

# Open Innovation



Building, Scaling and Consolidating  
Your Firm's Corporate Venturing Unit

Open Innovation

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# Executive Summary

Innovation is being given more attention in large corporations. According to our previous study, conducted with chief innovation officers and those in related roles, 70 percent of firms said they were increasing investment in their innovation units (60 percent of which had been created in the previous five years).<sup>1</sup>

Corporate venturing (CV) mechanisms in particular are on the rise.<sup>2</sup> These tools act as a bridge between innovative start-ups and established firms. This is not a new practice – large firms such as Intel, Siemens, Xerox, GE, IBM, Lucent and Merck have been developing this model for years. However, the pervasive impact of technology in all sectors demands a better understanding of how to make the collaboration between established firms and start-ups work. Learning from the CV initiatives of 44 large firms, this study offers guidance for building, scaling and consolidating a CV practice.

Cooperation between corporations and start-ups presents challenges. However, firms that do well look at the difference between corporations and start-ups as a source of opportunities. For instance, a start-up's endemic lack of resources may be compensated by its being able

to share the resources of a corporation. One organization's limitations may find a solution in the other. (For example, the focused talent pool of a start-up may offset the corporation's lack of knowledge in that area.)

Our study shows that firms in the same industry move at different paces. We found firms with CV units at different stages, regardless of the industry they were in. In fact, when analyzing the challenges and opportunities faced by each firm while building its unit, we found more similarities across the maturation stages of each corporation's innovation unit in different industries than across units in the same sector.

For companies starting a CV unit, common sources of failure are the absence of a clear tangible value proposition for either the large firm or the start-up and a lack of buy-in from the large firm's top management. Similarly, in the scaling phase of this activity we found relevant triggers for failure: the lack of a clear path, procedures or resources to expand the unit; and a failure to fulfill the expectations of either the firm (expected innovation and return on investment) or the start-up (benefits).

The challenges vary when the CV mechanisms are already consolidated and must interact closely with the business units. On many occasions, we found that the CV unit did not have enough freedom to test new opportunities in the market and had difficulty in integrating with the core business.

In interviews with chief innovation officers and those in related positions, we found that the first criterion for selecting a different CV mechanism was the strategic consideration, ahead of the expected return on investment. However, once the mechanism is in place, executives take a financial point of view (return on investment, or ROI) for evaluating results. We warned that a short-term view might harm the process and reduce or even eliminate results.

Some of the firms in our sample were looking for core products to expand their scope. Others were looking for new solutions to improve the features of their core product. Still others were eager to find adjacent technologies to become more efficient at a specific stage of the current value chain. To achieve these objectives, firms start with one mechanism. Then, very soon, they use a

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combination of the tools to pursue their goals. An analysis of the portfolios of tools used over time shows that these are not random choices. We found common combinations of mechanisms that differ according to the maturity stage of the innovation unit.

According to our analysis, the most common practice across stages is the use of corporate incubators as a means to attract and relate with start-ups easily. However, we found differences in the intensity of use and the objectives of this and other mechanisms at different stages. A third of new CV units start their journey with low-cost mechanisms that are deployed quickly (compared to other mechanisms), leading to a rapid increase in the mapping of the ecosystem and an influx of opportunities.

Within several years, scouting activities become less relevant and the relationship with start-ups is built up mainly using other practices. During the scaling stage of the CV unit, we found a significant group of firms using a combination of three mechanisms: scouting, corporate venture capital (CVC) and incubators. Lastly, in the consolidating stage, accelerators play an

important role in pushing projects that eventually will move ahead internally.

The time needed to launch for each mechanism varies quite considerably. Some mechanisms can be initiated pretty quickly (e.g., strategic partnerships or venture clients), while others require a longer time (e.g., CVCs or acquisitions). Most of the mechanisms do not need a budget of more than €350,000, except a CVC or acquisition. In the case of CVCs, among other costs, companies use a budget of €9 million (on average) to invest tickets of €300,000 in start-ups. On average, the acceptance rate of candidates in the different mechanisms does not exceed 21 percent, except in hackathons and the sharing of resources, which aim to have a broader range of opportunities.

The study identifies best practices by mechanism, which should help executives to build on their CV practices. These best practices include enabling technologies and processes to interact with the start-up at the required speed, moving from prizes to preinvestments in open competitions, granting autonomy with meaningful interactions, balancing the companies' decision-making metrics

between strategic and financial returns, and also considering their own employees for the corporate incubator application, to name a few.

Lastly, we sought ways to support CV through the company's organizational structure. Simplified flat hierarchies and informal ways of communicating enhance this type of innovation. Having a centralized perspective of the innovation at a whole, while keeping independent execution lines (project-oriented units), makes the route easier and more flexible, ensuring the units have some decision-making freedom. A clear point of contact with external CV partners also simplifies the relationship. We find there is a clear link between how the unit matures and how the firm is organized internally.

In conclusion, though there are many ways to innovate in large corporations, CV is an emerging and promising solution to source innovative opportunities at speed. Executives must take a mid- to long-term view for this to bear fruit, and they must be diligent when designing a model that will be aligned most appropriately with the firm's objectives and culture.



# Corporate venturing

Large firms innovating at the speed of start-ups

## EMERGING AT SPEED

70%

60%

42%

of large firms have increased the investments in innovation units

of those innovation units were created in the past 5 years

of large firms have increased the use of corporate venturing mechanisms in just 6 years



Corporate venturing offers a way to work between established corporations and innovative start-ups

## MECHANISMS TO COMBINE

Scouting mission

Challenge prize

Excubator (*venture builder*)

Venture client

Hackathon

Corporate accelerator

Corporate incubator

Acquisition

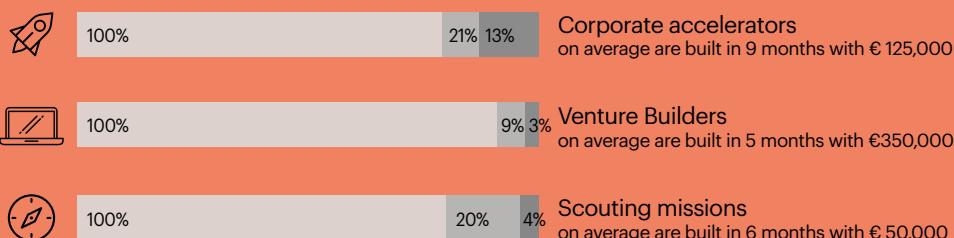
Sharing resources

Corporate venture capital

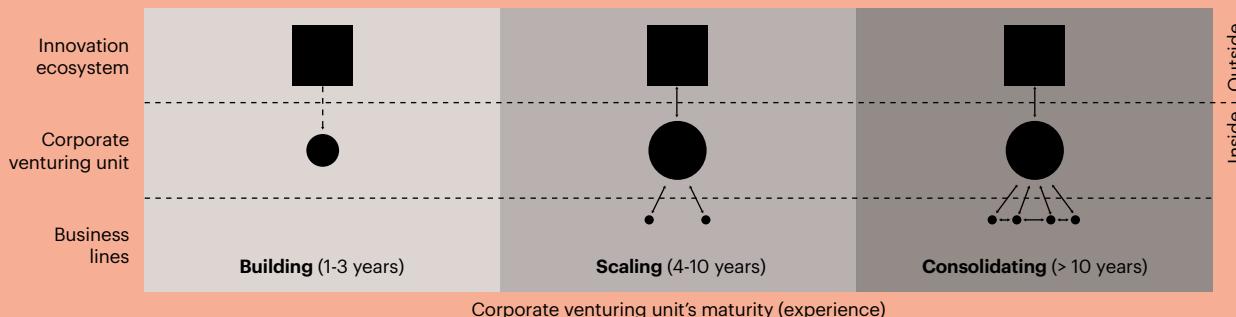
Strategic partnership

## DISTINCT OPPORTUNITY FUNNELS

Examples of normalized funnels



## ORGANIZATIONAL EVOLUTION FOR VENTURING

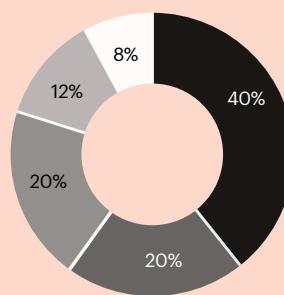


## TOO MUCH FOCUS ON THE ROI

40%

of large firms prioritize their corporate venturing opportunities focusing on short-term returns (ROI), losing long-term opportunities

"Firms need a more holistic perspective to measure opportunities"



# 1. Introduction: Challenges of Large Firms Collaborating With Start-ups

## 1.1 UNDERSTANDING EACH OTHER'S VALUE PROPOSITION

The business landscape is changing at great speed. The hospitality company Hilton has been in existence for almost 100 years and it has around 850,000 rooms in 105 countries and a market capitalization of \$25.8 billion. However, in just 10 years, starting from scratch, Airbnb has surpassed Hilton's market capitalization, with quadruple the number of managed rooms. In parallel, without it owning a single car, in nine years, Uber has exceeded the market capitalization of BMW, which began 102 years ago.\*

The practice of innovation in large corporations has been described as an attempt to steer an ocean liner.<sup>3</sup> Established firms are well suited to what has made them successful but, in general, they are slow to adapt to new opportunities. In contrast, the flourishing and dynamic ecosystem of tech start-ups, where innovation is their daily bread and butter, continues to grow in every sector, propelled by new technological advances and fueled by the availability of funds.

This development results in a great opportunity for both large corporations and start-ups. The question naturally arises: Is it possible to achieve a cross-fertilization of opportunities both in terms of ideas and scaling possibilities? Not only is the answer a clear yes, but this development is a phenomenon that has

taken off and opened up a myriad of prospects for both organizations.

Corporate venturing groups together diverse activities involving both large corporations and start-ups that are pursuing the development of innovative solutions, strategically leveraging the knowledge and resources of the corporations along with the start-ups' innovation. This collaboration is part of the so-called Open Innovation strategy, as it brings novelty from the outside into the corporation.<sup>4-6</sup> This is crucial, given that an internally focused model of innovation has proven insufficient to cope with the pace that the market and the industry require.

