Introduction: Getting started

We face a conflict of two worlds: startups want to grow as fast as possible to become established while incumbents strive for rejuvenation to be as entrepreneurial as startups. Corporate Venturing (CV) promises to combine the best of both worlds – the innovation and dynamism of youth with the resource and market power of a mature company. Unrealistic? Yes and no!

Have you been looking for a holistic tool to build, operate and harvest Corporate Venturing with success all at once? And what would it be like to make all value generated by Corporate Venturing, both financial and strategic, tangible for business performance? Well, we can help!

By the end of this guide, you will have an up-to-date understanding of all the rationales to make the most impact from the beginning to the end of your CV programme. But we don't want to lecture you. We want to help you make your CV programme work in practice so that you can achieve your set goals and expectations. By knowing where your pitfalls and potentials are, you will have a set of tools at hand to improve your CV programme.

Today, you as well as most of your peers are challenged more than ever by disruptive technological advances in a very dynamic ecosystem. It is necessary to persistently generate new capabilities and expertise to compete in the marketplace and to continue to grow for sustainable competitive advantage.

Corporate Venturing in this regard is often seen as an organizational vehicle, which is complementary to internal innovation such as Research and Development (R&D) and Mergers and Acquisitions (M&A). In contrast to those internal innovation vehicles, which create incremental innovation, CV allows for disruptive innovation. It is realized as a vehicle to build competencies through external corporation and has proven to be a promising means to foster corporate innovation. CV is the concept of large corporations investing in companies, either monetarily through minority stakes or through non-monetary alliances, to develop innovative products or services. These corporate dinosaurs have recognized the risk of distinction and are using CV to find the next venture unicorn to ensure their own longevity. In other words, companies strive to extend their lifespan and improve their business health in older age (that is their longevity) by creating game-changing innovations or strategies that become incredibly valuable (that is, a 'unicorn', typically defined as a venture worth beyond one billion dollars).

The Corporate Venturing Handbook, developed by The University of St. Gallen, is the first handbook that combines all the steps and elements necessary for successful CV through an iterative and dynamic process design. But it is not just a handbook – it is also an output generator. You will receive several tools to take your CV programme to the next level.

No approach available today considers all relevant aspects in a temporal context to optimally build, operate and harvest CV activities. The CV Navigator should be understood as a continuous, iterative process tool, divided into four phases, which proceed sequentially and are closely interrelated. Those phases cover the development of a CV programme right from the start by defining the CV mandate in the Profiling phase and the according set-up of a CV programme in the Designing phase. Furthermore, the CV Navigator supports you in managing and terminating a CV programme to meet set objectives and expectations in the corresponding Investing and Harvesting phase. Along the navigation process, the CV Cockpit delivers transparency and a clear understanding of relevant performance indicators to validate and drive your CV programme progress.

Observations of the daily operation of existing CV programmes and the difficulties corporates face in setting up new CV programmes motivated us to develop the CV Navigator and *The Corporate Venturing Handbook* at the University of St. Gallen. We are convinced that this impact-driven approach will make a significant contribution to the corporate and venture building community. Why? Simply, because we have seen the need for it – the deficits and corporate problems. Plus, we have validated it! We wrote this book together with different corporate venture capital executives and with the founder of the DBP Group, who is also a professor. In addition, we conducted several case studies to verify and extend the academic expertise and resources with best practices from the field. Beyond this, we bring along over a thousand hours of coaching solo entrepreneurs and entrepreneurial teams, both in corporates and in startup settings, in commercializing research-knowledge by building ventures, and in developing entrepreneurial ideas from scratch.

Who are the partners?

The partners are the Institute of Technology Management, with its Chair of Entrepreneurship at the University of St. Gallen, whose academics are known for their profound knowledge and ability to bridge the gap between science and practice and the university graduates. They are among the most successful entrepreneurs in Europe and are repeatedly TOP10 in Europe`s University Unicorn Ranking.

Then there is the support of the Startup@HSG incubation programme with more than 200 University of St. Gallen spin-offs and the practice partners from various Corporate Venturing programmes, which have proven to have a very positive impact on their parent companies.

