

# Open Innovation

Balancing the autonomy and the impact  
of your corporate venturing unit

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\* The list is just a small selection of the external experts who have taken part in the study. They shared their personal insights and not those of their corporations.



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# Executive summary

How should you set the right level of autonomy for your corporate venturing unit to maximize both the innovation produced and the value integrated into the parent company? Based on 120+ interviews with firms' chief innovation officers and those in related roles in the United States, Europe and Asia, the study provides documented hints.

Corporate venturing—the collaborative framework between established corporations and innovative start-ups—has been emerging at speed (with a 42% increase in the past nine years) through many mechanisms, such as venture clients, venture builders, scouting missions, challenges prizes, and corporate accelerators.<sup>1</sup> However, firms' chief innovation officers are still struggling over where to place their corporate venturing teams—"inside" or "outside," in their terminology.

For instance, how should the right level of structural autonomy be designed in corporate venturing units such as the BMW Startup Garage to maximize its effectiveness? The answer matters because the literature up to now (a) has provided only generic suggestions; (b) has focused too much on CVC units; (c) has regarded autonomy as

merely a matter of location; and (d) has measured the value adopted from only a financial perspective.

In contrast, this study identifies the framework of variables most relevant to setting the unit's level of autonomy, avoiding the simplifications of just "inside and outside." These variables are divided into four main pillars: leadership (how the unit is connected to the executive committee: whether the committee has a presence and the nature of reporting), distance (how far the unit is from headquarters, both physically and legally), budget (the cost center's level of dependency and the break-even requisite), and incentives (how the corporate venturing director's performance is measured and how the director is compensated). These are the relevant setup of aspects chosen by a corporation designing the right level of autonomy.

Moreover, this study measures the impact of the CVC unit by type of innovation generated (incremental, disruptive, both or none), the extent to which a mind-set favorable to innovation has been enhanced in the parent company, and type of value

adopted (i.e., knowledge, products and services, an innovation mind-set, processes, business models and revenues).

So, what is the right level of autonomy to maximize value generation and integration? This study provides several principles such as: designing an incentive framework oriented to value integration and agility; ensuring an independent cost center for the corporate venturing unit; involving someone from the corporation's executive committee in decision making, while considering increasing the time span of reporting cycles; and choosing the location of the unit according to the degree of internal autonomy that can be given to the unit, and the level of internal capability for integrating external innovation into the company.



# Corporate Venturing

Autonomy or Impact? Value Creation or Integration?

120+

Based on 120+ interviews with CIOs (and related roles) in US, EU and Asia.

**CORPORATE VENTURING = ESTABLISHED FIRMS + INNOVATIVE START-UPS**



BMW Startup

**GARAGE**



Disney *accelerator*

**SAMSUNG NEXT**



**AUTONOMY IS NOT JUST LOCATION BUT...**



**Leadership**

**Distance**

**Budget**

**Incentives**



- Executive committee presence
- Reporting cycle
- Building location
- Same legal entity
- Independent cost center
- Break-even requisite
- KPIs
- Fixed incentives

**INNOVATION VALUE IS NOT JUST REVENUES BUT...**



Knowledge

Innovation mind-set

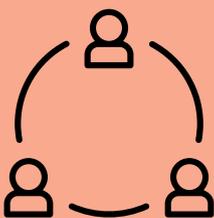
Processes



Products / services

Business models

**VENTURING TEAMS DOESN'T NEED MORE FREEDOM BUT...**



**Incentives:**

- Metrics oriented to integration
- Metrics considering innovation agility



**Leadership:**

- Executive committee's sponsoring decision making
- Longer cycles of reporting



**Budget:**

- Independent cost center



**Distance:**

- Select inside/outside depending on the capacity to ensure internal autonomy and to integrate value generated



**Open Innovation: Balancing the autonomy and the impact of your corporate venturing unit**

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# 1. Balancing autonomy versus impact

## 1.1 INTRODUCTION: THE CASE OF THE BMW STARTUP GARAGE

Zhang Xiuying\* was confused. She was in a meeting in Munich at the BMW Startup Garage, the venture-client unit of the German automotive multinational, to negotiate intellectual property rights for her start-up. She was also negotiating with a few venture capitalists and independent accelerators. However, unlike the BMW Startup Garage, these venture capitalists asked for equity.

**Figure 1. BMW Startup Garage in Munich**



Source: Gimmy, G., *The Venture Client Model*, Maize.io (2018).

Zhang was looking for capital to expand her company and technical mentoring to improve her product and she was searching for her first client. Although she had cutting-edge technology and solid connections with venture capitalists (VCs), she was struggling to find ways to test the product in a corporation. That is how she decided to get involved in the “minimum viable selling” model with the BMW Startup Garage.<sup>2</sup>

In this model, the company partners with the start-up and becomes its first big client. The corporate business unit implements a real pilot program, and start-ups get purchase orders and supplier numbers from day one.

