the investment in technologies and business ideas that originate from within firm boundaries. This type of venturing is typically done by companies with a large research staff, such as IBM or Alcatel-Lucent. IBM launched in 2000 the Emerging Business Organization (EBO) initiative to identify new (disruptive) technologies, business models and markets that could become new billion dollar businesses (O’Reilly et al., 2009). While business ideas could come from both within and outside IBM, they are taken up and executed by internal project teams. **External venturing** refers to the investment in external start-ups. Companies make a minority investment (10–20%) and take board (observer) seats in the start-ups. Internal venturing is considered more difficult than external venturing due to disputes that may arise between parent companies and CVU’s over operating time frames, decision-making processes and intellectual property (Birkinshaw and Hill, 2005). Following, a general trend from closed to open innovation (Chesbrough, 2003 & 2006), external venturing has gained in importance over time. Most companies that have nowadays an internal CVU also make external investments (Maine, 2008). An example is the German chemical conglomerate BASF. BASF has two separate venturing units: BASF Future Business is responsible for internal ventures; BASF Venture Capital has an external focus and takes minority stakes in external start-ups and venture capital funds worldwide.

A second way to differentiate between CVU’s is on the basis of the nature of investments (Miles and Covin, 2002). Corporate venturing may occur in the form of direct investments of capital in technology-ventures; this is called direct venturing. An example of a CVU that makes direct investments is Merck-Serono. Merck-Serono started with venturing in 2009; the CVU has its own research budget to invest directly in technologies that have the potential to impact on Merck Serono’s core therapeutic areas. Indirect venturing occurs when a firm invests capital in a financial intermediary (for example, a venture capital fund) that invests in ventures. The airline company KLM serves as an example. KLM participates in the Mainport Innovation Fund (MIF). MIF is a venture capital fund with four investing partners: two
industrial firms (KLM and Schiphol), one financial institution (Rabobank) and one university (TU Delft). The fund invests in technologies that contribute to an innovative and sustainable aviation industry, and which bring value to KLM and Schiphol. Multi Pilot Simulations (MPS) is a Dutch start-up in which the MIF has invested. MPS is developing a new type of flight simulator that promises to be cheaper than existing products.

The purpose of this paper is to discuss corporate venturing. The discussion is based on a review of the extant corporate venturing literature and in-depth interviews of the authors with the corporate venturing managers of twelve European companies that span different industries. The interviews took place over the past two years (2011–2012) and focused on the strategies and practices of CVU’s. Table 1 contains a list of the interviewed companies, and information on the type of venturing that are conducted.

Table 1. List of Companies Interviewed

<table>
<thead>
<tr>
<th>Companies</th>
<th>Foundation</th>
<th>Type of Venturing</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Internal/External Direct/Indirect</td>
</tr>
<tr>
<td>Alcatel-Lucent</td>
<td>2006</td>
<td>internal           direct</td>
</tr>
<tr>
<td>Barco</td>
<td>2011</td>
<td>internal</td>
</tr>
<tr>
<td>BASF</td>
<td>2001</td>
<td>internal/external     direct/indirect</td>
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<tr>
<td>Bekaert</td>
<td>2000</td>
<td>external             direct/indirect</td>
</tr>
<tr>
<td>GlaxoSmithKline (GSK)</td>
<td>1985</td>
<td>external             direct</td>
</tr>
<tr>
<td>Jansen Pharmaceutica (part of J&amp;J)</td>
<td>2010</td>
<td>internal           direct</td>
</tr>
<tr>
<td>KLM</td>
<td>2009</td>
<td>external             direct/indirect</td>
</tr>
<tr>
<td>Merck-Serono</td>
<td>2009</td>
<td>external             direct</td>
</tr>
<tr>
<td>Schneider Electric (ASTER capital)</td>
<td>2000</td>
<td>external             indirect</td>
</tr>
<tr>
<td>SNCF</td>
<td>2008</td>
<td>external             direct</td>
</tr>
<tr>
<td>Total</td>
<td>2008</td>
<td>external             direct/indirect</td>
</tr>
<tr>
<td>Unilever</td>
<td>2002</td>
<td>internal/external     direct/indirect</td>
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The remainder of this paper is organized as follows. First, we discuss the different reasons why companies engage in venturing. These range from purely financial to strategic motives. Second, we provide five broad principles that companies should adopt to succeed in venturing. There is a wide agreement in the existing literature on the effectiveness of the discussed principles. Third, we summarize the findings of recent empirical studies on the effectiveness of corporate venturing. The final section concludes.
II. CORPORATE VENTURING MOTIVES