The excellence of the methods used is a result of the best practices of the largest and longest running Corporate Venturing programmes in the world. AXA Ventures Capital & Strategic Partnerships, Siemens Healthineers, Shell Ventures and Bertelsmann Investments provide exclusive cases along the four phases of the Corporate Venturing Navigator. The whole range of technological industries is complemented by special insights from Nestlé, Samsung, Straumann, Deutsche Bank, and more. Become part of this Corporate Venturing community at www.stgaller-navigator.com and secure your bonus material and digital tools.

Corporate Venturing: Why now?

The strategic imperative

For as long as companies have existed, they have been driven by an imperative to thrive and survive – the growth imperative. Only companies that grow faster than their competitors can attract capital and the best talent, not to mention raising the funds to invest in developing new products, services and businesses.

It is the latter growth engine, i.e., venturing, that has become a key differentiator between growing and shrinking companies in times of technological, economic, and geopolitical disruption. While the importance of venturing is particularly evident in times of upheaval, when creative destruction drives the economy, it is often forgotten that Corporate Venturing has always played, and will continue to play, a role in the development of successful businesses.

While managing ongoing business often creates the cash needed to sustain the business, very few companies in even fewer industries can rely on these businesses for long-term growth. As a result, corporate decision makers who want to lead their organizations to sustainable, long-term growth are forced to master the art and science of Corporate Venturing.

The challenge of Corporate Venturing

Despite the great strategic importance of Corporate Venturing for the thriving and survival of companies, venturing often does not receive the same attention in boardrooms as other strategic growth levers, such as mergers and acquisitions or corporate transformation.

The reason for this is multi-fold. Firstly, many companies view Corporate Venturing as an add-on activity rather than a strategic necessity. This could be related to the second reason: Corporate Venturing requires a different understanding and assessment of risks and uncertainties. Finally, many corporate decision makers, whether at board or functional level, lack the appropriate entrepreneurial experience and mindset to successfully initiate, manage or monitor Corporate Ventures.

The need for a new approach to Corporate Venturing

To overcome these challenges, a strategic, structured and smart approach to Corporate Venturing is required:

- *Strategic* in the sense that Corporate Venturing must be fully integrated into the corporate strategy. Only when venture capital investments are part of an integrated process of resource allocation will they be elevated to the required level.
- *Structured* to the extent that Corporate Venturing decision-making and execution follows a clear structure and provides the transparency needed to effectively manage and monitor Corporate Venturing activities.
- *Smart* at its core, Corporate Venturing is about convincing customers, employees and investors of its benefits and upside potential. Corporate Venturing can only be successful if it focuses on people and their needs.

The momentum

Back in the infantile stages of CV in the early 1900s, corporations were inspired to act as venture capital institutions. They began to form alliances with ventures by providing capital and advice in return for access to new technologies, products or services and know-how. The original goal of CV was back then purely financial, as is still the case in the CV world today. However, over the years, especially after the financial crisis and the increasing relevance of open innovation, corporates started focusing on the strategic aspects of CV. The power of new competency building and the potential to format strategy started to be perceived as highly beneficial.

Nowadays, CV is understood as a vehicle and toolkit to drive corporate innovation externally through minority investments in startups in order to maintain a window on technology and a competitive advantage in the future. It has built up a positive image of being a useful and more successful complement to internal innovation activities such as R&D and M&A. CV is needed more than ever as corporates in today's twenty-first century face an ever-changing environment that requires them to become more entrepreneurial in their perspectives and processes.

CV has adopted various forms of operations such as alliances, acquisitions, joint ventures, or Corporate Venture Capital (CVC), among others, with corporates often operating several forms at the same time. Accordingly, there are defined goals that a distinct CV programme pursues with a specific structure and operating mode.

Overall, however, CV has been characterized by cyclical ups and downs and has faced various challenges and abrupt terminations to date. In times of crisis, which occur on average every ten years, CV programmes have often been discontinued or the budget blocked. Corporate switch on the savings mode and very often deprioritize innovation initiatives due to limited resources.

But what has history taught us so far? Corporates need to invest in themselves to drive their business forward and maintain their viability. CV has become a very important business tool for both corporations and startups and has received considerable research attention. Numbers clearly show an increase in Corporate Venture Capital over the last decades.