On the one hand, the BMW unit has already achieved several successful collaborations such as Aito CEO Peter Kurstjens (See Figure 2). On the other hand, the parent company provides, to the corporate venturing team, enough autonomy to quickly take decisions with an independent budget.

**Figure 2. BMW Startup Garage alumnus Peter Kurstjens**



Source: BMW.

This is just one example of how a company can give its corporate venturing\*\* unit a few elements of autonomy (e.g., an independent cost center and decision-making power) so the unit can work better with start-ups at the appropriate speed.

So, the question asked by many corporate executives is how to get the best of both worlds: maximizing the impact of innovation (e.g., the employee mind-set, disruptive products, and new business models) while integrating value without cutting the innovation unit's wings.

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\* The authors have changed her name for reasons of confidentiality.

\*\* “Corporate venturing” is defined as the collaborative framework between established firms and innovative start-ups.

## 1.2 DEFINITIONS AND CLARIFICATIONS: STRUCTURAL AUTONOMY AND IMPACT

### 1.2.1 Structural autonomy

Structural autonomy is defined in this report as the way a corporate venturing unit\* is set up within the structure of a parent corporation, making the unit dependent on the parent to a greater or lesser degree.<sup>3,4</sup>

For rating the level of structural autonomy of a corporate venturing unit, the concept has been divided into four main pillars: leadership, distance, budget and incentives. (See Figure 3.)

In the first pillar, leadership, the authors measured the autonomy provided by the executive committee (or C-level executive). They took into consideration whether a member of the executive committee attended decision-making meetings of the corporate venturing unit (always, periodically or asynchronously); whether this person was from a divisional level or a corporate level (i.e., a member of the parent company's executive committee); and the frequency of the reporting meetings. In this study, "reporting" refers to showing results to the company unit's managing authority— either the level above or the representative from the executive committee.

In the second pillar, distance, the authors evaluated (a) the geographic distance between the corporate venturing unit and the corporate headquarters, and (b) the legal status of the unit with respect to the parent. Geographic distance

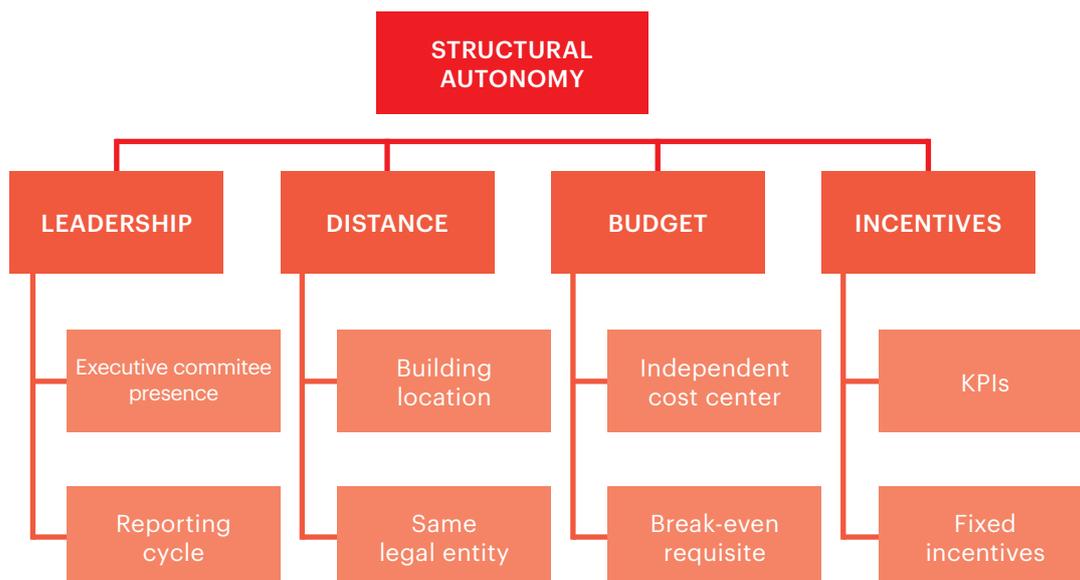
was determined according to whether or not the corporate venturing unit was in the same building, city and country as the headquarters. From a legal perspective, the authors differentiated between an innovation unit that was legally the same entity as the parent company and a unit that was registered as a different entity.

In the third pillar, budget autonomy, the authors measured both the self-sufficiency of the innovation unit cost center, and the priority given to breaking even. The independence of the cost center was measured on the basis of whether the budget of the cost center was an integral part of the parent company, a standalone part of the parent company, or the unit was a completely external entity. Breaking even could be mandatory or not mandatory.