A Corporate Venture Unit identifies and develops new businesses for its parent company having financial or strategic motives as a purpose.

A CVU created with financial motives does not have the intention to help the firm exploit its current business or build new businesses. Its only purpose is to diversify into the private equity business becoming a corporate venture capital firm with success being measured in financial returns only. Although returns can be made in spinning out innovative ideas originating from within the firm, they predominantly pertain to taking minority equity stakes in innovative companies outside the firm. Nokia Venture Partners and GE Equity, created in the late nineties, provide typical examples of this type of CVU that act fully like and in competition with venture capital firms. Hence, they do not make strategic investments in the firm’s main business, however they are strategic to the firm (Campbell et al., 2003). As a positive spill-over they could potentially help grow the firm’s main business as exemplified by Dell Ventures’ investment in internet companies but the main goal is to invest in attractive emerging businesses (Chesbrough, 2002). Firms typically create CVU’s with this motive if they believe they can get better and more selective access to emerging innovative technologies than traditional venture capital firms. CVU’s may have this competitive advantage in the hostile, high uncertainty period of the early stage of emerging deal flows, provided they invest in areas that are close or connected to their present businesses (Gompers & Lerner, 1998), hence where they can benefit from positive spill-overs from their main business such as unique market access or technological capabilities. To make money, they should also exit their investments before the emerging technology shakeout period characterised by high growth but low performance (Campbell et al., 2003).

CVU’s created with a financial motive can also engage into harvest venturing (Campbell et al., 2003). Now, the purpose of the CVU is to be a risk capital-funded business monetizing brands, intellectual property, product or process technology or underused fixed assets not representing commercial value anymore to the firm’s main business but presenting a market opportunity for other interested market players. In contrast, the main business only selling or licensing unused technology or assets would not qualify as harvest venturing. It would also be an example of internal innovation exploitation (Hill & Birkinshaw, 2008) but not carried out following a corporate venturing model. Janssen’s one-off decision made by the main business and not by its CVU to find a new purpose on the technology market for a no longer used nanotechnology-based manufacturing plant would be an example of this (Van Dyck & Aelbrecht, 2011). The CVU of Barco serves as another example. This unit is set up with the purpose to valorise the businesses that Barco would like to divest.

Corporate business renewal is considered vital to companies (Gee, 1994). CVU’s set up with a strategic motive support the growth and renewal of the firm’s main business. Following this motive they can be built to rejuvenate or revitalize the firm by stimulating and enabling corporate entrepreneurship (Miles & Covin, 2002), by surfacing ideas from within the firm.
through innovation venturing (Campbell et al., 2003). The latter can be implemented following an intrapreneurial 'boot camp' approach (Van Dyck & Aelbrecht, 2011), emulating the risk-laden bootstrapped venture capital-backed Silicon Valley-type of entrepreneurial ecosystems now within the boundaries of the firm.