This is not a new practice – large firms such as Intel, Siemens, Xerox, GE, IBM,

Lucent and Merck have been developing this model for years. However, the pervasive impact of technology in all sectors demands a better understanding of how to make the collaboration between established firms and start-ups work.

Previous studies have identified long lists of shortcomings suffered by large corporations and start-ups. Although this reflects reality, it also sheds light on opportunities for cooperation. For instance, a start-up with an endemic lack of resources may find a solution in sharing those of a corporation. One organization's limitations may find a solution in the other. (For example, the focused talent pool of a start-up may offset the corporation's lack of knowledge in that area.) Table 1 presents a stylized summary of the value proposition of each organization.

### Open innovation

"paradigm that assumes that firms can and should use external ideas [...], and internal and external paths to market, as the firms look to advance their technology."<sup>4</sup>

### Corporate venturing

"mean[s] through which corporations participated in the success of external innovation to help them gain insights into non core markets and access to capabilities." It "offers a collaboration framework that acts as a bridge between innovative and disruptive start ups and established corporations."<sup>3</sup>

\*Data come from corporate websites and public estimated valuations.

**Table 1. Opportunities for collaboration between large firms and start-ups**

	<b>CORPORATIONS</b>	<b>START-UPS</b>
DISADVANTAGES	<ul style="list-style-type: none"> <li>a) Slow organization</li> <li>b) Lack of creativity</li> <li>c) Standardized inflexible processes</li> <li>d) Limited motivation</li> <li>e) Slow-paced growth</li> <li>f) Aversion to risk</li> </ul>	<ul style="list-style-type: none"> <li>1) Difficulties in accessing new markets</li> <li>2) Small workforce</li> <li>3) Lack of resources</li> <li>4) Tight budget</li> <li>5) Small number of partners</li> <li>6) Narrow visibility</li> </ul>
ADVANTAGES	<ul style="list-style-type: none"> <li>a) Knowledge and access to market</li> <li>b) Experienced workforce</li> <li>c) Resources, experience and power</li> <li>d) Available capital</li> <li>e) Wide network of partners</li> <li>f) Visibility and quality assurance</li> </ul>	<ul style="list-style-type: none"> <li>1) Organizational agility</li> <li>2) Flow of new ideas and niche knowledge</li> <li>3) Desire to challenge the status quo</li> <li>4) Highly motivated teams</li> <li>5) Potentially rapid growth</li> <li>6) Little impact if it fails</li> </ul>

Source: Authors' analysis. Adapted from Prats, J., Amigó, P., Ametller, X. & Batlle, A. Corporate Venturing: Achieving Profitable Growth Through Startups (IESE, Barcelona, 2017).

Nonetheless, experts have identified specific challenges that require further attention for the successful implementation of a CV unit.

From the large company's viewpoint, dealing with small and inexperienced companies presents the following main difficulties: the management of intellectual property, brand protection, technological readiness, financial stability and entrepreneurial culture.<sup>7</sup>

Meanwhile, start-ups encounter other barriers such as finding the right entry point to a collaboration, understanding people's roles in large companies (dealing with different teams along the way), struggling with the slow decision cycles that are common in large companies, dealing with what they see as "abusive" negotiations due to the greater power of the other stakeholder, and a lack of awareness by the large firm of how start-ups operate.<sup>7</sup>

The aim of the research behind this white paper is to shed light on different aspects of this collaboration and to offer selected best practices for improving the output. The report presents insights from a study of the corporate venturing practices of 44 large corporations in eight countries.

## 1.2 POINTING OUT THE CHALLENGES OF YOUR CORPORATE VENTURING UNIT

Large corporations are currently building their innovation units at great speed. More specifically, they are building corporate venturing mechanisms to maintain the required speed of innovation.

These units incorporate a broad range of approaches, such as scouting teams, corporate incubators, excubators,\* corporate accelerators and venture funds, to name a few. In a recent survey of chief innovation officers and those in related roles conducted by IESE Business School and Oliver Wyman, 70 percent of firms said they were increasing investment in their innovation units (60 percent of which had been created in the previous five years).<sup>1</sup>

Despite this, only 23 percent of the companies surveyed said they had delivered a significant innovation,

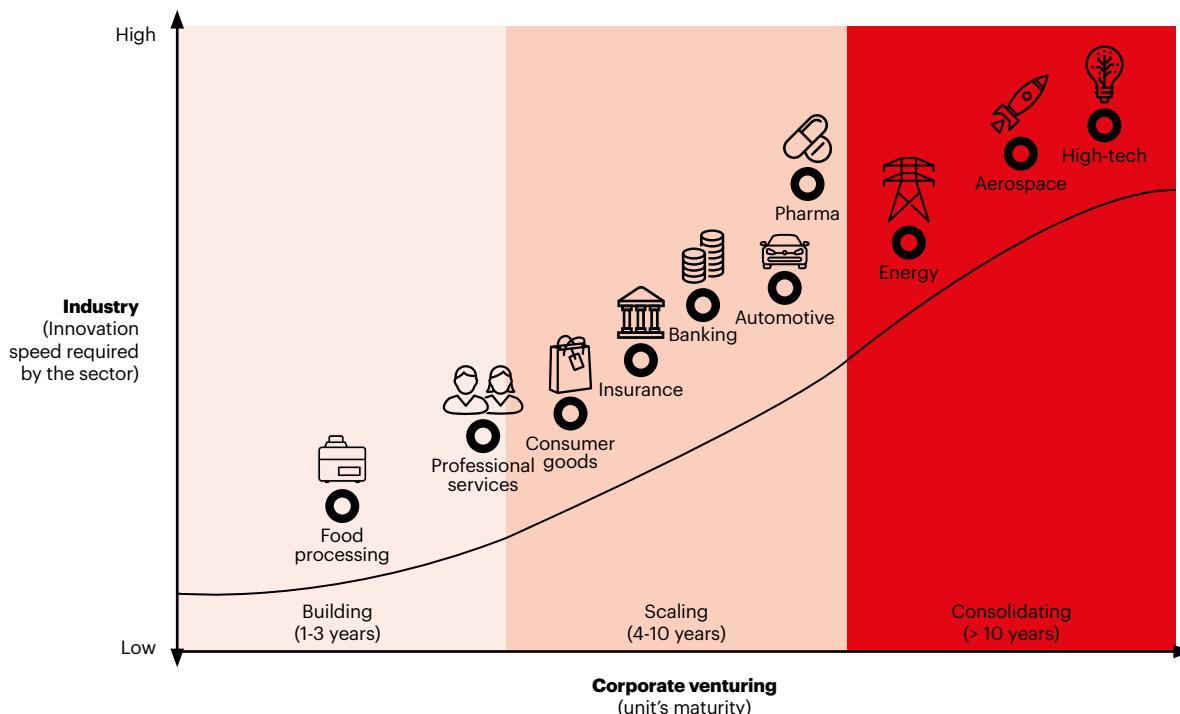
defined as an innovation that represented more than 10 percent of the business's revenue. Such mixed fortunes perhaps explain why some renowned companies' innovation units such as Coca-Cola Founders, Ogilvy Labs and Adecco Ignite have closed down their operations.<sup>8-10</sup>

It is clear that, on top of the previously identified challenges and the best intentions of top executives in addressing them, companies still struggle to obtain the desired results in innovation. Are there any other internal or external aspects that affect the complex process of bringing external innovation developed by start-ups into large corporations to rejuvenate them and encourage growth?

As in previous studies, a closer look at corporate venturing initiatives by sector shows that there is a close relationship

between the speed of innovation the sector demands in order to maintain competitive positioning and the firms' years of experience in the activity. In other words, firms in high-tech-based sectors launched corporate venturing units long before firms in other sectors, on average, so their practices have evolved and matured more than in other sectors. We see companies that have been involved in corporate venturing for more than 10 years (e.g., high-tech) and are currently in a process of consolidation; another group with four to 10 years of such experience (e.g., banking) that are scaling the units; and others with one to three years of experience (e.g., professional service firms) that are laying the foundations. (See Figure 1.)

**Figure 1. Average maturity of large firms' corporate venturing units, classified by industry**



Source: Analysis by the authors. Note: In the case of the pharmaceutical sector, we identified some companies as being in a previous stage in terms of their corporate venturing units, not because they started later but because they preferred to prioritize internal innovation. In the case of professional service firms, there are subsectors that started earlier (e.g., technology consulting firms) and others much later (e.g., law firms). In the case of insurance companies, those offering only work insurance (subsector) are in the first stage of building. The innovation required by the sector has been measured using several proxies, including the degree of digitization in the industry.<sup>11,12</sup>

\* Excubators are also known as venture builders.

However, firms in the same industry move at different paces. Firms classified under the same industry category may experience technology disruption at different times and at different intensities. Moreover, firms differ in how proactive they are at responding to external challenges. In the study conducted for this report, with chief innovation officers and those in related roles being interviewed, we found firms with CV units at different stages regardless of the industry that they were in. In fact, when analyzing the challenges and opportunities that each firm faced while building its unit, we found more similarities across the maturation stages of each corporation's innovation unit in different industries than across units in the same sector. This analysis provides better insights to help managers build a road map according to the company's own situation and to pay

attention to specific aspects at each stage of the corporate venture unit's maturity.

From this angle, the first evidence appears when looking at the factors that interviewees mentioned as sources of failure. Not surprisingly, each stage presented different challenges that, better managed, would have resulted in an easier road to results. Table 2 presents a summary of those factors.

These identified challenges combine with another source of concern for executives: the identification of appropriate mechanisms for accomplishing the goals they set for the unit. Corporate venturing is still an evolving practice and corporate innovation managers must understand what mechanisms exist and which of them may adapt better to the firm's goals.

