Corporate Venture Capital: Learnings from 74 In-Depth Interviews

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1 Introduction
Corporate venture capital (CVC) has been steadily rising on the global investing stage. However, little is truly known about how CVC units operate. The diversity of these units makes traditional survey methods less effective at capturing patterns and differences.

We interviewed senior CVC professionals of S&P500 companies and identified 94 CVC units*. Of these 94, we captured 74 firms, or 78% of all active CVC units in the S&P500. The average interview lasted 42 minutes and covered 45 questions. We sincerely thank all participants for their time and insights.

*CFull list of the CVC units in S&P500 can be found in the Appendix
Interview Method and Protocol

- Video interviews
- Closely followed pre-determined protocol
- Flexibility to consider cross-sectional variability in responses for a detailed understanding of the internal operations
- A response rate of 78% is significantly higher than that of traditional surveys, meaning less sensitivity to self-selection bias in our results

Careful coding with numerical, dummy, Likert-type scale variables, and raw text-entry

- Three independent coders, two of whom were not present during interviews, with independent reconciliation. Pair-wise agreement among coders is 97%
Similar to surveys of institutional venture capital (IVC), information technology (IT) comprises the largest sector of the CVC interview participants' parents.

Companies in the IT, Finance, and Healthcare sectors are more likely to start CVC units.
CVC units are disproportionately located in California.
CVC Geography

Location Relative to Parent Company

- **72%** of CVCs are headquartered in the same state as their parent HQs
- **66%** of CVCs are within one mile of their parent HQs
- **26%** of CVCs are more than 600 miles away from their parent HQs

Is it more efficient for CVCs to be closer or farther away from their parent companies?
CVC Objectives
When we were founded, measures of success were one hundred percent strategic. In fact, to enforce this point, my CFO said I don’t even want you to financially track these investments – I’ll write every investment off as an R&D expense the day you close the transaction.”

- Midwest CVC

Ninety-plus percent of the time, it’s the same set of companies that drive massive change in industry and also derive the financial gain. You can almost think of the financial performance as a signal of whether it’s strategic or not.”

- Finance CVC

We’re highly focused on the strategic side of the spectrum. We want them to have a positive return and we do measure the IRR but the corporate venture activity that we pursue is really intended to further our parent’s strategic priorities.”

- IT CVC

Do these strategic goals conflict with financial performance?

Most CVCs have strategic mandates from their parents.
This is where CVC is so funny to me because to really do true innovation, you have to have a super long-term horizon, but in reality, we have a super short-term horizon. The long term is sacrificed for those short-term needs.”

- Consumer CVC

Do parents shoot themselves in the foot with short-termism?

Short-term, often quarterly, evaluations of the CVC units are in stark contrast to the 10-year horizons of IVCs.
Where do CVCs invest?

We asked interviewees how they allocated funds among three buckets:

- the core of what their parent currently does
- adjacent markets to the parent’s current operations
- new and exploratory domains

The most consistent investment bucket is in the adjacent markets. A third of the sample does not invest in the core, perhaps for fear of interfering with internal R&D efforts. Furthermore, 20% do not invest in new domains, countering the traditional venture capital (VC) investing strategy.
Where do CVCs invest?

Core
- Only in core: 25%
- Focus in core: 23%
- Balanced in core: 20%
- Sporadic in core: 32%
- Never in core: 0%

Adjacent
- Only in adj.: 3%
- Focus in adj.: 49%
- Balanced in adj.: 41%
- Sporadic in adj.: 4%
- Never in adj.: 3%

New Domains
- Only in new: 3%
- Focus in new: 36%
- Balanced in new: 32%
- Sporadic in new: 20%
- Never in new: 0%
In total, **43%** of CVCs will not consider taking LP positions.

For those who do, the rationale is:
- Exposure to broader geographies
- Exposure to novel industries

Most CVCs do not see the value in broadening their exposure by investing in IVCs.
CVC Fund Structure and Relation to Parent
Stand-alone fund structure: 5 CVCs, or 7%
CVC is a separate legal entity managing an external investment fund for its parent company, similar to a traditional general partner-limited partner relationship.

Multi-year commitment from the parent: 26 CVCs, or 35%
The parent has earmarked, announced, or allocated a specific multi-year fund arrangement to its CVC unit.