Another strategic motive for setting up CVU’s, possibly in combination with the previous one, entails navigating new environments which are relevant to the parent firm to support its main business or to stay ahead of the game. Examples of global firms having set up CVU’s with this motive in mind include Intel Capital in semiconductors, Shell Game Changer in energy, Johnson & Johnson’s Development Corporation (JJDC), and Merck or Roche in life sciences (Campbell et al., 2003; Hill & Birkinshaw, 2005; Van Dyck & Aelbrecht, 2011; von Krogh et al., 2012). Following this motive, CVU’s engage in technology scouting, creating windows of opportunity on new technologies relevant for the development of their parent firm’s main businesses or for finding new businesses. In our own research, we found some even large firms jointly setting up a CVU to spot potentially disruptive technologies in domains of common non-competing interest; Aster Capital in France, jointly created and funded by Alstom and Schneider Electric, active in engineering, and Solvay Rhodia, active in chemicals provides an example of this. Although the unit has to be profitable, its main purpose is to be the eyes and ears of the three funding partner firms in this emerging domain allowing them early warning signals to be taken into consideration in their strategizing exercises.

Ecosystem venturing (Campbell et al., 2003) is another activity carried out following a strategic motive. Here, the purpose is to develop demand for the main business’ new products or to support its main business operations. An example is provided by Intel Capital creating demand for its new microprocessors by taking equity stakes in hardware and software companies supporting new applications for microprocessors. In our own research KLM, the Dutch airline company investing in pilot-training facilities or SNCF, the French railroad company taking equity stakes in a small car pooling service providing train travellers with door-to-door services provide examples (Van Dyck, 2012).

Finally, a strategic motive for corporate venturing can be to steer the company into new directions, exploring and building new ecosystems. Janssen Pharmaceutica’s ‘Beyond the Pill’ vision, moving the company from a pure play drug manufacturer to becoming a health outcomes-based company is a typical example (Van Dyck & Aelbrecht, 2011).

III. SUCCESS FACTORS OF CORPORATE VENTURING

The prior section provided an overview of the different motives to set up a CVU. While there are obviously differences in the ways that companies have to cope with different venturing

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1. PROEF

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2 We define an innovation ecosystem to be an interdependent set of firms engaged in competition, collaboration or co-opetition capturing value from innovation.
strategies, there are a few principles for success that apply to all venturing strategies discussed above. We group these principles into five broad categories: goal clarity, long-term commitment, adjacency, autonomy and critical mass.

A. GOAL CLARITY

There’s broad agreement in the literature that, in order to be successful, a CVU needs to have clarity of goals and the distinctive organisational capabilities to deliver upon these goals (Campbell et al., 2003; Hill & Birkinshaw, 2005). The logic being that strategic benefits and immediate financial returns do not necessarily go together with the risk of becoming stuck in the middle (Birkinshaw et al., 2002). Simultaneously focusing corporate venturing initiatives on short- and long-term opportunities, or internal and external investments confuses parent firm senior management in the results they might expect from the CVU. This may result in disappointment, and the abandonment of venturing programmes before investments have had a chance to pay off (Burgelman & Välikangas, 2005). Hence, contingent upon (1) whether investment opportunities originate from within the parent firm or from its ecosystem, and whether the CVU (2) exploits existing capabilities or explores novel capabilities to the parent firm, four types of corporate venturing foci or strategic profiles can be identified (Hill & Birkinshaw, 2008), each requiring a distinctive management approach and different key performance indicators (KPI’s).

As an example, JJDC, founded in 1973 as the venturing arm of Johnson & Johnson is widely considered to be a success story (Campbell et al., 2003). In our own research on this global venturing organization (Van Dyck & Aelbrecht, 2011) we noticed internal explorer roles to be taken up by two units; J&J’s RedScript and Janssen Pharmaceuticals’ Venturing & Incubation Centre (VIC). Redscript focuses on technology white spaces and is managed for long-term results, Janssen’s VIC is geared towards business model innovation opportunities expecting first business results within 18 to 24 months. The external explorer role was taken up by another venturing unit of JJDC while requiring different distinguishing capabilities. While to be successful, internal exploration requires knowledge of parent firm internal structures, stimulation of intrapreneurial idea generation and venture nurturing incubation skills, external exploration requires proficiency governing external technology ventures, mimicking venture capital firm management (Chesbrough, 2000). Internal and external exploitation were carried out by J&J main business while considered to be hands-off asset sales (internal exploitation) or acquisition (external exploitation) deals, not necessitating distinctive venturing capabilities.

