The World of Corporate Venturing 2015

THE DEFINITIVE GUIDE TO THE INDUSTRY

- EXPERT ADVICE FROM INDUSTRY LEADERS
- FIRST INDUSTRY RETURNS DATA
- FORTUNE 500 ANALYSIS
- 2014 DEAL RANKINGS

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This document is an updated second edition of our initial World of Corporate Venturing. It contains factual changes requested by market participants to better reflect their full investment numbers in 2014.

Global Corporate Venturing

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PART 1

THE WORLD OF CORPORATE VENTURING

Claudia Fan Munce, head of IBM Venture Capital

This is an exciting time for venture capital. Many are calling this another bubble, and there is definitely a sense of this with entrepreneurs and venture capitalists. With almost $30bn invested in 2013, last year looked set to be another record, judging data from the first three quarters. Of course, valuations have climbed to the stratosphere as well, with companies like AirBnB valued at $10bn. The appetite for initial public offerings (IPOs) is looking up, and venture-backed IPOs look set to increase roughly 70% compared with a couple of years ago. The bottom line is this is a very exciting time to start a new company or venture and for corporates to play a key role by starting something as well.

Historically, corporations have invested in start-ups to keep an eye on interesting new technologies, to find possible acquisition targets that could drive growth or even to block new products that might compete with their own. Making money on their investments, while nice when it happened, was way down the list. Indeed, finding the right balance between the strategic and financial roles is one of the biggest challenges for corporate venture groups in the US. But there is another strategic agenda that is rocketing corporate venture to record numbers.

Corporate venturing is on fire – both in the US and globally. In 2014 large sums were invested globally, as the data in this supplement shows..

Public tech companies are sitting on huge cash balance sheets, and their venturing units are involved in some of the largest venture capital financings. For example, Intel Capital led and Google Ventures participated in Cloudera's $900m series F round, while Google was also key to Uber's $1.2bn series D round.

Corporate venturing units have grown from 181 before 2004 to more than 1,000 units in the first quarter of 2014, and it is up by a third in just the past four years. The greatest number of corporate venturing launches occurred in 2012 – more than 154 units. More than half of the 30 largest companies in the IT, pharma, telecoms and media industries had a corporate venturing unit by 2012.

Corporate venturing has gained in influence as well. Corporates are involved in about a third of total venture funding. In addition, the number of corporate venturers who participated in at least one deal in that quarter hit a multi-year high, with 83 unique corporate venturing units doing a deal.

Today, corporate participation is tremendously important in this ecosystem. We all know technology and innovation has accelerated at such a pace that corporates are unable just to sit there and wait for technology to mature before they see the potential leverage point. We need to have close monitoring and involvement in what is going on, as everything is shifting so fast. For corporations, this is a mission for the vitality and sustainability of their business as they are driven by technology and data in virtually every industry.

For entrepreneurs, by the same token, as they look at potential innovative solutions, they need that partnership much earlier than we saw 10 years ago. The ultimate delivery to consumer and channel of the innovative solution needs to be achieved sooner. A startup cannot go under the radar and work on something for a long time before there is a solution, as by the time the launch occurs the world might have moved on.

Corporate institutional partnerships

There is partnership from an early point involving the traditional financial investor which has a strong role in creating these young innovative companies and supporting them. The corporation guides them and consumes their products and services, helping the entrepreneur to develop his or her direction and build a company. This type of partnership today is much closer than before in driving really innovative solutions.

Societal impact

A good example of societal impact is in healthcare, and IBM has been working with the Memorial Sloan-Kettering Cancer Centre and WellPoint. These large partnerships are working together in the decision-support area of healthcare. Doctors and nurses are drowning in information, with new research coming out, so navigating data and new treatments is a key area. WellPoint's chief medical officer says something I think is really interesting, that healthcare professionals can make much more accurate decisions in lung cancer – in the past only half of cases were diagnosed, and this has now been raised to over 90% with the capability they are able to achieve with IBM's Watson facility.

A startup cannot go under the radar and work on something for a long time before there is a solution, as by the time the launch occurs the world might have moved on ”

INTRODUCTION

Toby Lewis, editor

The world of corporate venturing is a complex one, and it has been our privilege to track this industry for nearly five years. Last year was the most active in corporate venturing investment since we began compiling our data, and we are confident this document will be the most wide-ranging analysis of this activity.

The various parts of this document have employed a survey, data analysis of deals made, and expert advice from across the industry for those looking to get involved in corporate venturing. See the dedication section for thanks to the many people who were among those contributing to this project.

Highlights in this report include our analysis of the Fortune 500 in conjunction with Global Corporate Venturing's database, which revealed that 47 of the 100 biggest US companies are involved in venture investing. However, while nearly half the top 100 of the Fortune 500 are actively pursuing corporate venturing, the picture is more mixed for the other 400.

The Asian boom in corporate venturing truly came of age last year. China and India were second and third respectively in terms of the value of corporate venturing deals sealed, with $10bn and $3bn invested by syndicates involving corporate venturing units in these countries.

This boom of emerging market destinations for capital was driven by large investments – especially those by China-based internet companies Alibaba, Tencent and Baidu, which have also been highly active in the US. The world's largest startup, Xiaomi, made it into the top 10 corporate venturers based on the value of deals in which it has been involved.

The data also brings out how aggressive Google has been, topping our analysis of the top 50 corporate venturing participants, both by number and value of deals, with 121 investments worth $5bn. Google also backed those deals securing the largest E rounds, D rounds, B rounds and seed rounds, suggesting it is paying up to ensure it is involved in a large portion of future and present startup stars.

Our survey also paints a picture of corporate venturing as it stands at the beginning of 2015. In this survey, for the first time, Global Corporate Venturing has secured returns data [graph GCV 1.17) on how units are performing in venturing. Impressively 41.6% of respondents have a greater than 10% internal rate of return, while another 29.9% have a greater than 5% internal rate of return. This data suggests that many corporate venturing units are developing strong track records in the venture industry, which has been a notoriously difficult asset class for managers, with weak returns data for many participants.

We do hope you enjoy this report. It has been a lot of fun putting it together, and we hope it will be the first of many such documents providing a snap-shot and guide to best practice in corporate venturing at the start of a given year.

The team behind our data processing

The detailed data analysis in this supplement has been made possible through our partnership with Qbix and Relevant Equity Systems. Thanks must go to Jeff Carlson and Tim York of Qbix, as well as Ray Haarstick and Jonathan Marohn of Relevant, and their wider teams for helping us dramatically increase the ability we have to analyse and process our data. Global Corporate Venturing, Qbix and Relevant are exploring further ways to provide definitive data on the corporate venturing universe. Contact us if you want to discuss how to achieve this goal, and are interesting in supporting the creation of a subscription service.

There are further acknowledgements at the end of this report.


Jeff Carlson


Tim York


Ray Haarstick


Jonathan Marohn

SNAPSHOT OF THE INDUSTRY AT THE START OF 2015

This section will outline the state of the industry in 2015. Our survey of 95 participants at corporate venturing units reveals an industry that has many groups setting themselves up for a growth trajectory, and a growing pool of proven units that are demonstrating their strategies.