Single-year commitment from the parent: 16 CVCs, or 22%
The CVC unit and its budget are reevaluated annually by the parent company.

Opportunistic: 27 CVCs, or 36%
CVC units without an approved budget who must seek budget allocation for each investment they wish to make, on an ad hoc basis.

Most CVC units lack full-scale, long-term commitment from their corporate sponsors.
To whom in the parent CVC units report

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Chief Strategy Officer</td>
<td>29%</td>
</tr>
<tr>
<td>CEO</td>
<td>15%</td>
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<tr>
<td>Head of CorpDev</td>
<td>13%</td>
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<tr>
<td>CFO</td>
<td>12%</td>
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<tr>
<td>Head of BusDev</td>
<td>10%</td>
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<tr>
<td>Head of Innovation</td>
<td>10%</td>
</tr>
<tr>
<td>COO</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>

Reporting Structure

"We all report to the person who started the group who has since moved on to be head of [different department]. The only reason we report to [this person] is because s/he is the one who started the group, but then a year after, she got promoted to head a bigger division."

- CA CVC

"I can’t overstate how important it is at the end of the day to have the right internal support for the activities because it’s those stakeholders that are the gating item if you deliver strategic value or not. You could have the best idea of strategic value but if that stakeholder isn’t comfortable or dubious about your intentions or just doesn’t like you, they’ll find every way to block that sort of success."

- Industrials CVC

In many cases, CVC units have not found a natural home within their parent.
Two-Stage Deal Approval Process

**Step 1: Internal CVC Team**

- The internal investing teams must agree on what to bring forth to their investment committee.

**Step 2: Investment Committee (IC)**

- 93% of CVCs have an investment committee comprised of parent company executives.
- 82% of CVCs consider it a real authority, rather than a rubber-stamp vote.

### Internal Voting Rules

- **Unanimous**: 29
- **Consensus**: 21
- **Majority**: 19
- **Head of Ventures**: 19
- **Lead Partner**: 8
- **Executive Sponsor**: 4

### IC Voting Rules

- **Unanimous**: 49
- **Consensus**: 10
- **Majority**: 25
- **Other**: 16

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93% of CVCs have an investment committee comprised of parent company executives. 82% of CVCs consider it a real authority, rather than a rubber-stamp vote.
Who's on the IC?

The average IC has four members.

27% of CVCs feel one vote on the IC is the pivotal decision maker, rather than a true consensus or vote.

In most CVCs, parent-controlled investment committees must approve of every deal.
Does your parent understand venture norms?

No, they don’t understand follow-on investments, not having a ROFR, why you wouldn’t put handcuffs on a startup if we’re helping them... to be honest, they don’t really care.”

- CA CVC

I think they understand better now than they did four years ago when we were trying to explain what venture investing is. Now, whether they understand it well enough to weigh in on investment decisions or things like that, I have my doubts. But they seem to understand venture investing and even the why behind doing it a little better now than four years ago.”

- Southern CVC

Yes. I don’t know that this is the case in another industry, but our senior execs are regularly exposed – 50% of the pipeline is through M&A if not more than that. So they have a very active evaluation activity which fills that pipeline. And then venture funds make it their business to wear their sale-side hats any time they meet with a potential buyer, so there’s a whole rhythm to this that is well-established.”

- Healthcare CVC

Maybe they understand, but quite honestly, if something came to us completely fresh with a 6-week deadline, unless it was so obvious I could get all hands on deck support, I wouldn’t ruin our reputation by pretending we could do it. I’d say this is for someone else.”

- Industrials CVC

Is it optimal for parent company executives to approve and veto deals?

61% of senior executives feel that their parents do NOT understand the norms of the venture space.
Business units consistently play a large role in the decision-making and deal process for CVC units. Only 14% of the CVCs act independently of their parent company's business units.

CVC units are better positioned to help their parent companies in core and potentially adjacent but not truly disruptive domains.
Human Capital and Compensation
CVC Team Composition

1. The average CVC team has nine people, including six investment team members.

2. 40% of CVC investment professionals had previously worked in a non-venture role at their parent company.

3. 12% of the CVCs do not have anyone working full-time on ventures.