**Table 2. Triggers for unsuccessful collaborations between large firms and start-ups, classified by the maturity of the corporate venturing unit**

BUILDING (1-3 YEARS)	SCALING (4-10 YEARS)	CONSOLIDATING (>10 YEARS)
<p>Not having a clear tangible value proposition for either the large firm or the start-up</p> <p>Lacking buy-in from the large firm's top management</p> <p>A failure by the firm's employees to understand what the CV unit is doing and why</p>	<p>A lack of a clear path, procedures and resources to expand the unit.</p> <p>A failure to fulfill the expectations of the firm (expected innovation and return on investment) or start-up (benefits)</p> <p>A lack of agility to be efficient enough internally and quick enough externally to work with start-ups</p>	<p>A lack of sufficient freedom for the CV unit to test new opportunities in the market</p> <p>Difficulty in integrating the CV unit with the business lines</p> <p>A lack of internal connections and communications among the firm's corporate venturing mechanisms</p>

Source: Analysis by the authors. Note: The survey answers were classified into groups.

# 2. Identifying the Mechanisms to Interact With Start-ups

## 2.1 EMERGING AT GREAT SPEED: A CHANGING LANDSCAPE

According to a 2016 study,<sup>2</sup> the first step in starting out on a corporate venturing journey is to reach an understanding of how it fits in with the overall innovation strategy. To this end, large companies generally take the following steps:

- “conduct assessments to determine the strengths and weaknesses of their internal and external innovation efforts”
- “pinpoint the areas of the company’s businesses that are most vulnerable to disruption”
- and finally, “ascertain the areas that offer attractive growth opportunities” (e.g., new products and services that can be provided to the current customer base through the same or novel business model arrangements)

Needless to say, when doing this, the firm must define the nature of the opportunities that it is looking for. For instance, some of the firms in our sample were looking for core products to expand their scope. Others were looking for new solutions to improve the features of their core product. Still others were eager to find adjacent technologies to become more efficient at a specific stage of the current value chain. This is an important decision that will also define how executives manage the process and the outputs from the CV unit.

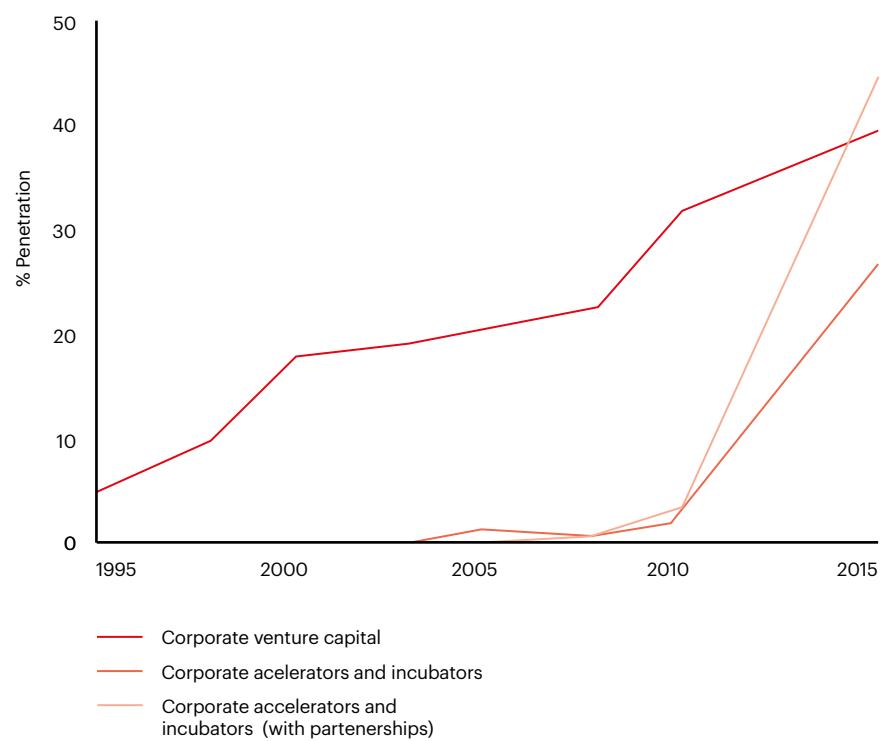
Once the strategy has been drafted, managers must align the venturing tool to be implemented: how to operate it, how to fund it, how to fit it into the company’s structure, how to measure its performance

– and finally, they must work out the time needed to make it operational.<sup>2/13</sup>

Scrutinizing the mechanisms or venturing tools available to support a firm’s innovation strategy, an earlier study identified a sharp rise in a specific set of corporate venturing practices in large corporations in the previous few years. Open innovation mechanisms such as corporate accelerators and corporate

incubators are on the rise: between 2010 and 2016, the use of these mechanisms among the world’s 30 largest companies (by market capital) expanded, in some cases soaring from 2 percent to 44 percent.<sup>2</sup> (See Figure 2.) An analysis of our sample of corporations found similar data, showing that most of the analyzed companies started their corporate venturing units after 2009.

**Figure 2. Penetration of venturing tools in large corporations**



Source: Adapted from Brigl, M., Hong, M., Roos, A., Schmieg, F. & Wu, X. *Corporate Venturing Shifts Gears: How the Largest Companies Apply a Broad Set of Tools to Speed Innovation* (Boston, MA: The Boston Consulting Group, 2016).

However, the activities shown in Figure 2 are just a partial view of the true situation. The number of mechanisms used by corporations to collaborate with start-ups has also grown significantly in the past few years. Figure 3 shows a stylized classification, displayed according to the relative amounts of capital required for execution, the time required to get the expected results and the development stage of the opportunity. (See the definitions of each concept in Appendix 6.2.1.)

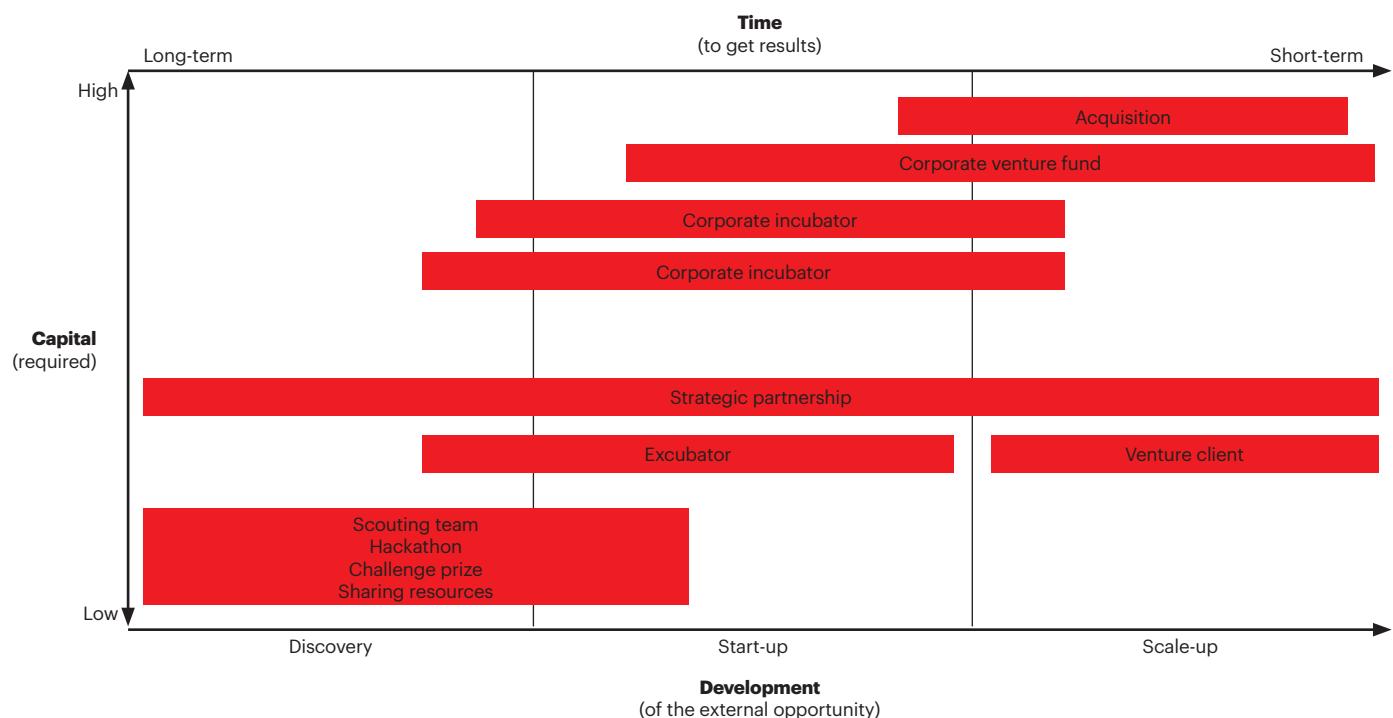
In our research, we were interested first of all in understanding which aspects

were used by chief innovation officers and those in related positions to select the right mechanisms. The interviewees pinpointed strategic considerations ahead of the expected return on investment. This is consistent with innovation theory, given the difficulties in measuring results in the short term. Even so, 22 percent of respondents had a financial criterion and more than 40 percent had other criteria as a main driver when choosing the corporate venturing mechanisms. Figure 4 summarizes the responses.