CB Insights reported in their State of CVC Reports (2021 and 2022) a new record of CV-funded transactions in 2021 – an increase of 142 per cent year-on-year. While this trend declined in 2022 by 43 per cent it was still the second-strongest year on record in CVC history. This trend is expected to continue. However, in practice, companies increasingly face the question of how to demonstrate that the investment in CV is worthwhile for the parent company, especially the more strategic-oriented CV programmes. Investing in CV is quite attractive for companies to take their innovation to the next level, but most companies struggle in having the right understanding, capabilities and resources to do so. It is critical to achieve some performance impact, but this requires the appropriate framework and tool to capture value generated for the most successful usage of CV.

When looking to academia for answers, existing research studies are ambiguous and incomplete when it comes to how best to set up, run and exit a CV programme, and fundamental research insights on how to capture and measure the value generated for the parent company are missing. As a result, both academia and practice show shortcomings and a high need for a solution: the Corporate Venturing Navigator.

What is needed is an improved understanding of the CV rationales and underlying mechanisms, and an understanding of how to capture the CV value generated. Management needs to be clear about what it takes to best establish a CV programme, how to run it, and what is expected of it and when. CV has much more potential to offer, which is neither known nor perceived so far. It's time to change that, and with this book you're on the right track!

Top-10 Corporate Venturing myths and misconceptions

Surely you have played the game of truth or dare in the past?! Well, in the context of Corporate Venturing, not everything that is told is true. There are many legendary, handed-down stories without any facts or real explanation. Is that a surprise for you? Are you even carrying some of the stories you have heard further into the world? We want to shed light on some myths in this section for you.

The Corporate Venture Capital (CVC) sector has experienced an amazing renaissance in recent years. More and more corporations have realized that the world has become much more competitive in the wake of digitalization. Startups are quickly conquering industries that were considered 'distributed', i.e., where a few top dogs divide the bulk of the pie among themselves. Let's take Tesla as a prominent example from the automotive industry, which in just over ten years has become the most valuable automotive company in the world. In other words, no one is safe, and every company risks being disrupted or at least attacked by newcomers unless it succeeds in continuously improving and innovating its own products to appear attractive in the eyes of its customers.

Not least the realization outlined above has led to more and more corporations to engage systematically with the startup universe. Corporations finance accelerators to support existing startups in their development and, if necessary, also to attract investment opportunities in the manner of a vacuum cleaner. Corporations fund incubators, which are quasi birthplaces for new business concepts, both for their own employees and for external founder/entrepreneur talent. Corporations invest in existing venture capital funds that take ongoing stakes in startups. And corporations sometimes launch their own venture capital funds to use specialized teams to specifically track down innovative developments in the market, possibly at an early stage of development, in order to ultimately lay the foundations for longer-term competitiveness or superiority through early-stage participation in such companies.

Nevertheless, corporations face various challenges once they have decided to make systematic startup commitments, especially in the context of corporate venture capital units. Here is a brief overview of **the Top-10 common myths and misconceptions**. You will find more insights and details about them throughout the book.

1 Independent vs. strategic focus

Whether the in-house CVC team should focus on strategic investments or whether the independence of the fund and thus financial performance should be the primary concern.

2 The ‘sustainability’ myth

Investors are often asked whether sustainability considerations are considered in the investment selection or whether there is even a systematic selection process for this.

3 The ‘risk reduction’ myth

Investing in startups helps to reduce risk, securing corporate profit and therewith growth.

4 ‘Startup investments make us more innovative’

Corporate Venturing will make a corporate more innovative as it will teach and share knowledge and insights about innovation.

5 'Commitment to startup engagements'

Corporates emphasize the importance of startup engagement and commitment in particular in regard to innovation and transformation.

6 Unbiased professional decisions

Decisions on CVC are fact-based, as they are made based on an agreed mandate.

7 Not-invented-here syndrome

Critical opinions and rejection of external innovations, as they lead to a loss of capabilities and at the same time create dependency.

8 'Acting again like a startup' – the corporate paranoia

Corporates that work with entrepreneurial thinking, structure and system.