For instance, corporate venture capital (CVC) funding usually comes from corporate headquarters (69%), from external investment partners (19%), and from business units (13%), especially when the CVC mission is closely aligned with a specific business unit.<sup>5</sup> Some have a "dedicated" investment fund structure, similar to independent venture capital with a fixed amount of committed capital available for investment. Others are "discretionary", allocated as investments opportunities arise.

In the final pillar, incentives, the authors asked

**Figure 3. Structural autonomy of a corporate venturing unit**



Source: Prepared by the authors.

\* A corporate venturing unit is the organizational structure a company has to implement the interaction (i.e., identification, collaboration and integration) with innovative start-ups. This structure refers to the resources (e.g., team, budget, knowledge) and processes in place for that interaction.

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interviewees which two main KPIs were used to measure the performance of the unit's manager and whether incentives were fixed or variable as a percentage of the overall financial incentives.

Counter to traditional assumptions, management control systems have been proving positive for innovation. These systems gather and use information to evaluate the performance of different organizational resources. These include human, physical and financial resources, besides the company as a whole in light of the organizational strategies pursued. In some cases, they help particular organizations be more successful than others.<sup>6</sup>

### 1.2.2 Impact

Defining what type of impact companies want to have in the long run is essential before approaching start-ups for potential collaborations.<sup>1</sup> The goal that a corporation establishes for itself, whether financial or strategic, will define the impact that its open-innovation activities will have.

This study used the word "impact" to measure the value integrated into a company through corporate venturing activities.<sup>7</sup> Value is "the monetary, material or assessed worth of an asset, good or service"<sup>8</sup> and can be divided in two different types: captured and created value. While value capture is a business ability to create profit from transactions, value creation is defined as "the performance of actions that increase the worth of goods, services or even a business."<sup>9</sup>

Across this study, the impact generated by the corporate venturing unit was classified by type of innovation, type of value and the percentage of employees positively affected in the company.

**Types of innovation:** When categorizing the different types of innovation that a chief innovation officer (CIO) may desire or obtain, the authors identified four: incremental, disruptive, incremental and disruptive (both), or no innovation at all (none). While incremental innovation happens gradually, disruptive innovation relates to those business models or technologies whose application significantly and abruptly affects how a market or industry functions (e.g., the Internet).

**Desired type of value:** The authors have classified three different types of value generated—economic value creation, economic value capture, and no economic value. In economic value creation, the authors included knowledge, products and services, a mind-set of innovation, processes and business models. In economic value capture, the authors included revenues.

**Innovation mind-set:** This study considered the concept of "innovation culture" to be essential. The authors used this term to refer to employees' perception of innovation, increased resources for innovation, or improved processes for innovation.\* For each mechanism, the authors measured the innovation culture and to what extent the innovation mind-set was affected by each aspect of the structural autonomy.

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## 1.3 WHAT HAS BEEN SAID—MAINLY CVC UNITS, CORPORATE INCUBATORS AND CORPORATE ACCELERATORS

### The greater the autonomy, the higher the explorative level

The structural autonomy of a CVC unit exhibits a positive relationship with the corporate investor's explorative innovation performance, while it is negatively related to exploitative innovation performance.<sup>10,11</sup>

If a CVC unit is granted autonomy and corporate interference is minimal, CVC managers can focus on investments without stressing about the parent company's priorities or twin agendas.<sup>11</sup> This also enables the CVC unit to respond aggressively to different investment opportunities, to operate more as a diversified portfolio and to take greater risks regarding bold investments in unfamiliar technological areas.<sup>12</sup>

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\* Interviewees were given four possible answers when asked what percentage of employees they believed affected the innovation efforts of each mechanism: between 0 and <1%, between 1 and <20%, between 20 and <40%, more than 40%.

On the other hand, exploitation activities aim to enhance the parent company's existing business. Autonomous CVC units may have a negative impact as they are disconnected from the parent company's expertise and its accumulated technological knowledge and network of resources.<sup>11</sup>

### The greater the autonomy, the more diversified the collaboration portfolio

The higher the level of autonomy of a CVC unit, the more diversified the CVC's investment portfolio. In other words, CVC units with greater autonomy may diversify their investment portfolios to a greater extent to create higher growth potential for their parent companies.