The graphs here and overleaf furnish a snapshot of the industry. For example, 77% of respondents have invested less than $300m, while 15% have invested more than $500m. Given the doubling of the size of the industry by number of units to about 1,200 during the past five years, these proportions appear to reflect what is going on in terms of activity in the corporate venturing industry. At the same time, only 27.7% of those surveyed have done fewer than 10 deals, so the respondents reflect groups with significant deal-making experience as well as a decent survey of those with more nascent programmes.

Unsurprisingly the most popular reason for doing corporate venturing among respondents was to secure market intelligence and make strategic decisions. Perhaps more surprisingly the next most popular reason put forward by groups was to make financial returns. Often in corporate venturing circles this is regarded as a secondary goal, because financial returns from a venture group in and of itself are unlikely to be transformative for a multibillion-dollar corporation.

Reflecting the boutique nature of much of corporate venturing, 76.7% of groups have fewer than five executives, although 3.5% of respondents have more than 20 executives representing significant groups.

For perhaps the first time, Global Corporate Venturing has secured returns data on how units are doing in venturing. Impressively 41.6% of respondents have a greater than 10% internal rate of return (IRR – a measure of investment performance), while another 29.9% have a greater than 5% internal rate of return. It should also be noted 13% of corporate venturing units currently have a negative internal rate of return.

Global Corporate Venturing data powered by

qbix ANALYTICS

and

Relevant EquityWorks

However, these returns reflect many groups being active for a relatively short period, and it also has to be noted that the market environment for the past five years has seen technology valuations increase significantly on paper – 70.9% of groups have a return smaller than 150% of cost measured by net asset value. However, it is notable that 15.2% of groups have more than doubled their money, with 1.3% of respondents making a greater than five times return, and a further 7.6% having more than tripled their money.

The most common average age of teams is under 50, reflecting roughly half the industry. Another 40% of teams have an average age under 40.

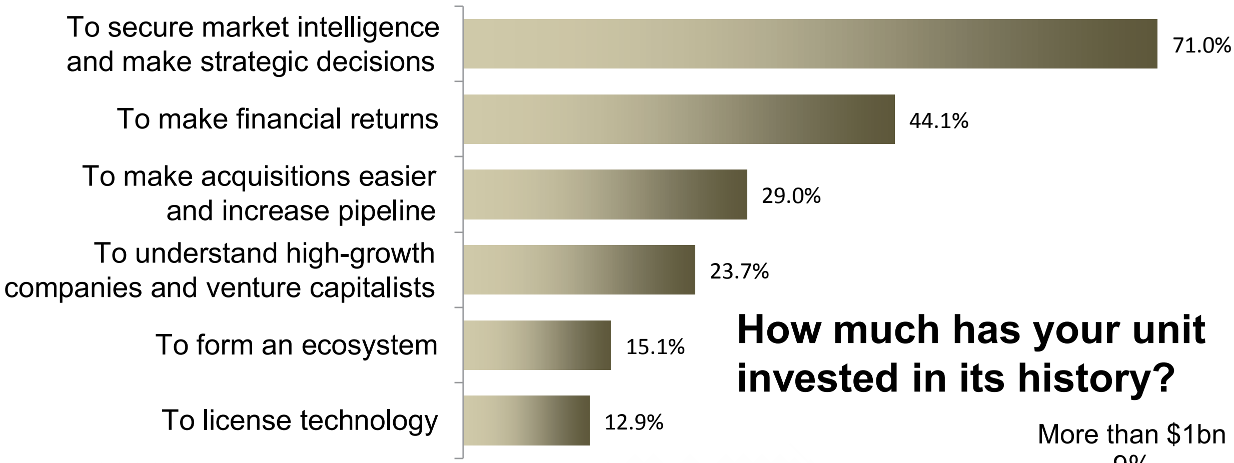
Those campaigning, like Global Corporate Venturing, for greater representation of women in venturing will be disappointed that 79.4% of groups are majority male or solely male. However, 3.6% of groups are majority female, while 16.9% of groups have a relatively even gender split.

The most common direct reports for corporate venturing units are to the chief executive, suggesting how important many operations consider their venturing operations to be. This is followed by the head of strategy, the chief innovation officer and the chief financial officer.

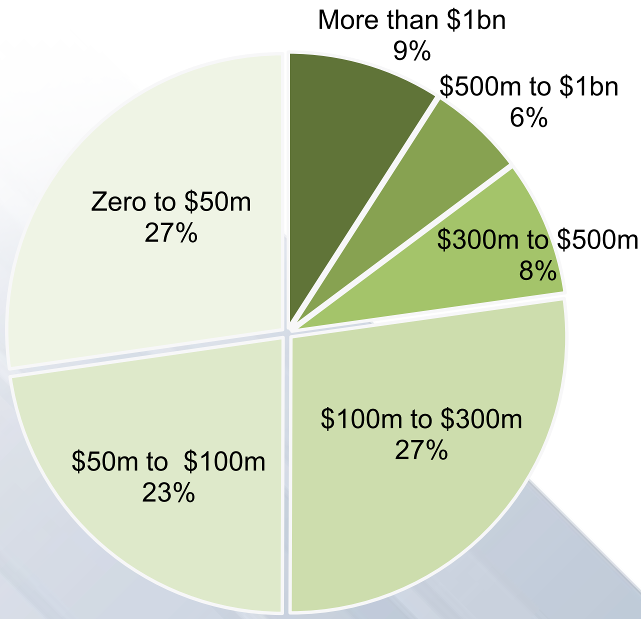
Just over a third of units are actively taking fund stakes, suggesting groups differ in the priority they place on using fund relationships to drive dealflow. Perhaps intriguingly, 31.8% of groups have no fund commitments. A significant minority of groups have made an active choice to commit to numerous funds, with 18.2% groups backing five funds or more.

Perhaps unsurprisingly, the most common oursourced service is legal, with 81.4% using external counsel. Accountancy is the next most popular service, followed by recruiting.

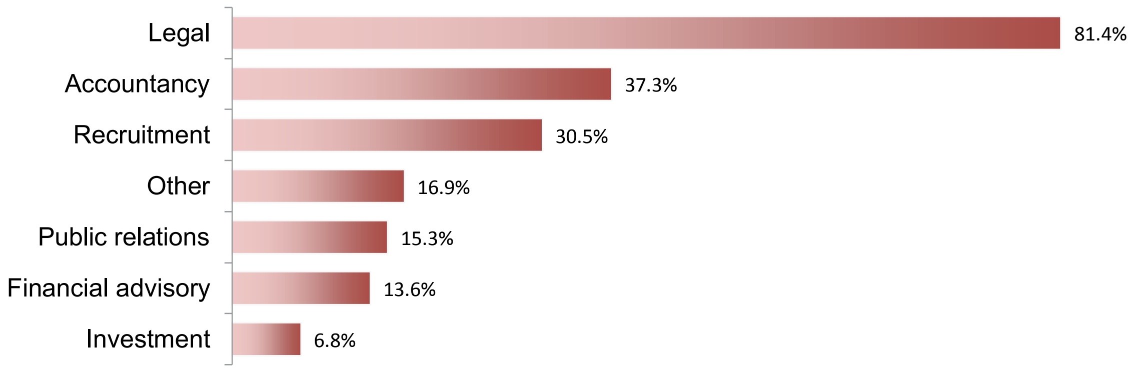
What are your main reasons for pursuing corporate venturing?