Other examples in our research include Aster Capital, exclusively focusing on external exploration for its three parent companies and the chemical company BASF. BASF has two different CVU’s, each with a different focus. BASF Future Business focuses on internal exploration, while BASF Venture Capital deals with external exploration.
B. LONG-TERM COMMITMENT

Over the last decades one sees intense cyclicality in the commitment companies show towards internal corporate venturing (ICV) with determining factors being the health of the main business and the availability of excess financial resources. Commitments vary from an “all-out ICV drive” when the main business performs poorly in combination with sufficiently available financial resources leading to maximum investments in ICV to turn the tide, to “ICV irrelevance” when the main business goes well and no excess financial resources available leading to abandonment of ICV activity (Burgelman & Välikangas, 2005). Caused by macroeconomic up- and downswings, but also by managerial factors, ICV cycles seem to turn around 10 years (Block & MacMillan, 1993; Burgelman, 1983). Knowing that this is also the average time it takes for a new venture to perform like a mature business (Biggadike, 1979) and much longer than the typical one year and three year-rolling management budget cycles it is a challenge for a CVU to perform to management expectations.

Also, a recent longitudinal study showed the survival rate for strategically motivated venture units, while being occupied with long-term investments and growing emerging businesses to be lower than the financially-focused ones, indicating the short-term thinking bias in corporate headquarters (Hill & Birkinshaw, 2005).

For corporate venturing to be successful it should not be managed as a stand-alone activity. Instead, it should be seen as an instrument serving the parent firm’s long-term commitment to corporate business renewal, to be ahead of the competitive game fending off competitive threats. Being here to stay (Burgelman & Välikangas, 2005), corporate venturing should be used in combination with other corporate development models such as participations in independent venture organizations (Lerner, 2012) or non-venturing based models such as strategic investments, alliances, acquisitions, or technology licensing (Birkinshaw et al., 2002; Gee, 1994; Chesbrough, 2003).

C. ADJACENCY

Corporate venturing is more likely to be successful when the CVU invests in ventures that focus on technologies, products and markets that are adjacent to those of the parent firm (MacMillan et al., 1986; Kuratko and Covin, 2009). Adjacency is important from a resource-based perspective as it allows for a transfer of resources (technological and managerial) from the parent firm to the ventures (MacMillan et al., 1986). Thornhill and Amit (2001) examined the impact of adjacency on the performance of corporate ventures, using survey data for 97 Canadian ventures. They distinguish between two types of adjacency: economic and relational. Economic adjacency is defined as the fit between the needs of the venture and the resources of the parent. Relational adjacency captures similarities in the organizational culture and structure of the parent firm and the venture. Measuring venture performance as
the ability to meet internal milestones on schedule, they find a positive effect of economic and relational adjacency on venture performance.

Leten et al. (2010) studied to what extent firms choose for proximal or distal technology exploration paths and checked whether the technological performance of firms in new technology fields is determined by the relatedness of the new field and the firm’s existing technologies. Two technologies are considered related if they share a similar underlying knowledge base (Leten et al., 2007). Leten et al. (2010) found that firms predominantly explore adjacent technologies, and that the performance in new technologies is higher when technologies are adjacent to the existing technology base of firms.

Investing in distant ventures is called new leg venturing by Campbell et al. (2003). New leg venturing is practiced by firms whose current business is underperforming, and who want to diversify away into more promising businesses. While it is appealing to replace a weak core with a new stronger one, new leg venturing has a small chance of success. Of the approximately 100 CVU’s that were studied by Campbell et al. (2003), none of them that were set up to find new unrelated businesses were found to be successful.