9 'Firm-beliefs in data-driven decisions'

The corporate conviction of data and data-driven decision-making.

10 Eye of the beholder

Again, the corporates' belief in establishing and running CV programmes based on data-driven decisions.

Corporate Venturing Navigator

This book is designed to guide you through the implementation of your CV programme from the very beginning. It is literally a manual to 'get things done' and to start executing.

The CV Navigator comprises four phases: Profiling, Designing, Investing, and Harvesting, which in turn consist of nineteen CV components.

Step by step, we will familiarize you with these components and show you which aspects you should pay attention to and which pitfalls you should avoid.

For optimal use of the CV components, we have developed an intuitive and easy-to-use **CV Cockpit**, which is the framework and steering wheel of the CV Navigator. Here you will find one or more outcomes of each CV Navigator phase to make results tangible and applicable in practice. The mechanisms and dynamics behind this have been applied in practice and enriched by research.

Each CV Navigator phase leads to a CV programme memorandum to feed the CV Cockpit with essential information and data. All phase outcomes combined and collected in the CV Cockpit will result in an ideal, self-contained and coherent CV programme concept.

CV navigation is based on the **Profiling phase**, where everything starts with the question of what the CV mandate is to accomplish. The CV Navigator will be at your fingertips to guide you through all the steps to consider. What CV profile are you aiming for? Which stakeholders should be involved and which ones are key players? What budget is available and needed for a particular CV mandate and what business progress is being sought?

This is where the foundation of your CV programme is born – The CV cornerstones are to provide the impetus to move forward in subsequent phases. You will have a clear and distinct understanding about what your objectives are and which expectations you pursue.

In the **Designing phase**, you then navigate through all the elements required to build the CV programme as such, while defining a corresponding rollout plan. The Designing phase defines the underlying structure and governance. You will disclose the organizational and legal structure on which the CV programme is built. These can range from a very independent CV unit, for example in form of a subsidiary, which is self-sufficient in terms of budget and decision-making, to a fully integrated unit under the umbrella of the parent company. Analogue, you lay out the reporting line as well as the committee constellation e.g., Investment Committee or Advisory Committee, being composed by certain promoters. As soon as the structure and governance forms are sorted out, the CVC team with a corresponding background and culture should be set up. You will have to determine the team size, the compensation structure and eventually additional non-monetary incentives to gain a very high personnel quality. At last, the location of the team, which can be close to the mother company or locally separated, is to be decided. Building on the structures established, it is quite important to then install superior communication systems and an appropriate ecosystem. That means that you have to identify which tools are already available or to be used to guarantee best communication and reporting between all promoters involved – transparency and an exchange of information on an always up-to-date status is key. Contributing to this, you should be aware of available networks and ecosystem attributes, which are to be clarified and installed. By the end of the Designing phase, you will know in detail what kind of CV programme you are running at its best, which portfolio approach you follow and which CV programme USP you will hold.

Following this, the **Investing phase** then builds on the established components and decisions from the previous phases. You will receive support in the actual operation of the CV programme. Yes, you read that right. The CV Navigator will facilitate your sourcing and portfolio management. You will be provided with tool components for optimized deal flow management. However, the CV Navigator also supports collaboration with ventures, the parent company including management and the business units, as well as the collaboration with other parties. Not to forget the shared resources and syndication! Through the Navigator, you will receive access to partnerships and supplier/consumer networks, R&D expertise and much more. Resources from and beyond the parent company are to be leveraged for you as best as possible. The ultimate goal of this phase is for you to then learn where and what CV value is generated. That's all you're up to – adding value to drive corporate innovation.

After you have mastered the long phase of value creation, where many ventures will perish but a few will shine, it is time to check for success in the **Harvesting phase**. Are objectives met and stakeholders satisfied with the results achieved? What added value can be realized? Here you have to decide whether to continue or end the CV programme. Do you want to start a next generation CV programme? Do you want to do it on your own? Are some ventures quite promising to you and need follow-up investments?

