Preface

Over the past decades we have witnessed a growing number of companies that are unable to deal with their rapidly changing business and technological environments. Once-leading companies, such as Kodak, Nokia and Digital Equipment Corporation, have given way to new firms riding the waves of new technologies. Today even entire industries have become the victims of the forces of 'creative destruction' arising from the emergence of the internet, new technologies and new business models (e.g., low-cost airlines). Video stores, PC makers and bricks-and-mortar travel agencies have become the dinosaurs of our time.

Moreover, the speed of technological and market change has exploded recently due to fast-paced innovations in technology, shrinking product and technology life cycles, the changing role of consumers and ongoing globalization. Large firms, in particular, are struggling to keep up with these changes, which render existing skills and know-how useless within short periods of time. Their continuous investment in equipment, people and existing markets makes it very costly for them to quickly switch to new markets or benefit from new windows of opportunities. Incumbent firms are typically inert, bureaucratic and resistant to change (rather than embracing it). Their core competencies have started transforming into core rigidities, prohibiting them from benefiting from new opportunities. New firms, on the other hand, do not suffer from market myopia or business inertia. They are the ones that open up new markets and reap the benefits of changing technologies, markets and consumer preferences. However, these small firms obviously lack the marked advantages of large firms in terms of branding, efficiency, supply networks and finance.

The ideal corporation, therefore, is able to combine the scale and pure power of a large organization with the creativity, flexibility and resilience of a small one. As a result, some large firms gradually started over time to embrace new ways of dealing with these changing environments. Through strategic alliances, minority holdings and mergers and acquisitions, incumbent firms started expanding the boundaries of their organizations in a desperate effort to increase their flexibility and resilience (Chesbrough, 2003). Apart from these new modes of organization, firms are increasingly experimenting with

new organizational forms more closely aligned with the true entrepreneurial traits of small start-up organizations.

One of the most promising new developments in this line of endeavours is that of investing in corporate venturing. Corporate venturing can be described as the process of creating new ventures within large organizations. There are various ways of organizing this process. One way is to create internal funds that enable the corporate to invest in small, external, innovative start-ups; another is to establish an internal business unit dedicated to creating innovative start-ups. The former method of investing in innovation is more financially focussed, while the latter form of venture organization aims to benefit from the entrepreneurial spirit of such start-ups without the burden of the parent company's bureaucracy.

Both forms are in vogue lately as more and more firms realize that to beat the forces of disruption they must peg their survival on bringing entrepreneurship into the boundaries of their large corporations. In 2011 as much as 11 per cent of all venture capital invested in the USA was provided by corporate funds (Lerner, 2013). In a similar vein, an increasing number of firms are setting up new business units dedicated to creating new start-ups within the boundaries of the parent firm. Typically, an internal budget will be created for investing in new ideas that could potentially transform the company's main line of business. The role of the parent company is to assist with financing, technology and marketing, but it must be careful not to interfere too much, so as to preserve the entrepreneurial spirit of the venturing unit. There is a clear danger of being either under- or over-involved as a parent.

Because of a lack of tradition in this field of venturing, firms are constantly searching for more information on how to manage corporate ventures. Best practices are almost completely lacking and the contemporary literature on corporate venturing is not very extensive (what there is tends to treat the venturing process as a black box). There is certainly not a strong body of literature on the management of corporate ventures. This is striking given that recent research suggests that only 5 per cent of corporate venturing units manage to create new substantial lines of business for their parent companies (Birkinshaw and Campbell, 2004) and the median life span of a corporate venturing investment is only about one year (Lerner, 2013). With such a low success rate, it seems vital to create more insight into how to manage ventures successfully. We need to gain a greater understanding of both the process and management of ventures by looking into the black box of corporate venturing.

In this book we aim to take the first step to that end by sharing real-world best practices from a number of different business settings, ranging from health insurance and newspapers to universities and the food industry. Despite the differences, we have been able to spot some common business practices and shared potential pitfalls. Each case is organized around a common theme, reflecting on four operational elements. The case studies tell the honest stories of the creators of the ventures, who reveal their failures and successes, their struggles, their problems and their solutions. These corporate entrepreneurs open up the black box of their ventures and unveil their key insights into the secrets of successful venturing.

By interviewing the corporate venture directors, managers and CFOs of eight organizations, we acquired interesting and relevant insights into the venturing process. These interviews formed the groundwork for a unique set of detailed cases that provide a real-life vision of how corporate venture organizations are managed in practice. By subsequently analysing these cases, we aim to derive relevant guidelines and lessons learned. This sets us up for a more detailed and better understanding of the key success factors in corporate venturing.