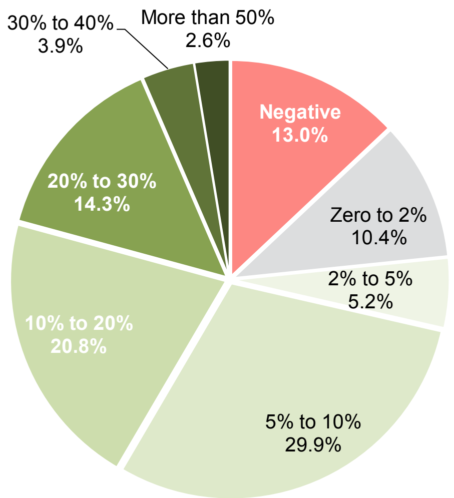
How much has your unit invested in its history?



What services do you outsource?

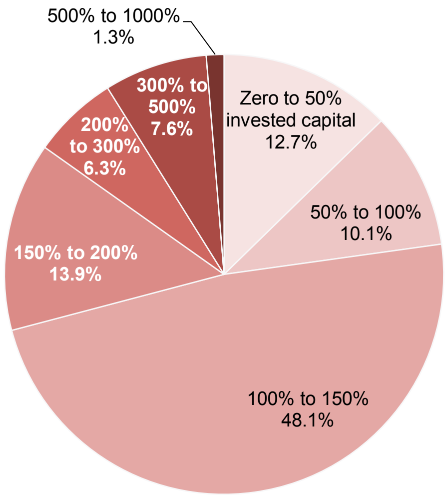


What is your internal rate of return (IRR) on the portfolio?

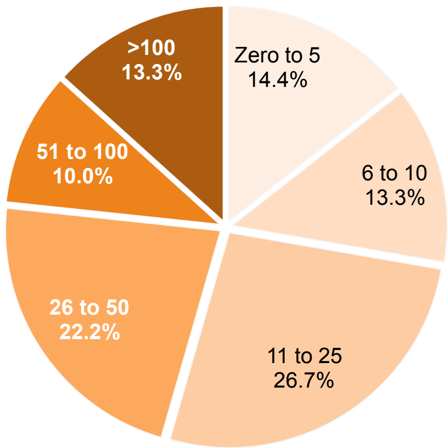


There were zero respondents with 40% to 50%.

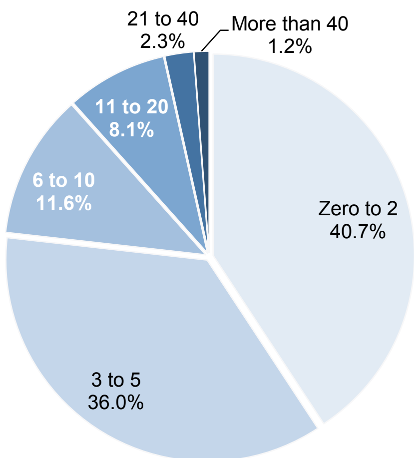
What is your portfolio worth compared with net asset value by multiple?



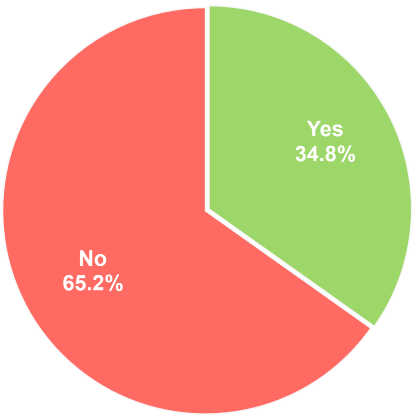
How many deals has your unit backed in its history?



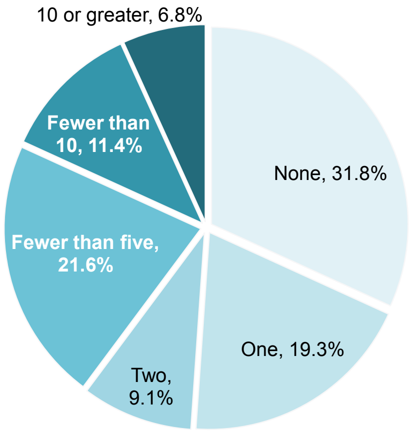
How many executives are in your corporate venturing unit?



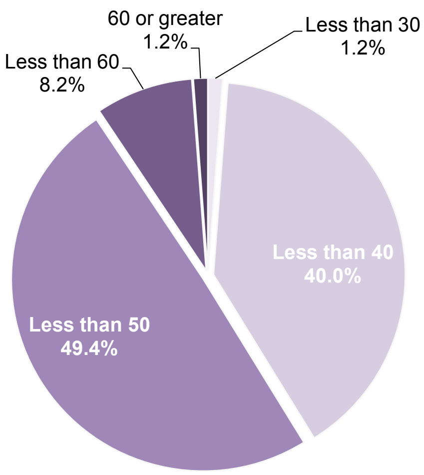
Are you actively taking LP stakes?



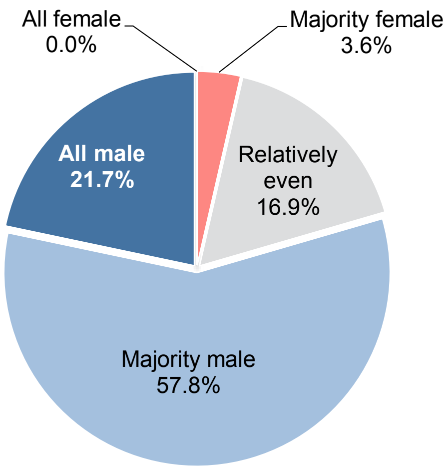
How many LP stakes do you have?



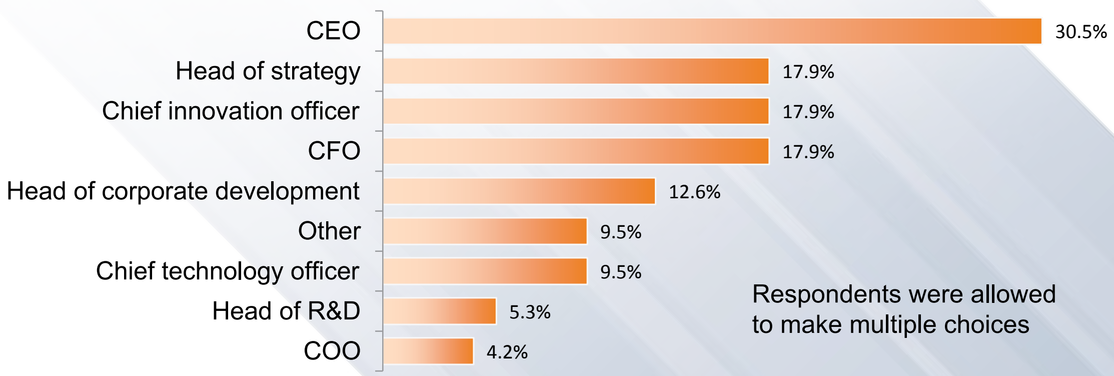
What is the average age on your team?



What is the male to female proportion?



To which C-level executive does the head of your unit report?



PART 2

CORPORATE VENTURING BOOMS IN 2014

Toby Lewis, editor

Corporate venturing had a bumper year in 2014 – the most active year since Global Corporate Venturing began compiling data – the first full year of activity we tracked was 2011.

