Corporate venturing: Making it work (2/2) Folleto IESE y HBR article

Venture funds sometimes run into trouble. Most of the problems are rooted in incompatibilities between two mind-sets: that of the risk-loving, sometimes ruthless venture capitalist, and that of the process-bound corporate executive.

And the parent company can miss out on valuable knowledge. These six steps can help companies avoid the pitfalls.

Align goals with corporate objectives. Alignment of goals across the venture fund, the start-ups, and the parent company enables a corporate venture group to draw on the parent’s expertise. Without that alignment, corporate venturers are less likely to make good investment decisions and attract high-caliber entrepreneurs—and useful knowledge is less likely to flow from the start-ups to the corporate parent

Streamline approvals In many companies, various internal constituencies must approve these funds’ goals Delays in approvals not only drive corporate venture professionals crazy but also signal to external investors and start-ups that the fund is ineffective. A streamlined approval process allows a venture fund to act quickly on promising but unheralded investments, thus enabling a contrarian approach that might lead to the identification of neglected opportunities.

Provide powerful incentives. For recruitment and retention, compensation levels in a corporate venture initiative should match those offered by independent venture groups. At the same time, pay should be linked to corporate goals as well as start-ups’ long-term performance closely linked pay to demonstrated investment success (often, both financial and strategic returns to the corporate parent) were more likely than others to make successful investments and to invest in earlier-stage companies—evidence that they were nimbler and more aggressive.

Create an experimental, failure-tolerant mind-set. Risk aversion can be a serious problem for a corporate venture-capital fund. Sometimes that attitude stems from the corporate parent’s culture. Well-structured incentives can help: They can focus corporate venturers on maximizing investment success, whether strategic or financial, and minimize their worries about getting their knuckles rapped for shuttering investments or selling start-ups at a loss.

Stick to your commitments. A low level of corporate commitment to good projects can be highly damaging to a fund and its investments. To attract high-caliber outside investors to their venturing efforts, companies should adopt the attitude of independent VCs: As long as a start-up is healthy, commitments are binding. If a limited partner contributes even a small amount of the total capital promised at the time of closing, there is an expectation that the total amount promised will be provided. Even during the depths of the financial crisis, it was rare for investors to walk away from those commitments

Harvest valuable information. The barriers to knowledge transfer are many Companies cannot leave knowledge spillovers to chance One of the most successful methods I’ve seen for transferring knowledge from start-ups to corporate parents is the creation of linked units dedicated to this task. To address this challenge, In-Q-Tel adopted a two-part structure: A Silicon Valley–based venture team closely mirrors a traditional group, in which general partners and associates scout deals, perform due diligence, prepare term sheets, and shepherd portfolio companies. A technology team in Arlington, Virginia, focuses on assessing new technologies, testing the appropriateness of portfolio firms’ offerings for the Agency, and interacting with intelligence officials. Unlike the venture team, which tends to be dominated by former entrepreneurs and new MBAs, the technology team consists largely of seasoned executives with experience in intelligence. The two units share information in a way that allows In-Q-Tel to learn what’s going on in Silicon Valley without divulging sensitive information to portfolio firms.

For companies that have found traditional in-house research unequal to the task of generating valuable insights into next-generation technologies or the movements of the market, the creation of a venture fund might well prove to be what executives are always looking for—the breakthrough idea that changes everything.

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https://www.financierworldwide.com/latest-trends-in-corporate-venture-capital/#.WW9zRoTyjIU

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