4. CVC units have 10 portfolio companies per each senior investment team member.

5. 34% of the CVCs have a business development team member dedicated to aiding their portfolio companies post-investment.
Human Capital: CVC vs. IVC Practitioners

Comparison between 306 CVC professionals and 336 matched partners at IVC firms

- 15% have past CVC experience
- 29% have IVC experience
- 15% have entrepreneurial experience
- 61% have an MBA degree
- 17% have a non-MBA graduate degree
- The average practitioner has spent six years at his or her CVC unit

- 3% have CVC experience
- 40% have past IVC experience
- 28% have entrepreneurial experience
- 47% have an MBA degree
- 12% have a non-MBA graduate degree
- The average practitioner has spent eight years at his or her firm

CVC and IVC human capital are very different.
Human Capital: CVC vs. IVC Firms

Comparison between 74 interviewed CVC units and 74 randomly matched IVCs

**CVC**
- Average CVC unit has **six full board seats**
- 46% of CVCs have at least one team member with past CVC experience
- 54% of CVCs have at least one team member with IVC experience
- 40% of CVCs have at least one team member with entrepreneurial experience
- 45% of CVCs have at least one team member with a top undergraduate degree

**IVC**
- Average IVC has **14 full board seats**
- 11% of IVCs have at least one team member with CVC experience
- 80% of IVCs have at least one team member with past IVC experience
- 64% of IVCs have at least one team member with entrepreneurial experience
- 63% of IVCs have at least one team member with a top undergraduate degree
**Compensation**

Only 15% of the CVCs have a carried interest profit-sharing arrangement. The other 85% receive a standard corporate salary and bonus. Only 31% of the CVCs fund performance influences bonuses.

Do CVCs struggle with retention, especially those with a successful record?

“I think fundamentally to attract quality talent, you need to have that independence and rigor, not just glorified business development function. I don’t think we’re going to get there, but in terms of compensation and carry-like structures, to attract the best people, you need to have this strong VC thinking.”

- CA CVC

“Do CVCs have the right incentives to invest in bold, high-growth companies?”

- Finance CVC

For leaders of CVC units, this is the biggest challenge: trying to convince the organization you need to have some kind of shadow carry or something else to attract talent. If there’s something that’s really kept me up from a business operation standpoint, I don’t have the tools today to retain my talent.”
5 Relationships with Startups
For 32% of the CVCs, commercial agreements between startups and parents are important, and 30% actively sign them after the deal.
The most important is getting board visibility because we are strategic – we want to learn and know what is going on. Initially, the board observer was very important because being a big public company, we thought let’s take that seat. But then we realized that as a board observer, you still don’t get control. Of late, we started forcing on having an actual board seat. That’s more important.”

- CA CVC

CVC units differ greatly concerning board memberships: some strongly prefer full voting representation while others are even indifferent to board observer positions.
Deal Terms

92% of CVCs always require pro-rata rights.

12% of CVCs require a Right of First Refusal ("ROFR").

50% of CVCs require a Right of First Notice ("ROFN").

55% of CVCs require other, non-standard deal terms.

Does the desire of many CVCs to get preferential terms make them lose more competitive deals?
The percentage of portfolio companies eventually acquired by the parent company

- Over 40%
- 20-40%
- 10-20%
- Up to 10%
- None

**Acquisitions**

78% of CVCs never have or do not intend to have their parent company acquire any portfolio company.

Attitudes toward buying portfolio companies contradicts an existing CVC reputation among entrepreneurs.
Impact of COVID-19
COVID-19 Impact

CVC units report resilience to COVID macro shocks.

“I hate to say this but for us, COVID has been quite positive. Our business has soared during COVID. Trends we’re looking at are only accelerating.”

- East Coast CVC

“COVID has made it easier in terms of sourcing deal opportunities. It’s expanded our geographic reach, which has been really helpful.”

- Finance CVC

“All positive changes for our investments. Better deals, higher valuations -- it hasn’t hurt in any way.”

- CA CVC

CVCs's reported resilience is similar to that reported by IVCs.
Before we commenced our interviews, we knew CVCs were different from one another. But we were still surprised by the diversity and differences we discovered. Many CVC policies are inconsistent with the principles the most successful VCs have practiced.

Concluding Observations