As described above, organizations are often not very capable of organizing more radical innovation internally. And as Schumpeter discussed in the 1930s many of the most important innovations come about by *new* combinations of technologies (Schumpeter, 1939). This requires firms to broaden their scope and open up their innovation process to benefit from innovations developed outside their organization. Corporate venturing is often seen as a panacea for the ‘not-invented-here syndrome’ that is characteristic of many firms and their respective internal R&D departments. However, venturing requires a continuous balance between efficiency and creativity, corporate objectives and venture team objectives, funds allocated to the internal R&D department and those allocated to the venture, and so on. Venture management is inherently difficult and requires a delicate management approach.

In this book we introduce four operational elements that are found to be instrumental in building a successful venturing organization:

Model

The first operational element firms need to consider is the fact that innovation units require a different form of organizational support from the parent company. They need more flexibility and the freedom to move away from corporate bureaucracy and handle things differently. This requires a *model*

that offers them that creative space on the one hand, while focussing on the effective execution of their mission on the other. Through the use of models, documents and forms, firms can create a clear, organization-wide understanding of how certain things should be handled, how certain actions should be implemented and how issues should be solved. Processes are generally considered to improve efficiency in an organization, but they can at the same time kill any entrepreneurial or creative spirit.

Stage-gate models, such as illustrated in Figure P.1, are widely embraced in venturing. The process is funnel-shaped in that at every stage a selection process takes place and some projects might be terminated. Each stage ends with a go/no-go moment, a point at which an investment committee (often) decides whether the venture should enter the next stage or not – whether it needs more work and research done or should be killed. Admission to the next stage implies making a larger investment than was required at the previous stage, both in the terms of financing and the time and dedication of the venture manager. The level of investment is often seen to be increasing exponentially over time. The investment committee often consists of the parent company’s senior management, preferably from various business units. Another important condition is multidisciplinary, since most innovations arise at the interface of two disciplines.

Note: a. Cumulative number of companies involved in the Programme. The other figures are numbers of companies involved at each stage.

Figure P.1 Funnel-shaped Document Services Valley (DSV) stage-gate process

Portfolio

The second operational element is that innovation units need to be able to retain a different focus than that of the parent company. Their aim is to come up with new business ideas that are in line with the parent company's strategic vision but should also deviate from the core business. It is therefore considered essential to have a clearly defined *portfolio*, which maximizes synergy with the parent but at the same time generates new businesses. As we will see from the cases presented, a well-balanced portfolio is key to providing corporate alignment, risk management and focus.

Staffing the team

The third element is that innovation units require a specific kind of combination of human talent since the skills necessary for realizing innovation are different from those needed for performing core business activities. Creativity, entrepreneurship, perseverance and political skills are just some examples of the skills needed in *teams* that are working on new business ideas.

Current literature defines three levels of innovation: core innovation, adjacent innovation and transformational innovation. Core innovation involves companies that are optimizing their existing products for existing markets, while transformational innovation is about creating new products for new markets. Adjacent innovation is positioned in between these two forms of innovation and requires expanding the existing business to 'new-to-the-company' business (Nagji and Tuff, 2012).

For transformational innovation one needs skills other than for core innovation or adjacent innovation. So how do you find the people with the transformational skills in order to get them involved in your innovation unit? The great advantage of venture organizations is that they attract entrepreneurially minded people who have many of the skills and attributes needed to work in a creative setting. Getting the right people in the bus and in the right seats is key to successful venturing. However, these people need to be capable of connecting with corporate management in terms of realizing synergies.

Integration

Integration is the fourth element. The aim of venturing is to realize new business that should be able to be integrated successfully into the parent

company in due time (otherwise why bother?). This requires a vision of how new business is *related* to the *parent company*. When a corporate decides to start venturing, it needs to be aware of the fact that venture units need a certain amount of freedom in order to be entrepreneurial. The bureaucracy of the parent company often impedes a venture unit in realizing its goals since the venture needs flexibility and not efficiency to live by. On the other hand, when a venture unit has successfully realized a product or technology that is of value to the parent company, there comes a time when that venture needs to be integrated ('spun in') into the parent company. In order to integrate successfully, venture directors need to think about how they will eventually organize the integration long before it actually has to happen.

In the following chapters we discuss eight individual cases: CbusineZ, AkzoNobel, BAC (Unilever), DSV (Océ Canon), Rabobank, Eindhoven University of Technology's InnovationLab, Sanoma and *nrc-next*. In Chapter 9 we will discuss the outcomes of the various cases and present our conclusions, followed in Chapter 10 by our top ten best practices for managing corporate ventures.

This book aims to inform venture management, entrepreneurship scholars and corporate management about the challenges, opportunities, risks and day-to-day management of corporate ventures. We therefore explore the whole venture cycle, all the way from the initial start-up to the day-to-day operations or exit. This provides a unique insight into the venturing process as seen from the personal perspective of venture experts, venture managers and corporate staff.

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