An initial analysis of our interviews about which tools were being used shows that

firms start off using one mechanism but very soon go on to use a combination of tools to pursue the previously defined objectives. As we have mentioned, executives are still learning how to implement corporate venture tools. Moreover, in the beginning, there is only intuition about what to expect from each tool. We can observe a process of trial and error that starts, on many occasions, with the simple approach of “copying and pasting” practices from other firms, from inside or outside the same industry. Very soon, executives realize that this is not fruitful. Innovation touches the DNA of the firm: not only products or services,

**Figure 3. Simplified scheme of the mechanisms available for corporate venturing**



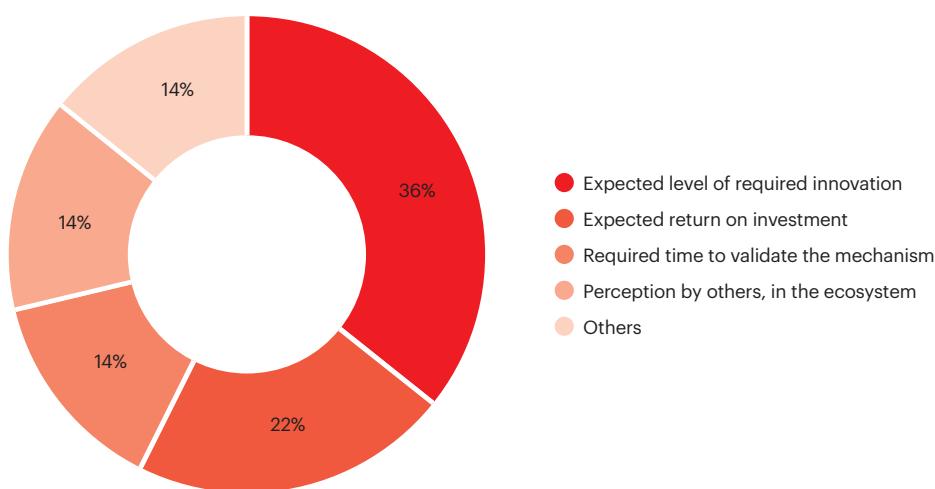
Source: Adapted from Prats, J., Amigó, P., Ametller, X. & Batlle, A. *Corporate Venturing: Achieving Profitable Growth Through Startups* (Barcelona: IESE, 2017). Note: The concept of strategic partnership includes several submechanisms such as corporate-university agreements to interact with university spin-offs as well as licensing to commercialize start-ups' innovations.

but also business models and company processes and systems. Therefore, each implementation of a tool requires alignment with the firm's objectives, along with time to adopt, adapt and validate each practice. Companies' CV units continue to evolve over time.

The analysis of the portfolios of tools used over time shows that these are not random choices. We found common

combinations of mechanisms that differ according to the maturity stage of the innovation unit. In other words, firms follow a common path when they make their practices evolve.

**Figure 4. Criteria applied by our survey's respondents when choosing from among corporate venturing mechanisms**



Source: Analysis by the authors. Note: The survey answers were classified into groups.

## 2.2 SELECTING THE COMBINATION OF MECHANISMS

As we pointed out before, while some companies have already consolidated their CV units and have more than 10 years of experience, the rookies are building their units for the first time. There is a group in the middle with four to 10 years of experience, which finds itself, after learning from previous mistakes, at the stage of growing and scaling its units.

One of the questions that many executives have wrestled with when building their corporate venture practice

is whether it will have a greater impact, in terms of results, if they carry out a variety of corporate venturing activities with an extended number of partners (breadth) or else focus intensive efforts on one specific activity (depth).

The answer depends on the firm's objectives and the type of innovation that the firm is trying to accomplish. The maturity of the innovation must also be taken into account. Previous literature has recommended focus at the beginning. In the early stages of

a technology, when only a few sources have the knowledge needed by the company, "innovative firms need to draw deeply from a small number of key sources of information, such as lead users, component suppliers, or universities."<sup>14</sup>

When, later on, a technology spreads and is learned by a greater number of specialists working for different companies, "innovative firms need to scan across a wide number of search channels" in order to "find new combinations of existing technologies to enable them to

make significant improvements in their existing products.”<sup>14</sup>

Several studies have focused on a combination of open innovation practices, which were found to produce better results than individual ones on their own. Analysis of several economies showed that a “broad based, holistic approach to open innovation may give greater returns than a deep focus on a single aspect.”<sup>15</sup> It was also found that, regardless of whether a firm combines different corporate venturing tools, it is important for it to maintain a strong internal capacity for research and development (R&D), the intensity of which is still found to be an important determining factor regarding innovation performance, especially in large firms.<sup>15,16</sup>

According to our analysis, the most common practice across stages is the use of corporate incubators as a means to attract and relate with start-ups easily. However, we found differences in the intensity of use and the objectives of this and other mechanisms at different stages. A third of new CV units start their journey with low-cost mechanisms that are deployed quickly (compared to other mechanisms), leading to a rapid increase in the mapping of the ecosystem and an influx of opportunities. For instance, scouting missions are used during

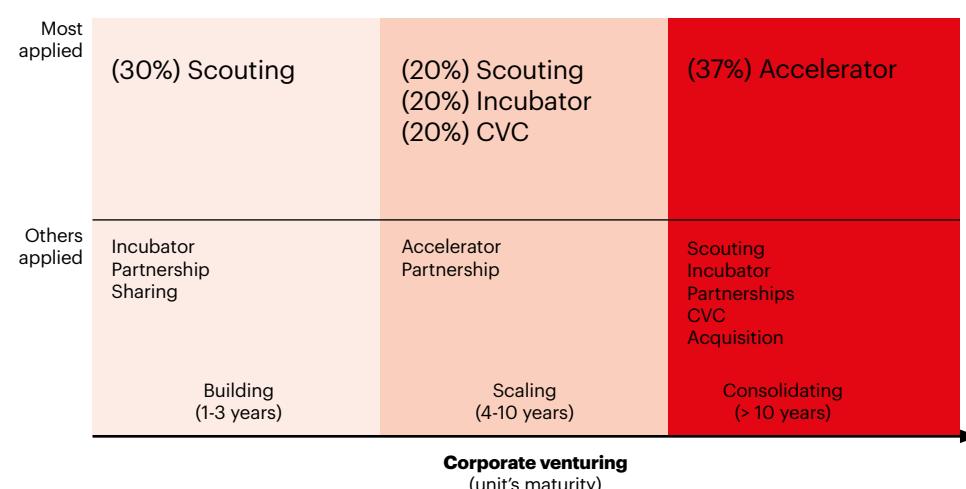
the building stage to amplify the scope and attraction of opportunities. These missions aim to widen firms’ organizational networks, understand the context, and identify and evaluate new opportunities. It is during this process that firms also clarify the feasibility of accessing the expected solutions defined in their strategy. Figure 5 shows the evolution of the most commonly applied mechanisms.

Within several years, scouting activities become less relevant and the relationship with start-ups is built up mainly using other practices. During the scaling stage of the CV unit, we found a significant group of firms using a combination of three mechanisms: scouting, corporate venture capital (CVC) and incubators. The logic is as follows: after a period of scouting, the firm understands the external context, decides to get closer to the ecosystem through corporate incubation and sets in place the fund to start taking stakes in the most promising technologies that fit in with the type of opportunities previously defined. Note that, in the beginning especially, corporate incubators do not necessarily allocate funds to take equity shares. The incubator may attract start-ups with other value propositions as prizes, such as services in kind, network opportunities and piloting access.

Lastly, in the consolidating stage, accelerators play an important role in pushing projects that eventually will move ahead internally. Although we put them in the same category, the acceleration models vary immensely – from internally built to outsourced, from those exclusive to particular firms to consortium-based models, and from models that involve the funding of renowned accelerators to having agreements to get first access. Looking at the evolution of the more mature CV units, we interpret the high number of corporate accelerators today as being a result of the current munificent environment for start-ups. We foresee an evolution of this model caused by the consolidation and decrease of the number of start-ups generated by the external innovation ecosystem.

Since firms using CV mechanisms are still testing and learning, there is not a lot of data available to use as benchmarks. We found that enterprises often consider a combination of measures: the time needed to get results, the required costs and the probability of achieving the company’s objective using corporate venturing. (See Appendix 6.2.1.) One of the objectives of this research was to give some practical guidance about measuring the process and the results.

**Figure 5. Most commonly applied mechanisms according to the corporate venturing unit’s maturity stage**



Source: Analysis by the authors. Note: Although companies also use other mechanisms, the ones shown were the most relevant during each maturity stage of the firm’s CV unit.

# 3. Measuring Your Time, Budget and Desired Impact

## 3.1 A FIRST APPROXIMATION TO DATA

Even when they have resources (budget and talent) available, executives trying to measure the progression of corporate venturing activity face a common problem in innovation: a lack of internal historical data and external detailed benchmarks.

In a preliminary trial aimed at getting data, we asked 46 chief innovation officers and those in related positions questions such as: How many days are required to launch a corporate venturing mechanism? What budget will be required? What instruments provide the greatest number of opportunities? Table 3 provides a summary of selected results.

The results shown in Table 3 indicate that the time frame for launching some of the mechanisms are quite different. Some can be initiated pretty quickly (e.g., strategic partnerships or venture clients), while others require a longer time (e.g., CVCs or acquisitions). Most of the mechanisms do not need a budget of more than €350,000, except a CVC and acquisitions. In the case of a CVC, companies use a fund of €9 million (on average) to invest in start-ups via tickets of €300,000. Although the number of candidate opportunities varies significantly according to the mechanism because each mechanism has different objectives (see Appendix 6.2.1), the acceptance of candidates does not exceed 21 percent, except

in the hackathon and the sharing of resources, which aim to have a broader scope.