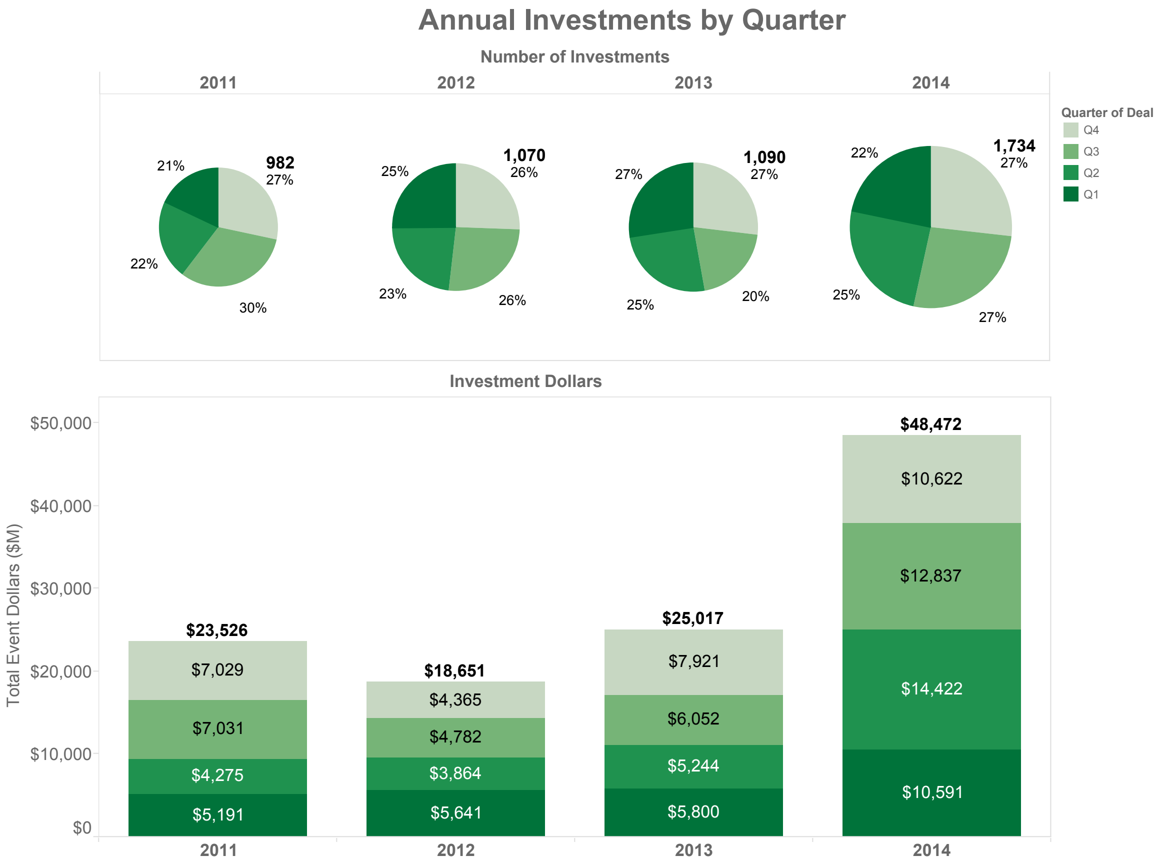
The graphs on the following pages give a detailed breakdown of activity across the globe. These are some of the highlights.

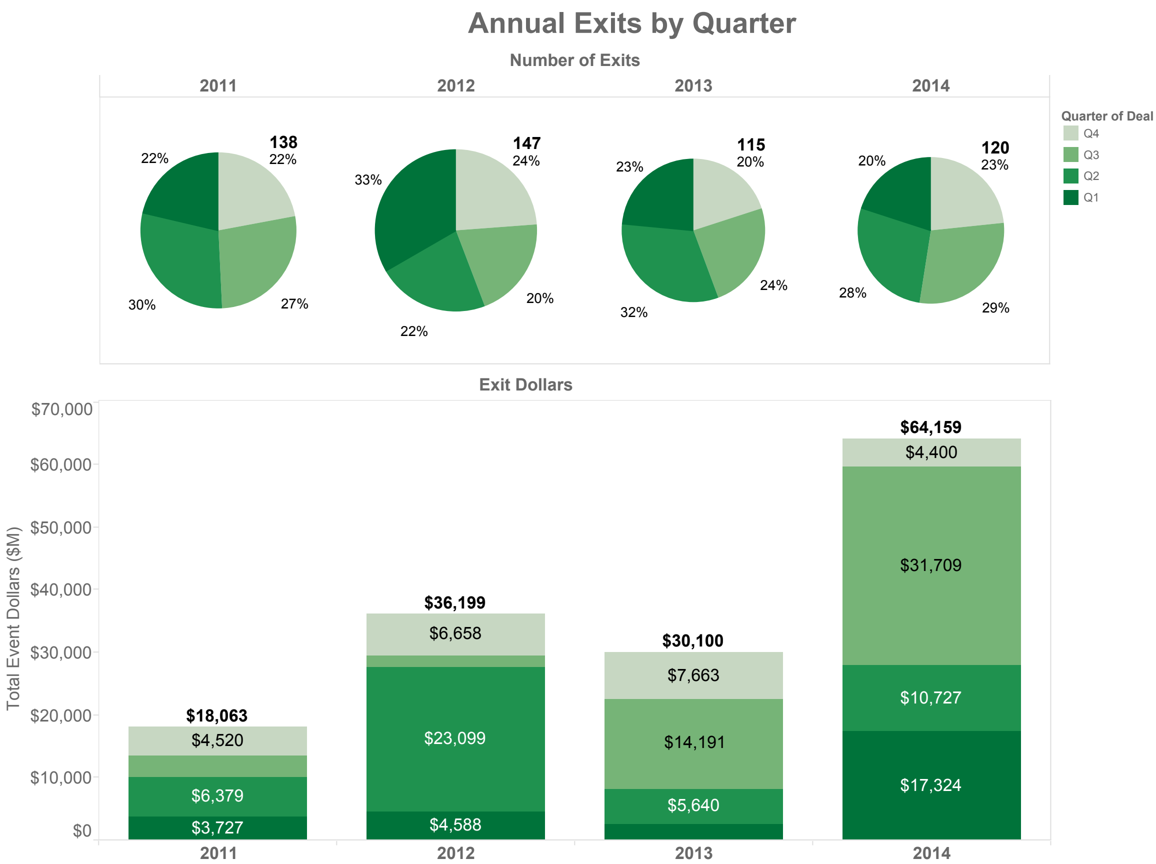
Investments were up 86.5% by value to $48.5bn and 59% by number to 1,734 against 2013.

Exits were up 280% by value to $84.2bn and 3.4% by number to 120. The sharp difference between value and number of deals was due in part to the $25bn initial public offering (IPO) of China-based e-commerce company Alibaba – the largest flotation in history – as well as other sizeable exits and IPOs being secured by corporate venturing-backed companies.

The greatest share of activity was in the US, with $26.3bn invested. The next most active country was China, with $10bn invested, driven by large investments from China-based internet companies Alibaba, Tencent and Baidu especially, which were active both in their home country and in the US. By value, India was also ahead of all European countries, with $3bn invested – big bets on the country's e-commerce sector accounted for roughly 75% of this figure.