In contrast, CVC units with less autonomy may diversify their investment portfolios to a lesser extent to create higher growth potential for their parent companies.<sup>13,14</sup>

So, autonomy is a moderator of the relationship between diversification and growth potential. This is because, when the unit is tightly monitored and controlled, CVC managers are encouraged to narrow the field of search based on the parent company's existing business model to guide the managers' interpretation of information.<sup>14</sup>

Conversely, when those units are wholly owned subsidiaries, they typically have less in the way of formal reporting relationships with their parent companies and have greater discretion when making investment decisions.<sup>15</sup>

### The closer to the headquarters, the better—or worse

The dilemma of geographic location (the distance from headquarters) for corporate incubators and accelerators has two schools of thought:

On the one hand, the “complement” school (contextual ambidexterity) affirms that exploration and exploitation can be managed in the same place at the same time. There is no need for spatial separation as proximity is stimulating. Business units and individuals can participate both in existing businesses and in the development of radical new solutions.<sup>16</sup>

Some managers also argue that accelerators can thrive within established organizations: having start-ups inside or close by gives the company the greatest level of control and extended opportunities for frequent interaction. On the other hand, the “conflict” school (structural ambidexterity) believes that challenges in exploration and exploitation activities conflict so much that they have to be pursued in spatially separated units and operate independently from one another.<sup>16,17</sup> The organizational system is split into subsystems with their own incentives and managers. The corporate culture, tasks and formal

Figure 4. Orange Fab in Silicon Valley



Source: Orange.

Figure 5. Samsung Accelerator in Silicon Valley



Source: Samsung.

structures are consistent with the unit's function, whether that is to explore or exploit.<sup>16</sup>

In the case of corporate accelerators, previous literature identified two more possible models and locations for a corporate accelerator: the independent and the virtual. (See Table 1.)<sup>18</sup>

The independent accelerator is a standalone entity that should be positioned in a way that means it is given the most independence by its corporate parent(s). This separation also helps the company avoid conflict with start-ups. However, the entity might be too distant for the business to influence it appropriately or apply leverage, so the accelerators may lack the resources, power and credibility to get the company to cooperate.<sup>18</sup>

Virtual accelerators aim to reach teams across the globe. Participants meet weekly online with an entrepreneur in residence and have remote access to the mentor and partner network. Among the benefits are that they are cheaper and, by not forcing start-ups to relocate, they can increase the number of candidates. It is recommended that a virtual accelerator also use face-to-face sessions to build the trust necessary for knowledge transfer and avoid the disadvantages of virtual communication.<sup>18</sup>

Figure 6. Disney Accelerator powered by TechStars



Source: Disney.

**Table 1. Choices for hosting corporate accelerators**

INSIDE CORPORATION	OUTSIDE CORPORATION	INDEPENDENT ACCELERATOR	VIRTUAL ACCELERATOR
<b>Orange</b> + More control - Risk of being too stringent	<b>Samsung</b> + Flexibility for teams - Maintaining corporate involvement is more difficult	<b>Disney</b> + Existing ecosystem + Cost-efficient - Less control	<b>Pearson</b> + Global reach + Cost effective - Disadvantages of virtual communication

Source: Adapted from Kohler, T. *Corporate Accelerators: Building Bridges Between Corporations and Startups*. *Business Horizons* 59, no. 3 (May/June 2016): 347–357.

## 1.4 WHAT WE DO NOT KNOW AND WHY THE ANSWER MATTERS

In the previous study, the authors described the emerging trend of corporate venturing and highlighted how it is attracting more and more attention from academics, industry leaders and media organizations.<sup>1</sup> There has been not only a 42% increase in the number of companies applying these mechanisms in recent years but also a 18% increase of the number of publications on this topic (in academic and nonacademic journals), in the past four years.<sup>19</sup>

However, there are still paradoxes. The Xerox corporate venturing arm, whose fund size grew to over \$200 million, was dissolved in 1996 after seven years running because (among other reasons) it was unable to achieve an autonomous structure akin to that of a traditional VC partnership, despite the unit’s exceedingly favorable financial returns compared to other independent venture funds.<sup>20,21</sup>

How much structural autonomy is necessary to maximize the impact of innovation units? What is the right autonomy model for each corporate venturing mechanism?

When dealing with this question, previous publications in many cases (1) have given generic or theoretical

suggestions without explaining in detail the how;<sup>16,22</sup> (2) have focused too much on CVC units,<sup>10</sup> corporate accelerators<sup>18</sup> and incubators,<sup>23</sup> while excluding other emerging mechanisms; (3) have provided a limited, simplistic perspective of structural autonomy,<sup>18</sup> referring only to geography without a holistic perspective that takes in other factors such as incentives, the presence of the executive committee, and reporting cycles, and (4) have measured the impact of innovation in a simplistic way, in some cases considering only revenues or ROI.<sup>24</sup>

What were the results to these questions?

**Figure 7. Liberty Global innovation center in Brussels**



Source: Liberty Global.

## 1.5 THE RESULTS

In their analysis, the authors cross-checked the output variables (considered as dependent variables) related to innovation impact (i.e., type of innovation, type of value, and percentage of employees) with input variables (considered as independent variables) related to the autonomy of the corporate venturing unit (i.e., leadership autonomy, distance autonomy, budget autonomy and incentive autonomy—see Figure 3).