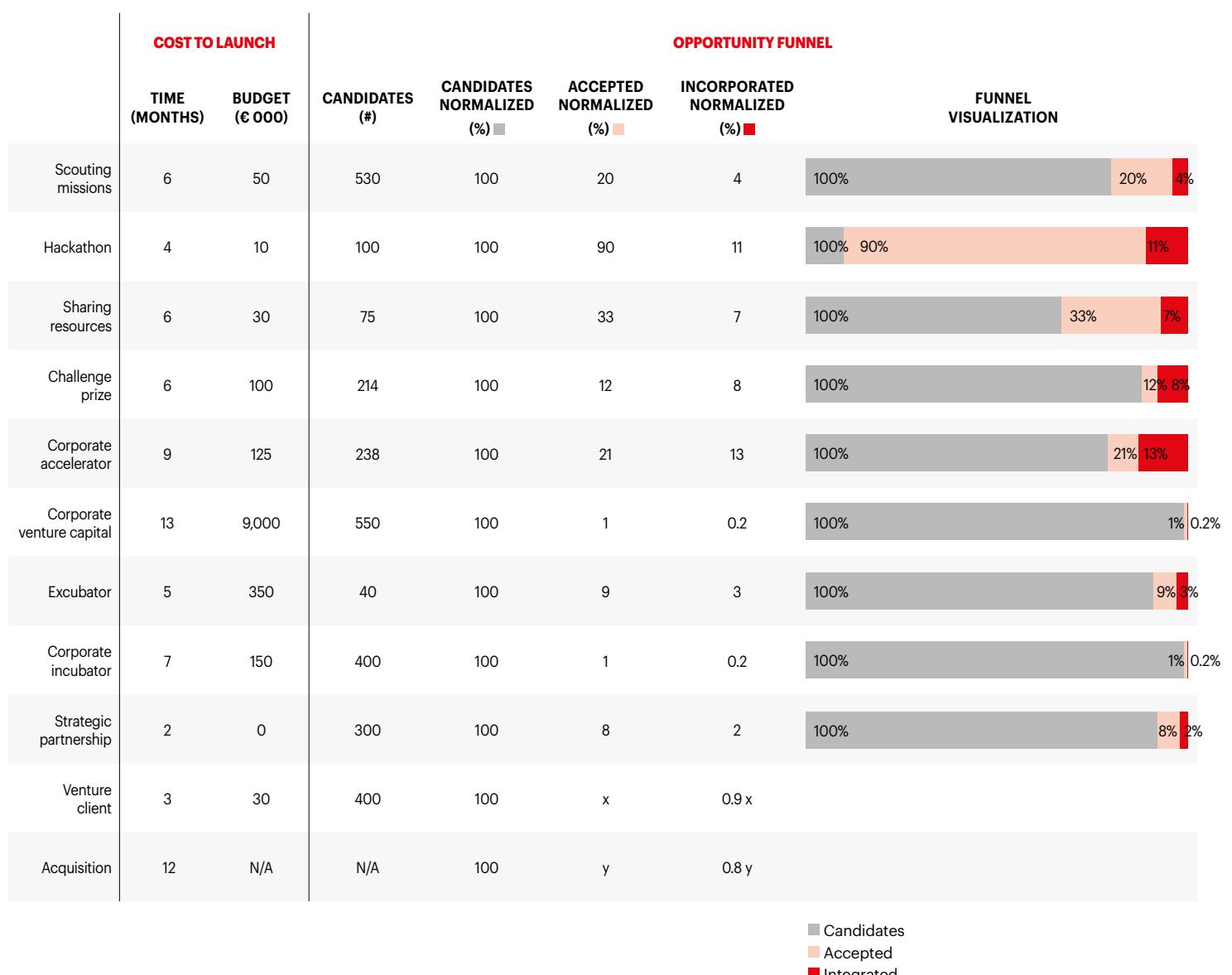
If we analyze the most popular practices according to stages of CV unit development, a consistent choice can be seen when looking at the relationship between investment and the results that the different practices bring to a firm. In the beginning, companies look for a quick way to gather data and do tests. In 30 percent of cases, they start off with a scouting team, a mechanism that has a short time to launch compared to a CVC, which requires a lot of time and investment. In contrast, in 37 percent of cases, consolidated CV units use a corporate accelerator, which provides the highest percentage (13 percent) of projects scaled to the wider organization from the initial candidate opportunities.

One way to look at the cost of each mechanism, if we take the perspective of the start-up, is to develop a good understanding of a start-up's reasons for collaborating with a large corporation. Table 3 suggests, for instance, that the low ratio of acceptance into corporate incubators (1 percent) may discourage good candidates. This situation is leading to more benefits being offered to attract them, but then the cost of running these programs increases without necessarily bringing about a better selection of candidates.

The corporation must also evaluate the ongoing investment while implementing a particular mechanism.

When the mechanism needs to be monitored and optimized after being launched, what are the best key performance indicators (KPIs) to manage this procedure?

**Table 3. Average estimated cost to launch an opportunity funnel classified by corporate venturing mechanism**



Source: Analysis by the authors based on the results of the interviews, contrasted with a review of three examples of the literature.<sup>17-19</sup> Note: In the cells that say "N/A," the concept is not applicable, we did not find enough data to state a figure, or respondents did not have historical data. The costs in addition to personnel costs do not include the cost of an external adviser, a practice we found common in some companies before they build the CV mechanisms. Some respondents mentioned that these costs were usually less than €100,000 per mechanism. In four cells of the venture client row, one cell of the excubator row and two cells of the hackathon row, the information came from external sources. The "budget" figure given in the corporate venture capital row means the average fund size per year.

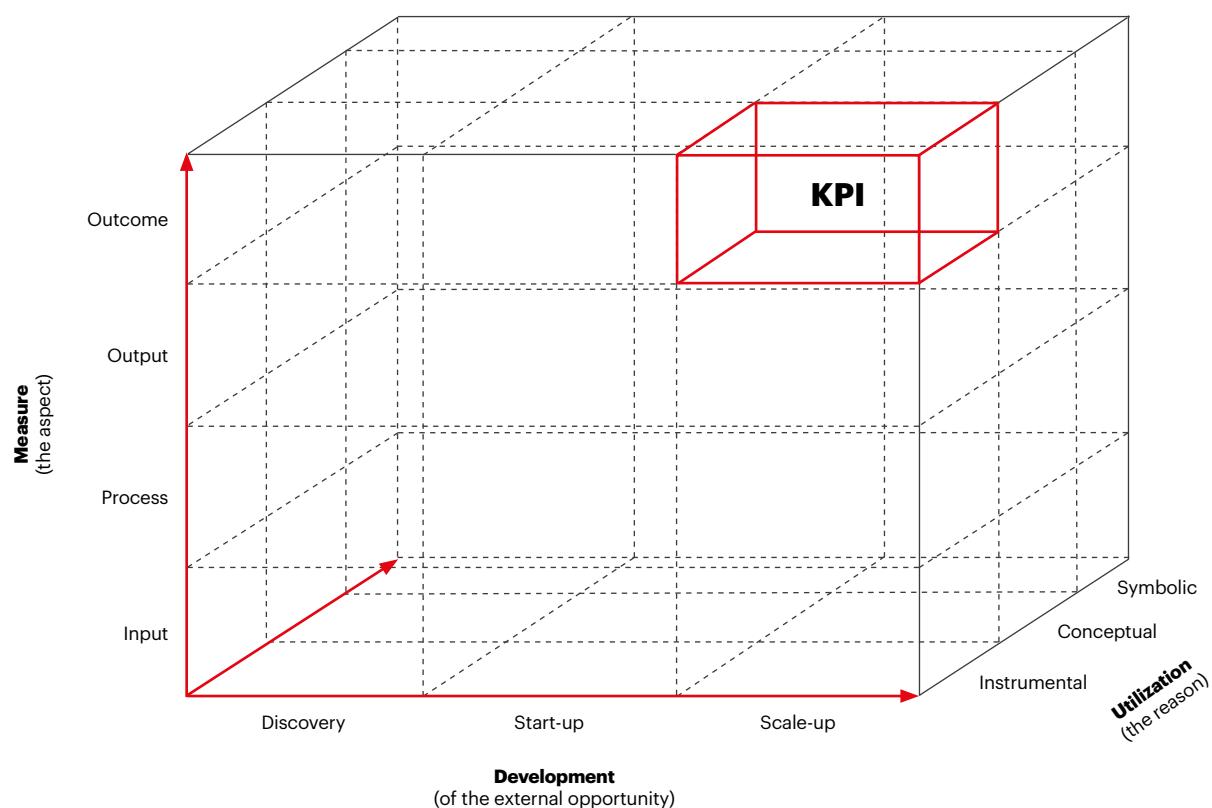
## 3.2 SELECTING THE COMBINATION OF MECHANISMS

At this moment, there are few established practices to measure the effects and impact of corporate venturing activities.<sup>15,20,21</sup> One study said: "Among those companies that do measure innovation, we found that most still use very generic innovation metrics that are primarily based on R&D and product-development metrics solely."<sup>22</sup>

Contrasting the responses of this study's survey with the available literature, we came up with principles and best practices for designing a metrics-based toolkit that will provide a suite of KPIs for your CV unit. Each mechanism has various objectives and focuses on different stages of development of the external opportunity.

These principles pinpoint the importance of three aspects when it comes to defining KPIs to measure corporate venturing. First, different metrics should be used for each phase of innovation (i.e., discovery, starting up and scaling up). Second, different types of measures in the innovation funnel should be considered (i.e., input KPIs, process KPIs, output KPIs and outcome KPIs). Finally, such metrics should be utilized effectively, in accordance with their final use (i.e., instrumental, conceptual or symbolic). In short, specific metrics should be used for measurement, development and utilization. (See Figure 6.)

**Figure 6. Framework for defining a CV unit's performance-measurement system**



Source: Adapted from Erkens, M., Wosch, S., Piller, F., & Lüttgens, D. Measuring open innovation. Performance 6(2), 12–23 (2014).

The KPIs for the CV unit are specified in accordance with these principles, taking into account the type of measurement, development and the utilization method.

The utilization method comes into the instrumental category when it applies information or metrics for decision making. (For example, if the start-up's revenues are below a specific limit, I will not accept that venture in my corporate accelerator program.) The method is regarded as conceptual when it provides a general understanding rather than leading to a concrete action. (For example, to understand the maturity of a start-up's technology, I am going to measure its level of technological readiness.) And the method relates to the symbolic category when it is used to measure a previously taken decision in order to justify it. (For example, after two years of testing a new corporate incubator, I am going to show the Board of Directors the number of opportunities that have been incubated and how many of those have been integrated into the organization.)