In Europe, Germany was the most active region, with $2.3bn invested, a value swelled particularly by corporate investors making large investments in startup holding company Rocket Internet ahead of its IPO. There was


Annual Investments by Quarter
Number of Investments
2011
2012
2013
2014
Quarter of Deal
Q4
Q3
Q2
Q1
982
27%
30%
22%
21%
1,070
26%
26%
23%
25%
1,090
27%
20%
25%
27%
1,734
27%
27%
25%
22%
Investment Dollars
Total Event Dollars ($M)
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$23,526
$7,029
$7,031
$4,275
$5,191
$18,651
$4,365
$4,782
$3,864
$5,641
$25,017
$7,921
$6,052
$5,244
$5,800
$48,472
$10,622
$12,837
$14,422
$10,591


Annual Exits by Quarter
Number of Exits
2011
2012
2013
2014
Quarter of Deal
Q4
Q3
Q2
Q1
138
22%
27%
30%
22%
147
24%
20%
22%
33%
115
20%
24%
32%
23%
120
23%
29%
28%
20%
Exit Dollars
Total Event Dollars ($M)
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$18,063
$4,520
$6,379
$3,727
$36,199
$6,658
$23,099
$4,588
$30,100
$7,663
$14,191
$5,640
$64,159
$4,400
$31,709
$10,727
$17,324

also notable corporate venturing activity in the UK, with corporates taking part in deals worth $951m.

The most active sector was IT, representing 36% of investments by number, with $13.5bn invested. There was significant activity in consumer deals, with $10bn invested, representing 11% by number. Healthcare, with 16% of activity, involved $5.7bn of investment, while media, with 11% of activity, reached $6bn of investment.

Reflecting the dramatic rise of the car-sharing market in the past year, the sector with the strongest growth in investing was transport, where activity rose 361.6% by value. The services and consumer sectors also recorded strong growth in a year where all sectors showed considerable increases in activity.

There was a marked increase in the median size of rounds raised at all levels – data likely to add to mounting fears that valuations for venture-backed companies are rising unsustainably. D rounds, up 62.4%, B rounds, up 50%, and E rounds, up 37.6%, were particularly higher. C rounds, with the smallest increase, still rose 17.5% in value. It should also be noted that the median size of E rounds rose most dramatically in 2013. The rounds with the biggest increase in terms of the dollars invested were E rounds, rising by 313, and D rounds, up 313%. Global Corporate Venturing has yet to track valuations themselves, but will be looking to add this functionality this year.

Uber was both the largest D round and E round investment, with two $1.2bn rounds. Google Ventures, a corporate venturing unit of the search engine company, had previously backed the company in a $258m C round at a $3.5bn valuation. Uber's E round in December raised money at a $40bn valuation. It followed this round with a $600m round raised from China-based search engine Baidu.

The largest B round was that of cinematic reality company Magic Leap, with Google leading the deal reportedly with $500m. The largest A round was US-based semiconductor technology developer Soft Machines, which raised more than $125m from investors including Samsung Venture Capital, electronics manufacturer Samsung and semiconductor maker AMD.

The largest seed round was secured by Tamr, a US-based startup that combines machine learning and expert input to automate data curation, which came out of stealth mode and gained $16m in funding from investors including Google Ventures.

Given its activity in many of the largest rounds, it is perhaps little surprise to see Google topping our analysis of the top 50 corporate venturing participants, both by number and value of deals, with 121 investments worth $5bn.

Emerging market groups Tencent, Alibaba and South Africa-based media company Naspers are putting much of their large-ticket investments into consumer internet deals, in marked contrast with the IT-heavy strategies of Google and Intel, whose corporate venturing unit is Intel Capital. Also, investment bank Morgan Stanley and Singapore sovereign wealth fund GIC appear to be taking similar approaches – we include both strategic sets of investors in our numbers, due to their similarities to corporate venturing.

Google has been investing in far more seed-stage deals than its corporate peers, although this difference is likely to be accentuated in part due to us not yet tracking corporate-backed accelerator cohorts systematically. As can be seen, a majority of the most active corporates are also involved in significant numbers of A round deals, in contrast with the historical perception that corporates often become involved at a later stage.

Asia is taking increasingly significant sums from the big players, with Tencent, Alibaba and Naspers joined by China-based mobile phone startup Xiaomi. Intel, Germany-based media company Bertelsmann and Finland-based mobile company Nokia have all deployed large sums in the region.

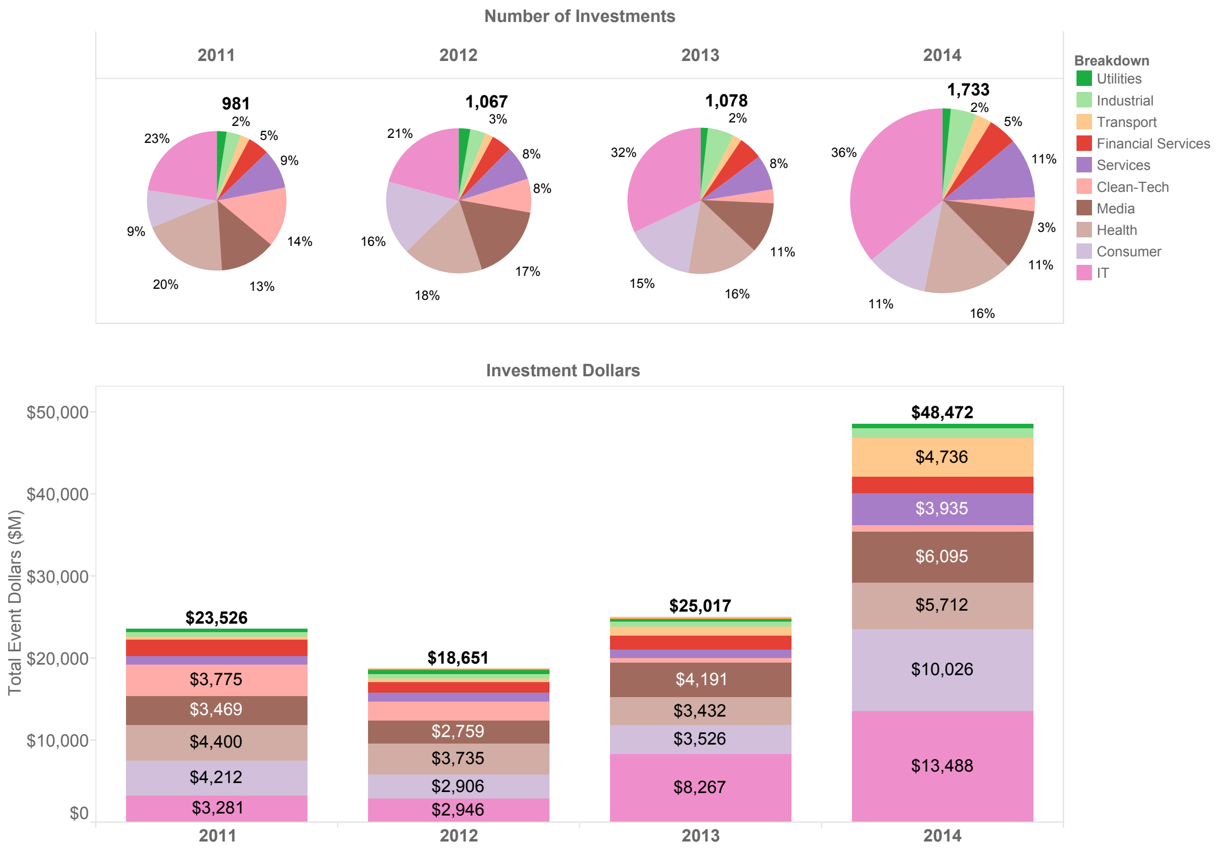
We have also taken the opportunity to demonstrate the portfolios of select groups, with the activities of Intel – largely Intel Capital – and Qualcomm Ventures, displayed alongside those of Bertelsmann's multiple corporate venturing units.