Then the authors analyzed each variable to identify patterns of divergence between those corporate venturing units with poor innovation performance (e.g., no innovation adopted) compared to those that performed better. The results were analyzed quantitatively and qualitatively, and this was complemented by the insights of the interviewees and experts. The authors found the dissimilarities shown in Figure 8.

The results were segmented into the four aspects of autonomy: incentives, leadership, budget and distance.

**Incentive autonomy:**

**1. Metrics oriented to integration:**

In the sample of the study, companies successfully adopting innovation—either incremental (in 81% of the analyzed cases\*), disruptive (in 66% of the cases) or both (in 78% of the cases)— were measuring the directors of their corporate venturing units according to these principles.

First of all, using KPIs more oriented to the integration stage (see Figure 10). For instance, successful companies were applying metrics such as “opportunities integrated” and “proof of concepts implemented” instead of just “analyzed opportunities.” Among corporate venturing units not adopting value in the parent company, 75% of them were applying KPIs oriented to initial stages of the venturing process.

Secondly, avoiding excessively simplistic views of value (i.e., just revenues) and had a more holistic view of value - including knowledge, products or services, mind-set, processes, business model and revenues.

Thirdly, applying KPIs focused on the ratios that moved the opportunity from one stage to another, considering sub-deliveries. For example, if these were four milestones (a-d), the KPI would be ratios such as (b)/(a) or (d)/(a):

- (a) Proof of principle, whereby the opportunity leader had to validate the problem-solution fit
- (b) Proof of concept, whereby the prototype-solution fit should be validated
- (c) Proof of value, whereby the product-market fit should be validated
- (d) Proof of growth, whereby the scale model should be validated

**Figure 9. Volvo CampX co-creation space**



Source: Volvo.

Some of these three principles are already applied by many successful companies such as Santander Bank, Liberty Global, E.ON, Fujitsu, Mitsubishi, to name a few.

As Volvo Group Senior Open Innovation Manager Philip Wockatz explained: “My role is to ‘derisk investments in innovation’. We have to build the right things, build things right, and build things fast. Therefore, we have to utilize metrics that truly matter to control the risk of failure. We do this by validating the value and growth of defined opportunities, whilst gradually increasing the cost of failure. This allows us to explore hundreds of ideas that lasts for a few hours, dozens for a few weeks, and a handful for months in rapid small-scale experiments. As we learn more about the size of their potential and risk we constantly weed out opportunities that don’t quite fit and balance our innovation portfolio. When it comes to innovation, I often say that you need to start before you’re ready, finish before you start, and start with the end in mind.”

**2. Metrics considering innovation agility:**

In 60% of the analyzed cases, companies that got results (in terms of products or services and revenues) measured the performance of their corporate venturing unit’s manager in a

**Figure 8. Differences between top and poor performers at the corporate venturing process**

<b>Top performers</b> <i>High levels of innovation-value’s adopted</i>		<b>Poor performers</b> <i>Low levels of innovation-value’s adopted</i>
Metrics oriented to opportunity’s late stages Metrics considering innovation agility	<b>INCENTIVES</b>	Metrics not oriented to opportunity’s initial stages Metrics not considering innovation agility
Executive committee sponsors the decision making Longer cycles of reporting	<b>LEADERSHIP</b>	Executive committee doesn’t sponsor the decision making Shorter cycles of reporting
Independent cost center	<b>BUDGET</b>	Dependent cost center
Location in headquarters	<b>DISTANCE</b>	Location outside headquarters

Source: Prepared by the authors. Note: value refers to knowledge, products or services, mind-set, processes, business models and revenues.

\* The 81% figure means that, of the analyzed companies that successfully adopted incremental innovation, 81% were using metrics oriented to the opportunity’s late stages. The same applies to the 66% and 78% figures.

**Figure 10. Stages of a corporate venturing project**



Source: Prats, M. J., Siota, J., Martinez-Monche, I. & Martinez, Y. *Open Innovation: Increasing Your Corporate Venturing Speed While Reducing the Cost*. IESE, BeRepublic. (2019).

way that took account of the agility of the process (e.g., the time taken to execute a proof of concept or POC, the time taken to execute a minimum viable product or MVP, and the time taken to integrate an MVP into the corporation). In contrast, 100% of the corporate venturing units that were not integrating value were not considering agility as a KPI to measure the performance of their venturing directors. These data echo the relevance of having organizational agility to adopt innovation, which was highlighted in our previous studies. Speed is just one of the results of becoming an agile organization (e.g., flatter structures, modular processes, delegated authorities).

In some cases, companies that were more advanced in terms of organizational agility used agility scorecards to measure the speed (the time required) for each stage of the process.