The type of measurement describes the following:

- the input, meaning the resources required for a project such as human or financial resources
- the process to transform inputs into outputs, optimizing the efficiency (timing, budget, error ratio, etc.)
- the output or results of the development activities within an innovation process (the number of opportunities, patents and publications, etc.)
- the final outcome, aimed at determining "the value of an innovation in terms of economic and market-oriented performance indicators."<sup>22</sup>

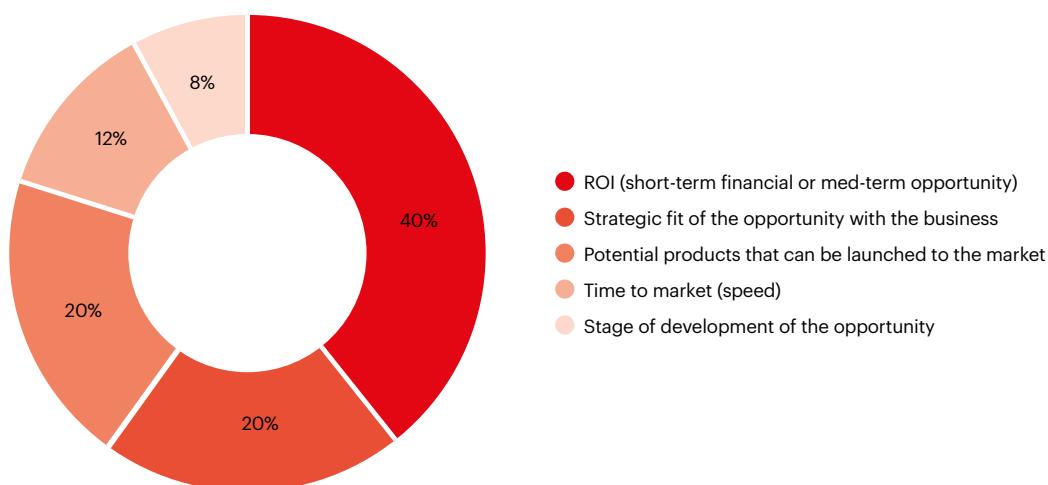
Regarding the output, it is common to find cases in which the performance of CV units is evaluated in terms of the actual turnover resulting from these innovation activities, the strategic fit of the opportunities that are being generated and the potential product that can be launched in the market.

In our survey, the respondents agreed that these were the KPIs that applied the most in their organizations for measuring the

outcome of their mechanisms. (See Figure 7.)

The return – either short-term financial or mid-term opportunity – clearly predominates. Other common KPIs are suggested, such as how the generated opportunities fit strategically with a firm's business, or the potential products that can be launched in the market. This result contrasts with firms' reasons for choosing an appropriate CV mechanism described in the previous section. Then, the priority was strategic. However, once the mechanism has been put in place, financial returns tend to take over. This is a potential problem. Previous literature has shown that firms that attach the greatest weight to financial measures when deciding from among opportunities may lose high-potential long-term opportunities that do not have a clear short-term ROI but that may have the potential to generate disruptive innovation. Therefore, companies should adopt a more holistic perspective when prioritizing their new opportunities and attach less importance to short-term financial returns on innovation. Otherwise, high-potential opportunities may be lost.<sup>23</sup>

**Figure 7. Average weighted KPIs that companies use to choose from start-up opportunities**



Source: Analysis by the authors. Note: The survey answers were classified into groups. Since the innovation directors are still learning which KPIs are the right ones to apply, the prioritization fluctuates.

# 4. Building Each Mechanism: Best Practices

## 4.1 DESIGNING THE VALUE PROPOSITION FOR THE START-UP

It is important not only to attract innovators but also to learn how to keep them involved in the activity they first signed up for. When cooperating with large corporations, start-ups encounter many barriers. (See Chapter 1.1.) Therefore, the perceived benefits for the start-ups should be greater than the obstacles.

According to the results of our survey and other literature, when start-ups were asked to name the top two benefits that they were looking for in each mechanism, they named the following: access to working space and R&D facilities, training or workshops, coverage of living expenses during the program, funding (a grant or prize), mentoring (individually or in groups), networking opportunities (partners, investors, know-how and customers), outreach (attending conferences) and the possibility of conducting field trials or pilots with data to improve their products. (See Table 4.)<sup>24,25</sup>

Nevertheless, the benefits being offered are not the only factors to be considered, and corporations should keep this in mind when designing and advertising the CV mechanisms and while negotiating contractual terms on intellectual property. Start-ups usually perceive corporations as a threat and fear that the bigger

companies will steal their ideas and cause the start-ups to lose ownership of those ideas.

However, when do entrepreneurs choose partners that represent a greater risk of misappropriation over less risky partners? Founders take the risk when they need resources that only corporations can provide or when they have effective defense mechanisms to protect their own resources (i.e., secrecy and timing). For these reasons, negotiations of terms usually depend on resource needs, defense mechanisms and alternative partners.<sup>26</sup>

For example, in a context of weak protection of intellectual property, entrepreneurs are less likely to build a relationship with a CVC that targets the same industry. In contrast, under a strong protection regime, any industry overlap is linked to an increased likelihood of an investment relationship.<sup>27</sup>

Therefore, there is a need to understand the background of the desired start-up and to design a tailored value proposition for it. Now that we have looked at some of the top benefits that start-ups are seeking when working with large corporations, how can a firm actually put corporate venturing into practice?

## 4.2 BUILDING AND SCALING EACH MECHANISM

Overall, the implementation of corporate venturing can be looked at within a framework of organizational change. We find this a useful point of view, especially during the integration phase. Launching a unit that will provide business opportunities or technology to the core business (or an adjacent one) implies the integration of the two and consequently doing things differently. A unit may affect processes and business systems, the set of capabilities or how things are organized. This involves mastering the process of managing organizational change.

This process is basically organized into three phases: unfreezing, moving and institutionalizing. The first step (unfreezing) consists of the creation of a sense of urgency for change within the

institution, the creation of a group willing to lead change and the communication of the new vision to internal and external stakeholders. The next step concerns the implementation of change (moving), which often amounts to a process of trial and error. During this phase, new procedures are established according to the new vision in order to identify a better solution, which may involve budget constraints, targets, schedules and reward systems. The last phase consists of consolidating (institutionalizing) the improvements achieved in the previous phase.<sup>28</sup> In our interviews, we found that innovation directors often follow this pattern.

Experts have identified three fundamental challenges in this process: encouraging outsiders to supply external innovation

(motivating), incorporating external innovation into internal development (integrating) and designing ways to exploit internal innovation (maximizing).

As confirmed in our study, the literature explains that these problems are usually solved by establishing a good structure for contributions, by providing intrinsic rewards (e.g., recognition) and by sharing the intellectual property to maximize the returns of the whole innovation portfolio.<sup>29</sup>

More detail is found about respondents' best practices for each corporate venturing mechanism. Table 4 shows the main takeaways that large corporations' chief innovation officers (and those in related roles) have learned during the stages of building, scaling and consolidating their CV units.

**Table 4. Two best practices for building, scaling and consolidating each mechanism of a CV unit and top two benefits that start-ups look for in each mechanism**

MECHANISM	BEST PRACTICES	TOP BENEFITS FOR START-UPS
Scouting mission	<p><b>Involve the business line from the start.</b> Otherwise, there will be people working on innovation and the rest carrying out business separately. Consequently, the two would not be aligned and the innovation unit would be unable to deploy the solution in the market.</p> <p><b>Expand your search and rate your sources.</b> Depending on your regional innovation ecosystem, you may not be surrounded by the right partners (incubators, universities, research centers, etc.). Expand your geographical search and identify the quality of your sources.</p>	Access to clients Business opportunity
Hackathon	<p><b>Prioritize open calls in the geographical areas analyzed.</b> In particular, in sectors where finding the right solution or talent is complicated (e.g., pharma), it is crucial to identify in advance which geographies are stronger in terms of the desired need or talent.</p> <p><b>Hunt for the “dream team” and design a tailored value proposition.</b> Start-ups that are looking only for branding and money from large corporations may not always be the best candidates. Find out what the start-ups are really looking for and offer a unique proposal.</p>	Business opportunity Recognition
Sharing resources	<p><b>Enable tech tools to interact with start-ups.</b> Often, start-ups are looking for data, know-how or processing technology. Having the right technological infrastructure will help you increase the interaction and save you long-term costs for management.</p> <p><b>Find a balance between searching for and integrating innovation.</b> In some cases, companies found that they were spending a lot of time seeking new start-ups but not that much time integrating the opportunities they found into the company.</p>	Data Facilities
Challenge prize	<p><b>Transform prizes into preinvestment.</b> Although rewarding the winner with a €30,000 prize may be tempting, investing in the winner is even more powerful and attractive. Finding synergies among mechanisms (e.g., corporate venture capital) will save you costs.</p> <p><b>Move from outreach to market-pull focused challenges.</b> Tailor your challenge to your current business needs. In some cases, corporations increase the scope of the challenge just to get greater visibility.</p>	Prize (€30,000) o pre-investment Outreach