Methodological note

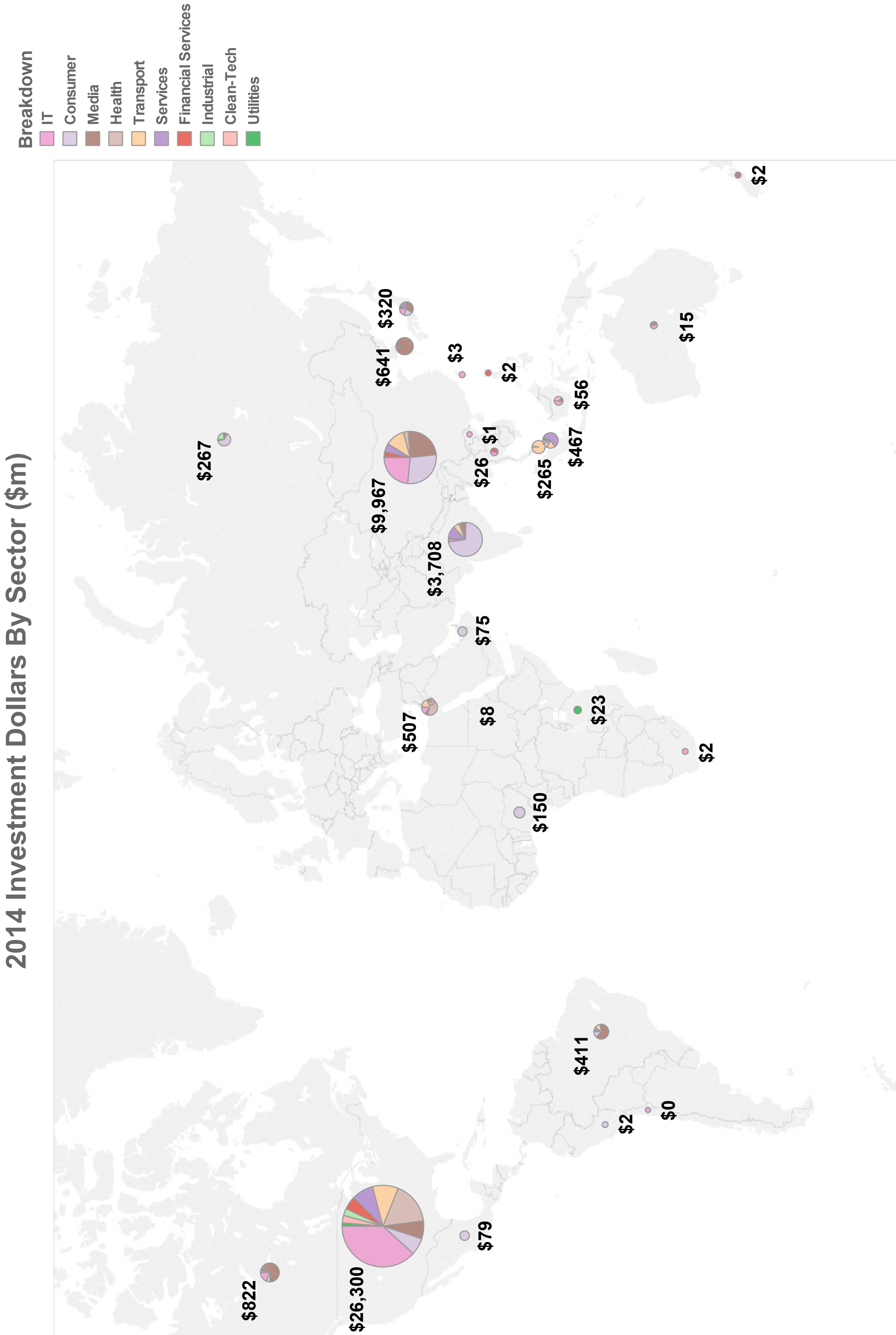
All dollar round figures in this supplement are for total size of rounds including all syndicate members. In partnership with Relevant and Qbix, we are looking at alternative ways to track corporate venturing deal size.

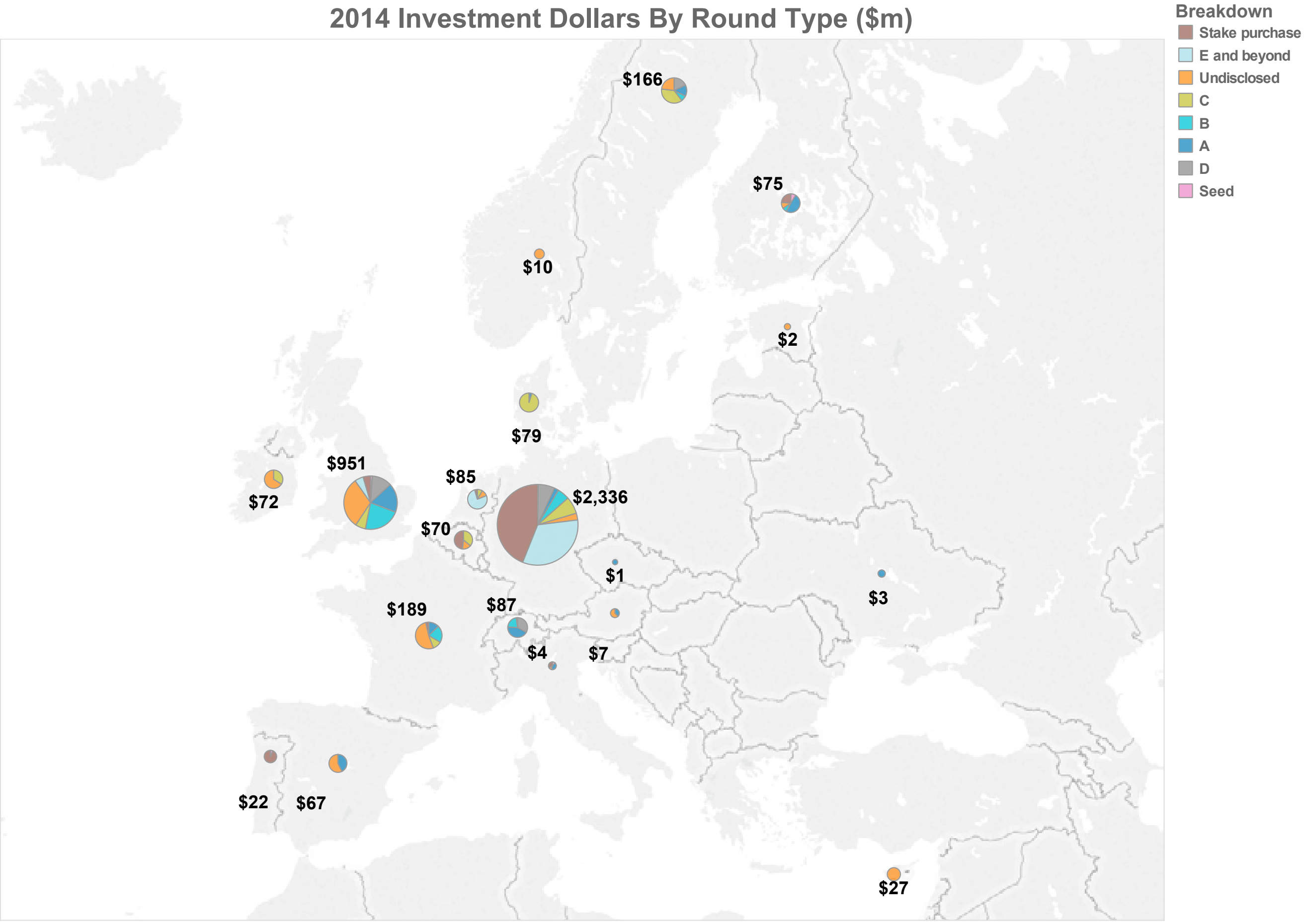
Also, notable growth capital deals are counted for corporations, which are often not classed as venture investments by other data providers.