D. AUTONOMY

In reality, parent firms often find it hard to resist meddling in the activities and decision-making processes of CVU’s. This is problematic as parent firms and CVU’s require different processes and mind-sets to be successful. Venturing requires long-term support, while parent firms focus on short-term results; venturing implies comfort with uncertainty, while parent firms install processes and undertake actions to reduce risk; venturing requires quick decisions, while parent firms tend to follow slow, consensual decision-making processes (Birkinshaw and Hill, 2005). To avoid “meddling in” venturing should be conducted in a separate organizational unit and sufficient autonomy should be provided (Burgelman, 1984; Zahra, 1996; Birkinshaw and Hill, 2005).

Autonomy implies two things. First, a budget to cover the operating expenses and the investments of the CVU. Second, rights to make decisions on investments and other management issues. Our research showed considerable differences in the degree of autonomy of CVU’s. The Venture and Incubation unit (VIC) of Janssen Pharmaceutica has a fund that covers the working expenditures of the venture unit, but has no investment fund. For investments the CVU needs to seek financial support from existing business units. GlaxoSmithKline (GSK) has provided a separate investment fund for its CVU unit SR One. While SR One needs corporate approval for initial investments, they have the authority to decide on follow-on investments. Unilever Ventures has even more autonomy; they have an own investment fund and full autonomy to make investments.

Studies have shown that CVU’s that have more autonomy perform better (Birkinshaw and Hill, 2005). However, too much autonomy might be bad as the CVU runs the risk to become isolated from the parent firm. CVU’s that are isolated may not benefit from knowledge
spill-overs of the parent firm. Separation therefore has to be combined with mechanisms that link the CVU and the parent firm. Linkages can take many forms, such as business unit employees helping with due diligence (e.g. GlaxoSmithKline), business unit executives taking seats in the advisory board of the venturing unit (e.g. SNCF), and co-investments of existing businesses and the CVU (e.g. Alcatel-Lucent).

Organizing for corporate venturing implies managing a delicate balance between separation and integration. Organizations that physically separate the CVU from the parent firm and which seek ways to integrate both units and realize synergies at the corporate level are called ambidextrous organizations by Tushman and his colleagues (Tushman and O’Reilly, 1996; O’Reilly and Tushman, 2004). Markides (2008) provided a framework to decide on the relative importance of separation and integration mechanisms when organizations are managing two different businesses simultaneously, based on two variables: i) the nature of conflicts between the parent firm and the CVU, and ii) the degree of similarity between the parent firm and the CVU. When a CVU invests in ventures that bear strong similarities with the activities of the parent firm and when conflicts between activities of both business units are unlikely, integration mechanisms should be emphasized; when similarities are low and conflicts are likely, separation mechanisms should dominate.

E. CRITICAL MASS

Corporate venturing typically focuses on high-risk innovation opportunities. Therefore, it is logical and reflecting reality that a recent empirical study found venture success rates to be significantly lower than the success rates typically found in traditional new product development settings (Kuratko et al., 2009). Low success rates require critical mass in the number of new ventures pursued by the CVU. Extrapolating insights from financial markets into corporate venturing shows that a portfolio of about 30 new ventures is required to be ultimately rewarded for the risks taken (Birkinshaw et al., 2002).

Greater venturing experience is not associated with higher success (Kuratko et al., 2009) meaning success probabilities do not increase over time, also meaning that the CVU must persistently assure a constant incoming deal flow. Then, to be successful, CVU’s must exhibit conversion ability, defined as a unit’s ‘ability to translate a given idea into a launched product’ (Chandy et al., 2006). The potential for extrapolation of this study conducted in pharmaceutical discovery and development, to corporate venturing needs to be investigated while showing a positive relationship between expertise and conversion ability, which contradicts the previously cited study.