MECHANISM	BEST PRACTICES	TOP BENEFITS FOR START-UPS
Corporate accelerator	<p><b>Get the financial buy-in from the business line.</b> Securing the initial commitment of the business team, in terms of the budget, will help ensure the project's success because they have made an investment.</p> <p><b>Grant autonomy with meaningful interactions.</b> Consider well the location and type of ties with the accelerated start-ups that will work better for your organization: internal (location within headquarters), independent (as a different entity) or virtual (lower costs but increased communication difficulties).<sup>25</sup></p>	Mentoring Resources (€15,000 and facilities)
Corporate venture capital	<p><b>Balance strategic and financial returns.</b> Find a balanced mix of KPIs to decide from among several initiatives. This will include the weighting of long-term opportunities and the short-term financial return (20/80 vs. 80/20).</p> <p><b>Reflect your balance in your strategy.</b> The first choice regards who is responsible for defining the search fields: should they be corporate-led or led by the business unit? The second variable concerns the financial objectives: independent or corporate?</p>	Funding (€300,000) Credibility
Excubator	<p><b>Ensure there is the right external talent.</b> This mechanism relies not only on external start-ups but also on an external venture builder. Therefore, analyze in depth with whom you would be joining forces (e.g., number of start-ups attracted, average length of production cycle and reviews).</p> <p><b>Align the collaboration with your corporate strategy.</b> When designing how and with whom you are going to work, check that the opportunities that may be generated through the collaboration fit strategically with your organization.</p>	Network Know-how
Corporate incubator	<p><b>Consider your own employees for the incubation application.</b> Some corporations are creating incubation programs internally for their own employees. This leverages internal talent and provides staff with unique learning motivation and visibility.</p> <p><b>Detail better business cases.</b> Among the challenges faced by the managers of corporate incubators are the weak business cases of the start-ups being supported. The start-ups' business application, impact and profitability are usually not clear. It is not enough to build minimal viable products (MVPs).</p>	Know-how (clients' journey) Business opportunity
Strategic partnership	<p><b>Share best practices through vertical integration.</b> A community that shares best practices on corporate venturing will not only help keep you updated but will give you an additional competitive advantage over your suppliers, clients and strategic partners. Consider also looking for answers in other industries.</p> <p><b>Transform intangible assets into tangible value propositions.</b> Sometimes corporations approach start-ups with offers such as resources. However, a specific proposition can provide increased interest – for instance, a coworking space in the headquarters and access to data for carrying out pilots to improve the start-up's product.</p>	Network Know-how
Venture client	<p><b>Define processes for the start-up's speed.</b> Design internal procedures to interact with the start-up at the speed it requires, avoiding unnecessary bureaucracy and limiting what the start-up can do but does not do.</p> <p><b>Build a bidirectional learning experience.</b> When the start-up's talent works with your corporate talent (e.g., developers), both teams can learn from each other (e.g., best practices, tools and frameworks). Allow space and time to share experiences during the collaboration.</p>	Branding Access to experts
Acquisition	<p><b>Improve your organizational agility.</b> Large corporations are often immersed in rigid cultures, long decision-making cycles, a lot of bureaucracy and complex organizational charts that make integration quite difficult. Find the right balance between instability and efficiency.</p> <p><b>Work with the start-up before acquiring it.</b> Depending on the source, only around 20 percent of mergers and acquisitions really succeed. Confirm first with some collaborations that your choice is the right one. Check whether the opportunity can be scaled within your organization.</p>	Business opportunity Capitalization

Source: Analysis by the authors. Note: More quantified details of the benefits for start-ups are shown in Table 3.

The best practices described cannot simply be copied and pasted into any organization, since the environment (internal and external) and the

characteristics of each company are different. However, as examples of practices that have helped others, they can serve as inspiration.

Once the CV mechanisms have been adapted and adopted, a structure is needed to govern and lead the processes. What is the best approach?



# 5. Structuring Your Governance for Corporate Venturing

## 5.1 IDENTIFYING YOUR LEVEL OF FORMALITY, CENTRALIZATION AND INTEGRATION

When discussing where and how corporate venturing should be positioned in a company for greater efficiency, there are three main governance dimensions to consider: the formality of the organization (formal or informal), the level of centralization (centralized, hybrid or decentralized) and the type of integration (vertical or horizontal). Companies range from those with the most formal centralized structure, where the vice president oversees and monitors all activities and manages the corporate budget, to informal and decentralized firms where corporate venturing activities are distributed among different units.<sup>13</sup>

A strong position over the years has been that an “informal organizational structure [...] is characterized by openness in the system which is a necessary precondition for idea initiation,” and such structures “favor creation of innovation” in the corporate venturing paradigm “more than the rigid formal structures.”<sup>30</sup>

Those who support this viewpoint argue that the flexibility and openness that characterize an informal organizational structure encourage new ideas and give employees greater freedom to perform their tasks.<sup>30</sup> On the other hand, formally structured organizations, characterized by institutionalized rules, long bureaucratic processes and difficulties with integration across business units, are often less inclined to innovate.<sup>31</sup>

The next questions are: What is your level of centralization? What transformation should your company carry out to move from one level of centralization to another? Let us analyze the six areas that are most significant in this differentiation: the CV unit’s perspective of the needs and markets of the whole organization, the decision-making power and influence that the unit has over other business units, the number and type of corporate venturing experts involved across the organization, the type of contact point that any units

have, the perception of other business units and how the corporate venturing experts form a community within the company. (See Table 5.)<sup>31</sup>

Lastly, there are several differences between horizontal and vertical integration in the company for corporate venturing. Horizontally integrated companies (with integration along similar companies) “leverage their market position and network of suppliers/clients to become the nexus of the evolving open innovation network [...] In this way, these central companies are greatly increasing the number of ideas coming in [...] while greatly decreasing their R&D costs.”<sup>31</sup>

By contrast, vertically integrated companies (with integration along the value chain) “normally have a very strong core competency in their product development, and their competitive advantage is based on this. [...] These firms are not blessed with the same network of suppliers and clients

**Table 5. Levels of corporate venturing centralization in the company structure**

	CENTRALIZED	HYBRID	DECENTRALIZED
<b>Perspective</b>	View of the needs and markets of the whole company (growth opportunities)	View of specific needs and markets in each business unit	View of specific needs and markets in each business unit
<b>Power</b>	Leverage power across business units (which requires support from the top)	Some leverage power across business units	Lack of leverage power across business units
<b>Experts</b>	Internal experts on corporate venturing and intellectual property	One corporate venturing generalist in each business unit	One corporate venturing generalist in each business unit
<b>Connection</b>	One contact point for both internal and external relations	One contact point for each business unit	One contact point for each business unit
<b>Perception</b>	Work needed to be viewed as a business unit team member	Viewed as a business unit team member	Viewed as a business unit team member
<b>Community</b>	All corporate venturing experts in the same business unit	Internal community (across units) of corporate venturing experts by skill	Lack of an internal community of corporate venturing experts by skill (different practices by unit)

Source: Adapted from Chesbrough, H., Vanhaverbeke, W. & Roijakkers, N. *Processes and structures for open innovation*.

as their horizontally oriented compatriots [... The] challenge [...] is that] these large R&D operations can produce too many ideas all trying to go down the product development funnel.”<sup>31</sup> Additionally, a high degree of correlation was found between international vertical collaboration and high innovation performance, the impact being greater than that found with national vertical collaboration.<sup>15</sup>

The type of corporate venturing integration involved does not affect the capacity to implement corporate venturing, but it defines the type of innovation process depending on the type of business. Both vertical integration (collaboration with suppliers and customers) and horizontal integration (collaboration with competitors) have been found to work in the implementation of open innovation.<sup>31</sup>

Our findings show specific patterns that are starting to be consolidated among

large corporations with regard to the three aspects of formality, centralization and integration, although chief innovation officers are still on a learning journey when it comes to spotting the best way to achieve the desired results.

First of all, in terms of the organizational structure, a pattern is found regarding the person to whom the head of innovation reports. In some cases, the person has changed from the chief marketing officer (in organizations whose main focus was becoming well-known: “the market says I am innovative”) to the chief financial officer (“I want a clear ROI on my innovation investment”). Innovation is moving from being a marketing tool to something aimed at finding ways to ensure the company’s long-term profitability.

This concern is reflected in another aspect of the reporting structure, which has moved from middle positions to the Board of Directors. The Board member to

be reported to is usually a chief officer of some kind – executive, operations, digital or technology, transformation or innovation (if there is such an officer) or financial. Likewise, innovation roles are becoming more and more connected to business lines to ensure a strategic fit.

However, the innovation teams in these corporations are still small compared to the overall organizational force. Some 42 percent of the surveyed companies (most with more than 10,000 employees) have 20 or fewer employees in full-time roles related to innovation. Our findings show that the number of full-time innovators represents 0.83 percent of each company’s total workforce on average.

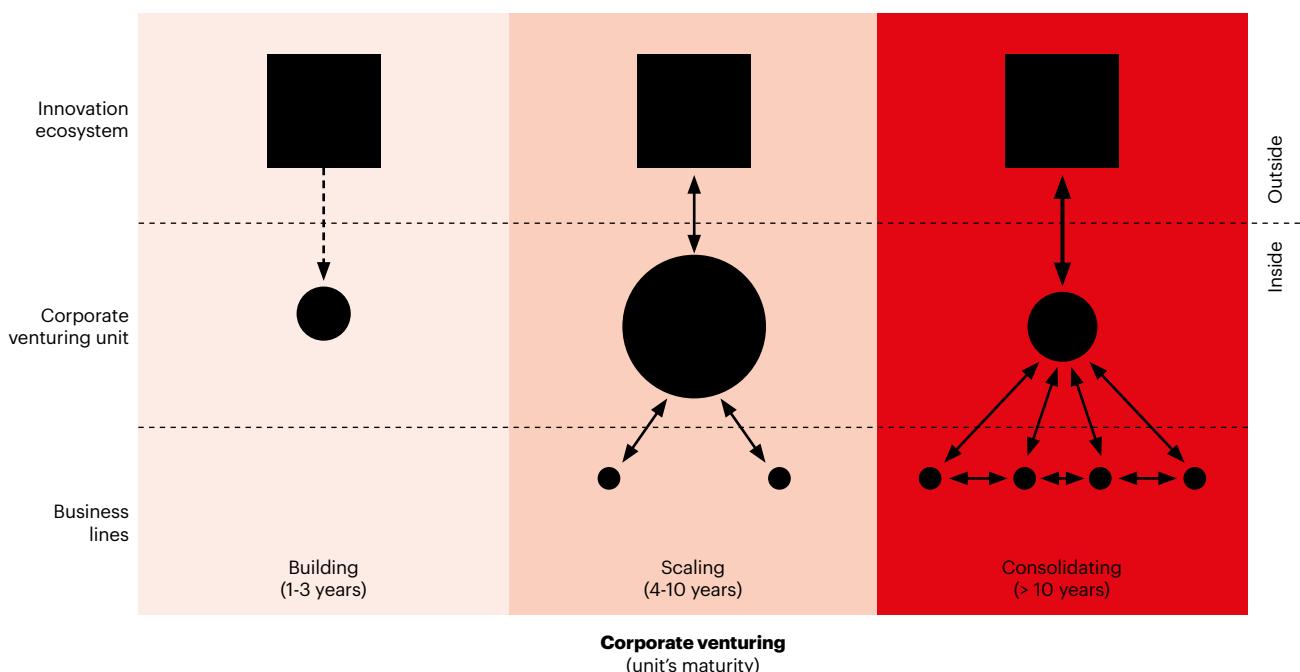
Lastly, innovation also relies on additional part-time employees, with the number of part-time employees related to innovation being three to seven times the number of full-time innovators. Companies have such part-time innovation roles spread across the organization (including business lines) to enhance innovation and gather together market-pull opportunities. At the same time, there are smaller innovation units – with full-time employees – that connect, prioritize and then catalyze those opportunities for their next stage of development. (See Figure 8.)