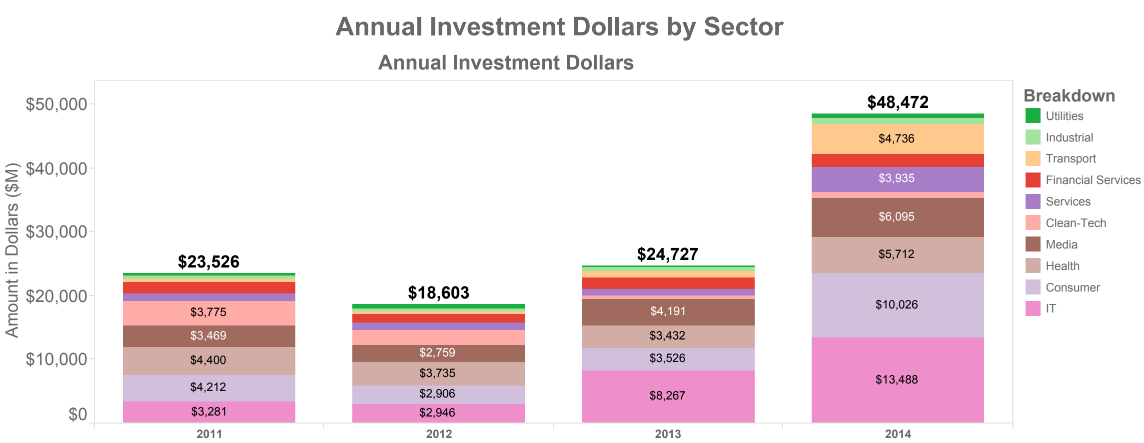
Annual Investments by Sector

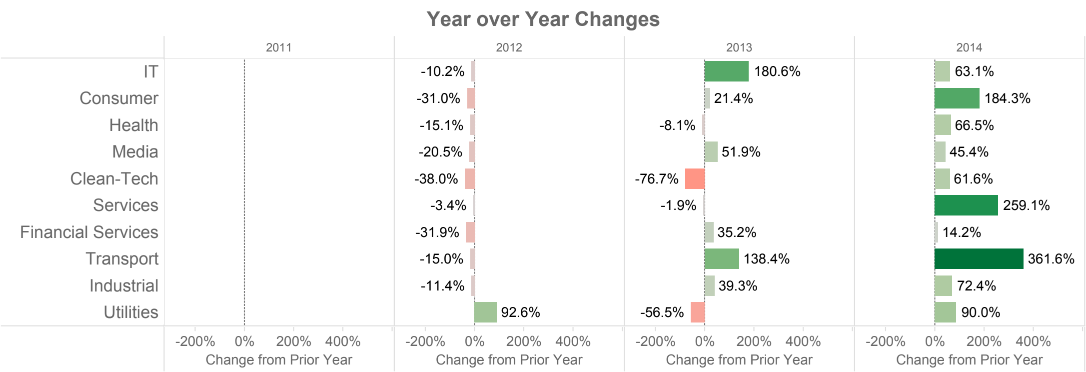


Annual Investments by Round Type


2014 Investment Dollars By Sector ($m)
Breakdown
IT
Consumer
Media
Health
Transport
Services
Financial Services
Industrial
Clean-Tech
Utilities
$822
$26,300
$79
$2
$0
$411
$150
$2
$23
$8
$507
$75
$3,708
$9,967
$267
$641
$320
$3
$2
$26
$1
$265
$467
$56
$15
$2