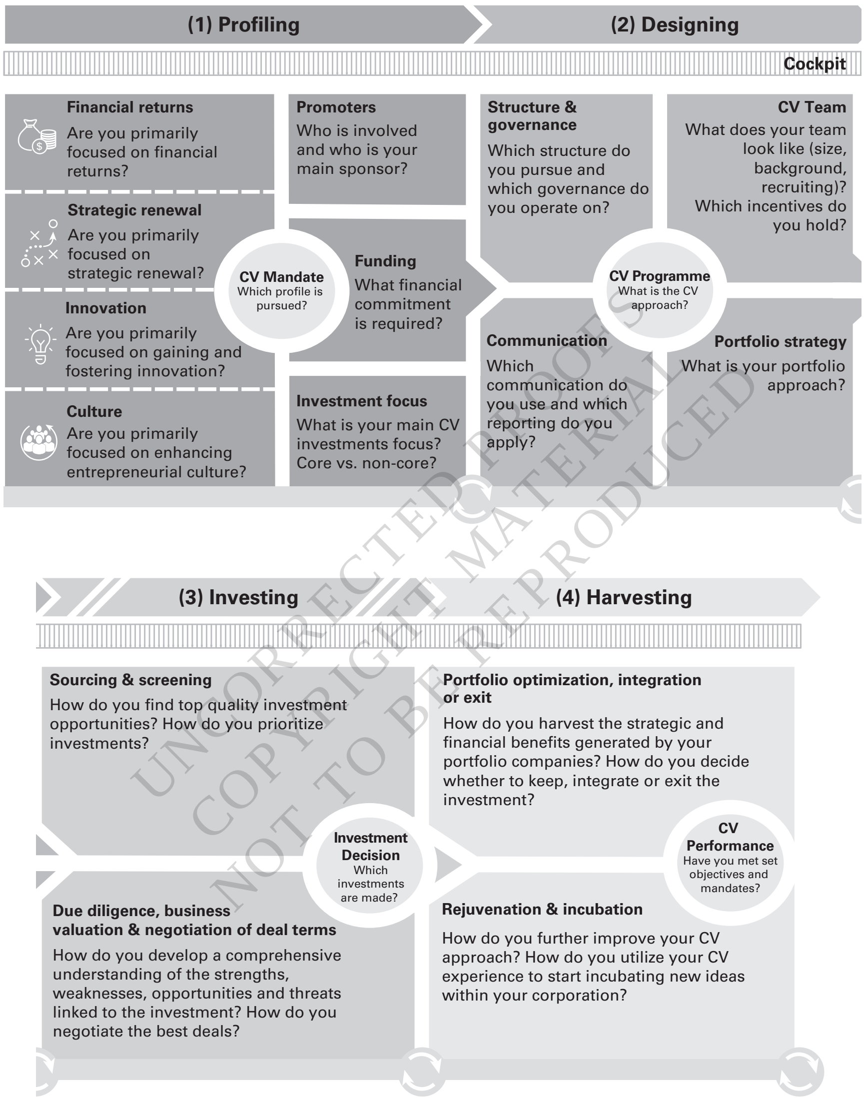
We can help. These decisions are facilitated by the **CV Cockpit**, which runs throughout the whole CV Navigation and thereby promotes an understanding of relevant performance indicators. Those indicators allow you to assess the validity of the CV impact and thus gives you performance implications for the parent company. Better self-assessment and better management of change and disruption is given.

There is also an exclusive case study for each phase that will allow you to learn from the best CV programmes on an international scale. Take your unique chance and follow the science-based and pragmatic **Deep Dives** along the CV navigation, because often well-known CV stories turn out not to be true. You will be surprised how many companies do not talk about the problems and failures they are facing on a permanent level. Nor do they want to reveal their 'secrets' on how to deal with CV dynamics.

The CV Navigator provides exceptional behind-the-scenes insight and a new, holistic approach to navigating through a CV programme from start to finish by including easy-to-use tools that make the value generated transparent and measurable. Don't miss the chance to start now! (**Check your Navigator Tool Box**).

The Corporate Venturing navigator

Figure 0.1 The Corporate Venturing Navigator



SOURCE Grichnik, Dietmar; Hess, Manuel; Reuther, Jana; Stoeckel, Alexander; Hilb, Michael (2023)

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