Also, the findings of Chandy et al. (2006) in the overall pharmaceutical new product development process, corroborated by Van Dyck and Allen (2006) but limited to the front-end pharmaceutical discovery process, that conversion ability is positively influenced if the unit has a moderate number – not too few, not too many – of ideas in its portfolio needs to be verified in a corporate venturing context.
IV. CORPORATE VENTURING AND PERFORMANCE

There is a general belief that corporate venturing has a positive effect on firm performance, although venturing is a risk-loaded activity and benefits are not guaranteed (Biggadike, 1979; Thornhill and Amit, 2001). However, the history is full of examples of companies that initiated CVU’s, but closed them down only a couple of years later. Lucent Technologies serves as an example. Lucent created the New Ventures Group (NVG) in 1997 to commercialize technologies out of the Bell Laboratories that did not fit established businesses (Chesbrough, 2000). In January 2000, NVG was acclaimed as exemplifying best practices for corporate venturing. Yet, Lucent Technologies sold in 2002 most of its interests in NVG to a private-capital management company (Burgelman and Valikangas, 2005). Recently the history has repeated itself for Alcatel-Lucent, the inheritor of Lucent Technologies. Alcatel-Lucent started in 2006 again with venturing. The new venturing unit was disbanded in 2011 due to the tough financial situation of Alcatel-Lucent.

The short cycles of many corporate venturing programs may not be taken as evidence of a failure of corporate venturing to deliver value. Many corporate venturing programs are closed down before they have had a chance to proof themselves (Burgelman and Valikangas, 2005). It is reasonable to expect that CVU’s need 5–10 years to deliver value, so a long-term commitment is needed. Recent empirical evidence (Dushnitsky and Lenox, 2005 and 2006) showed that corporate venturing creates value for the investing firms. Analysing a large panel of public U.S. firms, Dushnitsky and Lenox (2005 & 2006) found that increases in corporate venture capital investments are associated with subsequent increases in firm patenting and a higher market valuation of the investing firms. Firms that have a CVU with a strategic orientation (Dushnitsky and Lenox, 2006) and invest in ventures that are adjacent to existing technology portfolios (Dushnitsky and Lenox, 2005) perform best.

Campbell et al. (2003) compared the performance of CVU’s that were set up for different reasons. They analysed nearly 100 CVU’s and identified five main objectives. Although one objective (new leg venturing) was found to be never successful, the single-minded pursuit of other objectives (ecosystem venturing, harvest venturing, innovation venturing and private equity venturing) demonstrated reasonable to high degrees of success among the sample firms.

V. CONCLUSION

Parent firm commitment to corporate venturing activity has ever since its early days been very cyclical in nature but eventually showed to be ‘here to stay’ as a model for managing corporate growth and renewal. Having gone through three waves, the first in the late 1960s, the second in the mid-1980s, the third in the late-1990s, since the early 2010s we see a new corporate venturing wave rising. In sheer investment volume this wave is still smaller than the previous dot-com bubble period. However, the main difference with the previous ones is
the consistently rising share of corporate venturing with corporate funds in 2011 investing almost 10 percent of every venturing dollar (Lerner, 2012; p. 115) and strategic motives dominating. Hence, traditional corporate venturing-intensive firms make increased use of hybrid approaches, combining classical R&D approaches with fast-response venturing approaches exploring promising new technologies or path-breaking business models, like Johnson & Johnson or Eli Lilly in pharmaceuticals. Others, like Intel, use it to stimulate demand or to pre-empt competitive threats, like Analog Devices. Other characteristics of this fourth wave include the spread of the phenomenon into various sectors outside the traditional high-tech domain (ICT/pharma), such as transport, utilities and consumer goods.

The emergence of this fourth wave of corporate venturing activity with its unique characteristics is in urgent need of further research. Hence, management strategies and approaches needed to support corporate venturing and their link to CVU and parent firm performance in the new wave need to be characterized and explained. In short, with this fourth wave we’re on the verge of a new era of research in corporate venturing.

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