For instance, the software company SAP created a corporate accelerator to boost start-ups, which were able to use and adopt its new platform HANA. The corporation ensured that agile KPIs would go through the whole corporate venturing cycle to monitor speed, which also made the program more attractive to start-ups.

**Figure 11. SAP headquarters in Walldorf**



Source: SAP.

The company was able to bring more than 1,500 early adopters to its HANA platform in just two years, increasing the number of users exponentially while proving the product’s efficiency to the wider public.<sup>25,26</sup>

**Leadership autonomy:**

**3. Executive committee sponsors the decision making:**

In 94% of the analyzed cases, companies having a member of the corporation’s executive committee involved in the decision making of the corporate venturing unit were able to adopt value into the parent company (i.e., knowledge, products, mind-sets, business model and revenues). In the other cases, only processes were integrated or nothing at all.

In the other cases, the reporting was done to someone not on a corporate level but on a divisional level. This decreased the chances of there being a sponsor on the executive committee to unblock bureaucratic processes, make processes more agile and support the integration of new innovations from the corporate venturing unit.

**Figure 12. Fujitsu Start-up Awards in Munich**



Source: Fujitsu.

Figure 13. [Play] Video interview with GE CIO Sue Siegel



Source: Global Corporate Venturing, Interview – Sue Siegel of GE Ventures at the GCV Symposium (2016), video, 2:37-3:21  
[www.youtube.com/watch?v=En1IAuNoyPw](http://www.youtube.com/watch?v=En1IAuNoyPw)

General Electric chief innovation officer Sue Siegel highlighted the importance of having the buy-in of the CEO during the implementation of a corporate venturing initiative, involving different business units, and profit and loss lines. (Click on Figure 13).

#### 4. Longer cycles of reporting:

In 91% of the analyzed cases, corporate venturing units having longer reporting cycles (1.7 to 2.8 months) obtained results (i.e., knowledge, products, business model and revenues). In contrast, three quarters of corporate venturing units not getting value had reporting cycles of a month or less.

The interviewees highlighted the importance of having a reporting focused not on auditing or merely monitoring what the corporate venturing units were doing but on enhancing and accelerating the processes by understanding what the units were doing, validating assumptions, checking accepted risks, unblocking internal barriers, among other things.

#### Budget autonomy:

##### 5. Independent cost center:

In 78% of the cases, corporate venturing units adopting value (i.e., knowledge, products and services, mind-sets, business model and revenues) had an independent cost center. In 75% of the cases, the units not adopting value had a dependent cost center (i.e., one with no results or value integrated).

One of the interviewees reported “at the beginning, our innovation unit failed because it didn’t have enough autonomy to advance at speed because we were dependent of another business unit, which didn’t have innovation as a priority, diminishing our efforts to bring new value to the company.”

Figure 14. [Play] Video interview with M12 Head Nagraj Kashyap



Source: Global Corporate Venturing, Interview – Nagraj Kashyap of M12 at the GCV Symposium (2018), video 1:10-1:39  
[www.youtube.com/watch?v=4Lvyf5-IMSw](http://www.youtube.com/watch?v=4Lvyf5-IMSw)

#### Distance autonomy:

##### 6. Location in headquarters, if there is enough internal autonomy:

There was a relation between the corporate venturing units located in the parent company headquarters and high levels of impact on the mind-set in the parent company compared to those companies that had the unit in the same city as the headquarters but in a different building.

Of the companies that had an impact on the mind-set of more than 40% of employees (meaning this percentage had a more positive view of innovation), 75% had the corporate venturing units in the headquarters.

Of the companies that had an impact on the mind-set of between 20% and 40% of all employees, 100% had the corporate venturing units in the headquarters.

Of the companies that had an impact on the mind-set of less than 1% of employees, 69% had the corporate venturing units outside the headquarters (in the same or a different city or country).

According to an interviewee whose unit was outside the headquarters, “we failed to integrate innovation because the unit was too independent.” Another said: “We didn’t spend enough time evangelizing internally about the work we were doing, which made it more difficult to integrate our results afterward.”

Finally, a few interviewees spoke of the importance of having enough internal autonomy for a unit in the headquarters to avoid it being squeezed by twin agendas, bureaucracy, slow processes, and conflicts of interest, among other pressures. As publicly noted, for instance, M12 (former Microsoft Ventures) Global Head Nagraj Kashyap - the interest they have in getting support from the mothership (Microsoft), while having enough separation and independence to help start-ups. (Click on Figure 14.)

One of the interviewees in the study also shared: “My venturing unit was unsuccessful because the internal culture was not ready for innovation, as well as there being weak internal communications and a poor mind-set towards innovation.”