We found that companies, during the first years of corporate venturing activity, start with a small team of part- or full-time innovators (building). Afterward, they increase the core team, which seeds new innovators in strategic business lines of the company (scaling). In the final stage, innovation units work mainly as

facilitators and enhancers of innovation in other business lines, which already have advocates of change (consolidating).

The next question is: How should the type of communications be selected from among these units, as well as their level of centralization and integration among units to facilitate corporate venturing?

**Figure 8. Distribution, size and degree of interaction of innovation roles across the CV unit's maturity stages**



Source: Analysis by the authors. Note: The bigger the circle, the higher the number of employees. The number of circles and rows shows their spread across the organization and their interconnections.

## 5.2 MOVING TO A CORPORATE VENTURING ORGANIZATIONAL STRUCTURE

Once you have identified where you are in terms of formality, centralization and integration, there are organizational elements that you can use to start stimulating your corporate venturing processes. Table 6 shows a selected number of takeaways regarding the initial transformations that a company should carry out to enhance corporate venturing.

In other words, you should reduce the level of formality by moving to simplified flat hierarchies and casual ways of communicating, while getting the management team's buy-in to execute corporate venturing projects.

Then, combine a hybrid model of centralization by keeping the big picture of what is happening in corporate venturing within your organization, centralizing in one unit the corporate venturing teams

and funds, in addition to having a mergers and acquisitions department. However, you should also accelerate the speed of change by moving to a project-based organization and delegating decisions to corporate venturing teams: in other words, keeping a centralized perspective of what is happening and an independent execution that will increase speed and reduce bureaucracy.

Lastly, although both types of integration are beneficial, it is recommended that a company start with horizontal integration, while having a well-designed interface and point of contact with external corporate venturing partners.

Although this is not an exhaustive list, it includes some of the most critical aspects that affect the initial stimulation of corporate venturing.

**Table 5. Levels of corporate venturing centralization in the company structure**

LEVEL	TRANSFORMATION
<b>Formality</b>	Flat hierarchy Informal way of working and communicating Board empowerment in corporate venturing implementation
<b>Centralization</b>	Centralized perspective of corporate venturing Project-based organization with cross-functional teams Co-location of corporate venturing teams and departments Delegation of decisions to corporate venturing teams Central corporate venturing teams and funds Mergers and acquisitions department
<b>Integration</b>	Horizontal integration External interface for corporate venturing

Source: Adapted from Chesbrough, H., Vanhaverbeke, W. & Roijakkers, N. *Processes and structures for open innovation*.

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# 6. Appendix

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## 6.1 RESEARCH METHODOLOGY

This study was set up with general questions in mind: How are large corporations setting up and developing their CV units? Is there any common practice? Is it possible to identify trends by industry? To achieve our objectives, we used several sources. Initially, we reviewed the literature on the topic. We followed this up with fieldwork consisting of interviews with 46 chief innovation officers and those in related roles in eight countries – the United States and seven across Europe. An interview protocol was developed and the interviews were recorded. The interviews consisted of open and closed questions. Afterward, the answers were classified and analyzed.

We acknowledge that, given the complexity of the phenomena, a larger sample may increase understanding of this important practice, especially in those industries for which historical data was scarce. However, the sample

group was selected using the practice of looking for representation to increase that understanding.

Further research in forthcoming white papers will be welcome to provide guidance on additional questions such as how firms can develop better key performance indicators for measuring this activity, how to attract the right talent to manage this process, or how firms can integrate these initiatives more successfully.

## 6.2 ADDITIONAL CONCEPTS

### 6.2.1 MECHANISMS AVAILABLE FOR CORPORATE VENTURING

#### Scouting mission

A scouting mission is a mission undertaken by professionals from an industry in which a company is interested. The professionals are tasked with holding meetings with start-ups, inventors or university researchers. They look for interesting innovations that are aligned with the company's strategy. Corporations gain insights and valuable information from leading innovation hubs around the world. Start-ups are exposed to potential financing opportunities and business deals.

Corporation's objective: Gaining insight about leading innovations.

#### Hackathon

A hackathon is a focused, intense workshop in which software developers collaborate, either individually or in teams, to find technological solutions to a corporate innovation challenge within a restricted time. While start-ups solve specific technical problems for corporations or produce a particular piece of code in a short period of time, in return they get access to new segments, markets and financing opportunities.

Corporation's objective: Finding technological solutions to a corporate challenge.

#### Sharing resources

Sharing resources is the simplest form of collaboration between corporations and start-ups. This allows corporations to improve corporate branding, attract and keep talent, and gain visibility. Meanwhile, start-ups get access to cost-effective or free corporate resources, increase their visibility and are able to network with other similar ventures.

Corporation's objective: Getting closer to the ecosystem to understand its composition and needs.

#### Challenge prize

A challenge prize is an open competition that focuses on a specific issue. It gives innovators an incentive to provide new solutions based on new opportunities and technological trends to foster internal learning. Corporations get to adopt external opportunities, improve corporate branding and gain visibility, while start-ups

get access to new segments, markets and financing opportunities.

Corporation's objective: Obtaining new solutions based on new technological trends.

#### Corporate accelerator

A corporate accelerator is a program that provides intensive short or medium-term support to cohorts of rapid-growth start-ups via mentoring, training, physical working space and company-specific resources. These resources can include money invested in a start-up, normally in exchange for a variable share of equity. Through corporate accelerators, firms and start-ups get benefits similar to those of a corporate incubator.

Corporation's objective: Supporting start-ups with a structured program.

#### Corporate venture capital

In the case of corporate venture capital, corporations direct equity investment to target start-ups that are of strategic interest beyond a purely financial return. Corporations increase their diversification and get access to products, services and technologies, while start-ups get access to financial resources, know-how and counselling from experienced corporations.

Corporation's objective: Fast-tracking access to innovations, strengthening internal research, or accessing new distribution channels.

#### Excubator

Corporations aim to fast-track the growth of start-ups through a combination of several tools (mainly corporate incubators and corporate accelerators). In practice, an excubator functions as an external venture builder for a corporation. While start-ups develop tailor-made prototypes for a corporation to solve a problem, entrepreneurs gain access to facilities, expertise and technical support, including skilled mentorship, which increases their chances of getting access to funding.

Corporation's objective: Getting an MVP outside the regular structure (through an external venture builder).

#### Corporate incubator

A corporate incubator is a program in which entrepreneurs are provided with a set of value-added mentoring services (centralized legal or marketing support) and working spaces to build viable opportunities and business models ready to go to market, in exchange for a share of equity. Corporations get a cost-effective and outsourced R&D function, while start-ups get access to facilities, expertise and technical support.

Corporation's objective: Providing viability to promising innovation and its commercialization.

#### Strategic partnership

A strategic partnership is an alliance between corporations and start-ups to enable them to define, develop and pilot innovative solutions together. It allows both ends to build a relationship and synergies.

Corporation's objective: Defining, developing and piloting innovative solutions with an existing company.

#### Venture client

A venture client involves a specific type of strategic partnership and a highly integrated tool that corporations can use to purchase the first unit of a start-up's product, service or technology when the start-up is not yet mature enough to become a client. While corporations get access to start-ups with a ready MVP, start-ups get revenue and a consolidated company as their client.

Corporation's objective: Offering a client relationship to insource external innovation.

#### Acquisition

Acquisitions involve the purchase of start-ups by corporations to access the start-ups' commercially ready products, complementary technology or capabilities that solve specific business problems or to enter new markets. The buyer benefits from the acquisition of talent, skills and knowledge, while the start-up receives monetary rewards and a reputational advantage.

Corporation's objective: Accessing commercially ready products, complementary technology and capabilities.

## 6.2.2 GENERIC SELF-ADMINISTERED QUESTIONNAIRE FOR DESIGNING A CORPORATE VENTURING MECHANISM IN A LARGE CORPORATION

DIMENSION	QUESTION
<b>Proposition (What)</b>	What is the strategic intent of our corporate venturing mechanism? How can we align our corporate objectives with start-ups' expectations? Which start-ups do we want to partner with? Are they in the early, middle or late stage of development? What role do financial objectives play? Are we taking equity? If so, which equity model do we choose? How do we frame our innovation challenge? How much diversity of opportunities do we want? Do we focus on a narrow problem or do we explore broader innovation opportunities?
<b>Process (How)</b>	How long do we want our corporate venturing program to be? How do we structure the program to improve the start-ups' stage of development? Which program elements should we include in the process to support start-ups and foster corporate innovation? How can we make it easy for start-ups to work with us?
<b>People (Who)</b>	How can we identify the right start-ups for the program? How can we ensure internal buy-in from our executives and managers? Which internal and external mentors can we bring on board to improve the start-ups and ensure corporate alignment? Which mechanisms will facilitate interactions between employees and start-ups? How do we encourage networking to support start-ups and foster corporate innovation? How can we tap into existing start-up communities and add value to the ecosystem?
<b>Presence (Where)</b>	Where should we host our corporate venturing program? How do we manage the interactions between executives and managers of start-up teams? Are we running a physical or virtual program? How can we use technology to enrich support online? Should we run our own program or enter a partnership with a third-party intermediary? How should we design the space?

Source: Adapted from Kohler, T. Corporate accelerators: building bridges between corporations and startups. *Business Horizons* 59(3), 347–357 (2016). Note: Keep in mind that the questionnaire is a generic one for all mechanisms. Therefore, some questions do not apply to every mechanism.

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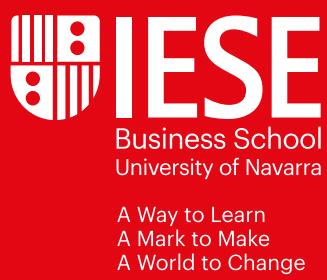
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