Lastly, another interviewee suggested: “If you don’t have the right internal mind-set, your home is not ready, so you should place it [the unit] outside.”

## 1.6 CONSEQUENCES: WHAT NOW?

**How can these results help companies' chief innovation officers** work with autonomous corporate venturing units to maximize the impact of initiatives in all three dimensions: mind-set, type of innovation and results?

### Through incentive autonomy:

#### 1. Design metrics and incentives oriented to value integration (in the opportunity's late stages):

This may help your corporate venturing teams focus on the value adopted, innovating not for the sake of innovation but for value, and it may increase the chances of adopting incremental and disruptive innovation in your organization. Remember that value is not just revenues but also new products, services, business models, processes, knowledge and mind-set.

#### 2. Keep an eye on agility metrics within your innovation process:

This could enhance your process of getting results, especially new products, services and revenues.

### Through leadership autonomy:

#### 3. Involve a sponsor from the parent company's executive committee in decision making:

This may help you speed up the venturing process, help integrate value into the parent company and unblock bureaucratic barriers.

#### 4. Consider increasing the time span of the reporting cycles:

This could give you greater autonomy to innovate in order to obtain knowledge, products or services, business models and revenues. Reporting to a member of parent company's executive committee should not be an auditing but a catalyzing enhancer.

### Through budget autonomy:

#### 5. Ensure there is an independent cost center:

This could give you greater autonomy to generate knowledge, produces or services and improve your employees' mind-set, business models and revenues.

### Through distance autonomy:

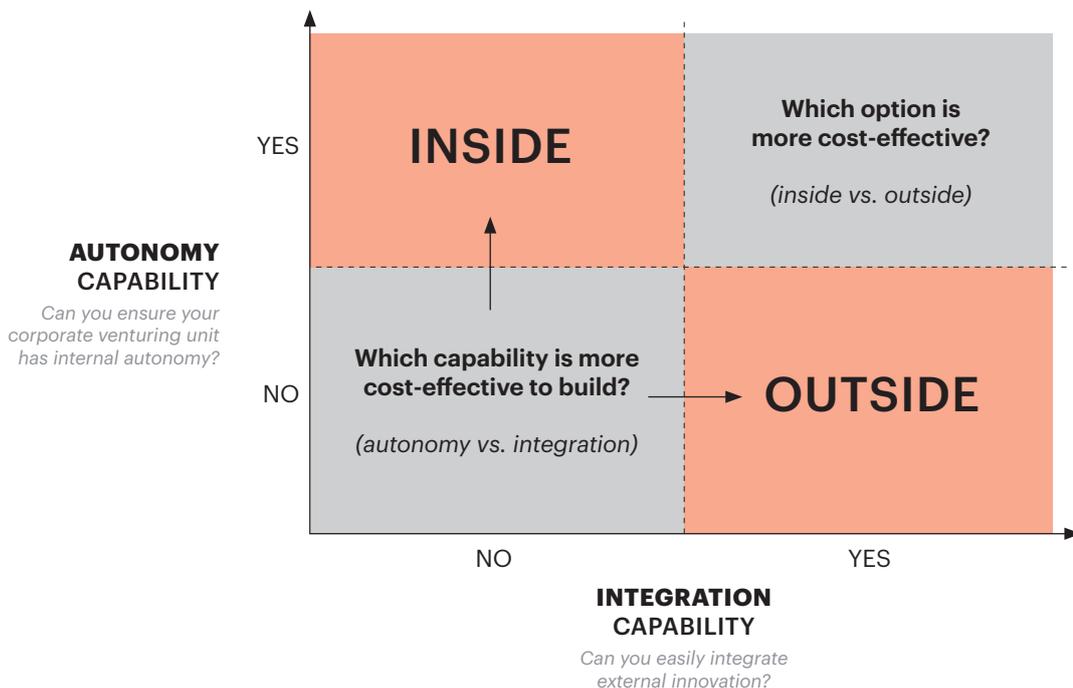
#### 6. Evaluate your autonomy and integration capabilities before choosing the location:

Many corporate venturing mechanisms can be implemented while located in the headquarter building or outside it. What is the best choice for you?

That depends on your autonomy capability—meaning the cultural readiness of your company, whether you can ensure your corporate venturing unit has internal autonomy. The best choice also depends on your integration capability—meaning your ability to integrate innovation from units outside headquarters

Finally, it depends on the cost-effectiveness of autonomy versus integration and on the cost-effectiveness of having the corporate venturing unit inside versus outside the headquarters. (See Figure 15.)

**Figure 15. Where should I locate my corporate venturing unit?**



Source. Prepared by the authors.

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# Appendixes

## 1. Research methodology

This study was carried out to answer the question of how to set the right level of autonomy for a corporate venturing unit to maximize the innovation produced and the value integrated into the parent company? To achieve this objective, the authors used several sources. Initially, they reviewed the literature on the topic. Then, they conducted fieldwork consisting of interviews with 121 chief innovation officers and executives involved in corporate venturing activities (experts located in the United States, Europe and Asia): 63 with a formal protocol (167 questions) and 58 with an informal protocol. Then, the authors led an exhaustive analysis of corporate venturing activities of 26 companies.

An interview protocol was developed, and the interviews were recorded. Each interview had an introductory phase in which the interviewer explained the definitions of possible ambiguous words of the questionnaire to ensure a common understanding. The interviews consisted of both open and closed questions. Afterward, the answers were classified and analyzed twice. Later, the authors twice carried out a codification of the interviews and the quantitative analysis of the answers, using correlation and regression analysis. Then two independent experts reviewed the rigor of the process and the quality of the results obtained.

After the codification of the gathered data, the conducted analysis followed five steps:

1. The authors cross-checked the output variables (considered as dependent variables) related to innovation impact (i.e., type of innovation, type of value, and percentage of employees) with input variables (considered as independent variables) related to the autonomy of the corporate venturing unit (i.e., leadership autonomy, distance autonomy, budget autonomy and incentive autonomy).

2. The authors identified repetition patterns, focusing on those that were stronger. In this case, those that happened at least in 60% of the cases. For example, from all corporate venturing teams who have been able to integrate new knowledge to the parent company, 73% of those were using an independent cost center (rather than a dependent cost center).

3. Then, they segmented corporate venturing units into two groups. One group of those integrating value in the parent company (e.g., knowledge, products or services, mind-set, business models or revenues) and another group of those not adopting value in the parent company. In other words, those having a higher or poorer innovation performance.

4. Afterwards, the authors analyze the differences by each variable, checking patterns of dissimilarity. For instance, among all corporate venturing units who didn't get results, 75% had a dependent cost center. Meanwhile, among all corporate venturing who got results, 78% had an independent cost center.

5. After identifying these differences, which are just correlation relationships and not cause-effect relationships, the authors went into a new round of a more qualitative analysis to check the relevance and coherence of those relations, complementing those with the explanations of the interviewees.

The authors acknowledge that, given the complexity of the phenomena, a larger sample may increase the understanding of this important practice. However, the sample group was selected using the practice of looking for representation to increase that understanding.

Additionally, the authors acknowledge that they were not able to have control variables because of the complexity of the phenomena, and therefore a better analysis would ensure the complete isolation of variables. However, the authors contrasted the quantitative results with the qualitative answers of the interviewees, besides focusing only on those relations that were more frequent and more supported by the interviewees.

Further research in forthcoming white papers will be welcome to provide a mathematical approach to these relationships to have a clearer understanding of the phenomena. Also, more research would be welcome on questions such as how to develop external corporate venturing ecosystems, how to select and seduce the top performing partners on corporate venturing, and more.

## 2. 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. Companies gain insights and valuable information from leading innovation hubs around the world. Start-ups are exposed to potential financing opportunities and business deals.

**Company objective:** Gaining insight into 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. Start-ups solve specific technical problems for companies or produce a particular piece of code in a short period of time and, in return, they get access to new segments, markets and financing opportunities.

**Company objective:** Finding technological solutions to a corporate challenge.

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### Sharing resources

Sharing resources is the simplest form of collaboration between corporations and start-ups. It allows companies 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.

**Company 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. Companies get to adopt external opportunities, improve corporate branding and gain visibility, while start-ups get access to new segments, markets and financing opportunities.

**Company 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.

**Company objective:** Supporting start-ups with a structured program.

### Corporate venture capital

In the case of corporate venture capital, corporations target equity investment at start-ups that are of strategic interest beyond a purely financial return. Companies become more diversified and get access to products, services and technology, while start-ups get access to financial resources, know-how and advice from experienced corporations.

**Company objective:** Fast-tracking access to innovations, strengthening internal research, or accessing new distribution channels.

### Venture builder (or excubator, if outsourced)

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

**Company objective:** Getting an MVP outside the regular structure

**Company objective:** Getting an MVP outside the regular structure (through a 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.

**Company 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 sides to build a relationship and synergies.

**Company objective:** Defining, developing and piloting innovative solutions with an existing company.

### Venture client (or client accelerator)

A venture client involves a specific type of strategic partnership and a highly integrated tool that companies 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.

**Company objective:** Offering a client relationship to insource external innovation.

### Acquisition

Acquisitions involve the purchase of start-ups by companies 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.\*

**Company objective:** Accessing commercially ready products, complementary technology or capabilities.

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\* Note that this mechanism does not include the acquisition of large corporations. In those cases, these units usually move the opportunity to another department, such as that in charge of mergers and acquisitions.

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