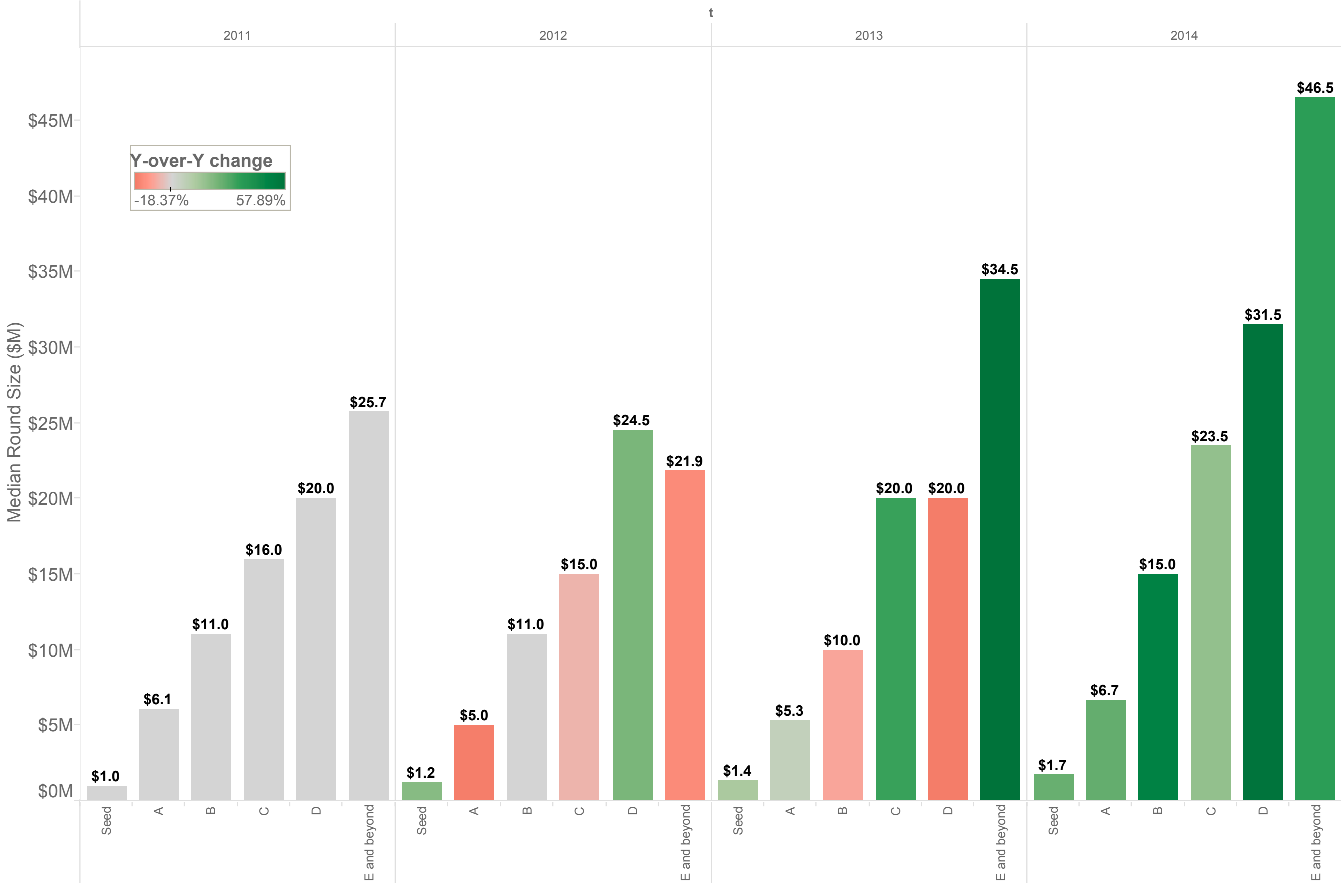


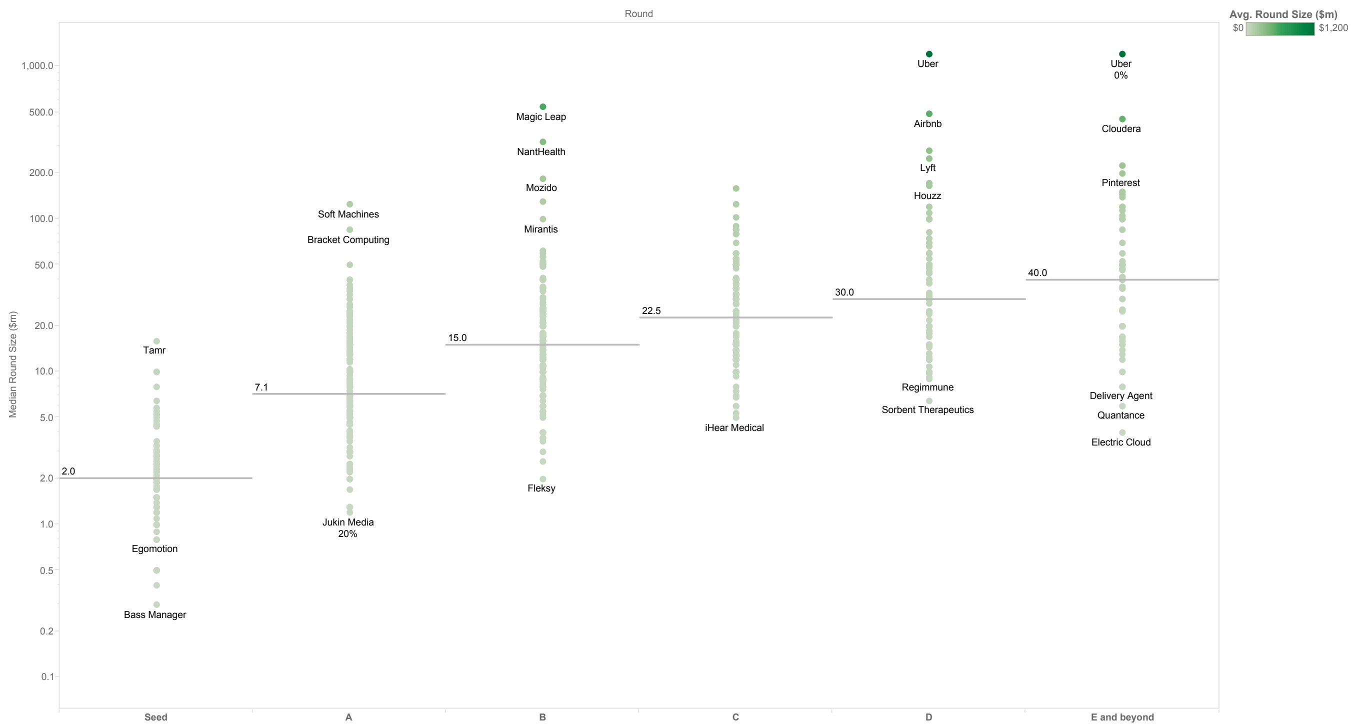




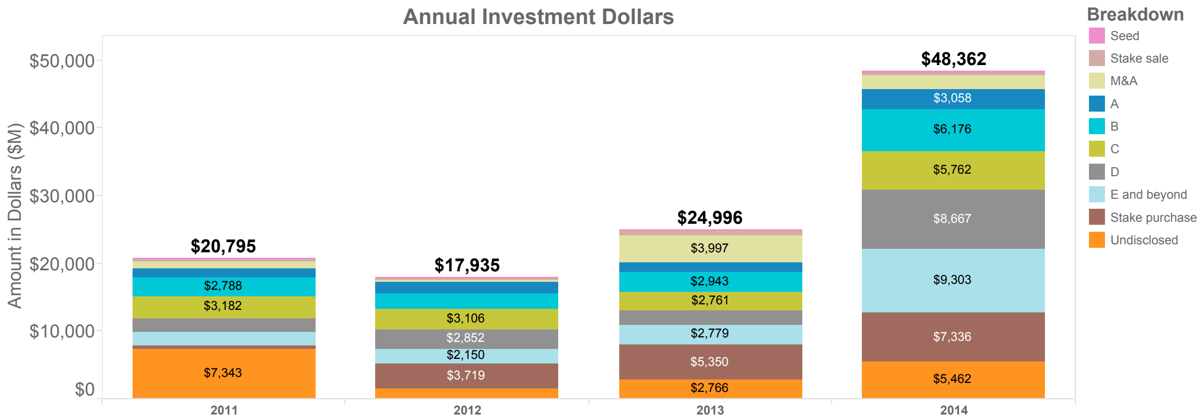
Our full-year data begins in 2011, so no comparison year.

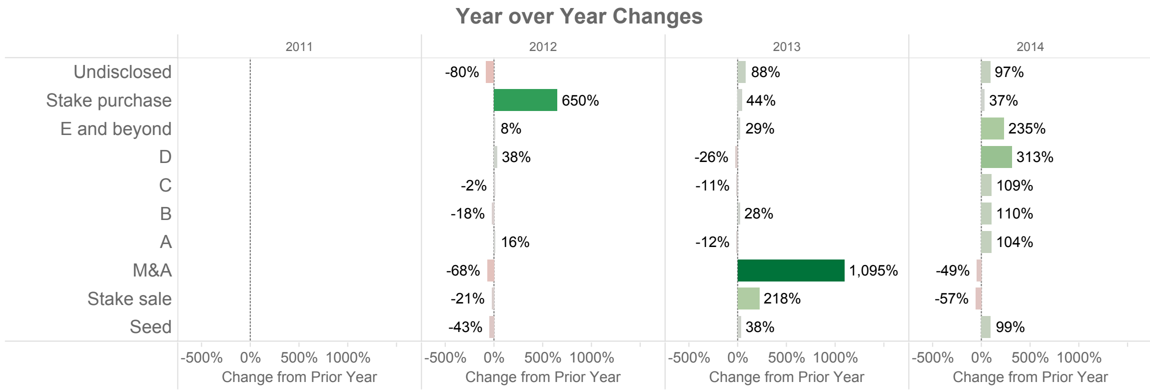
Median Investment Round Sizes by All Sector(s) and All Region(s)





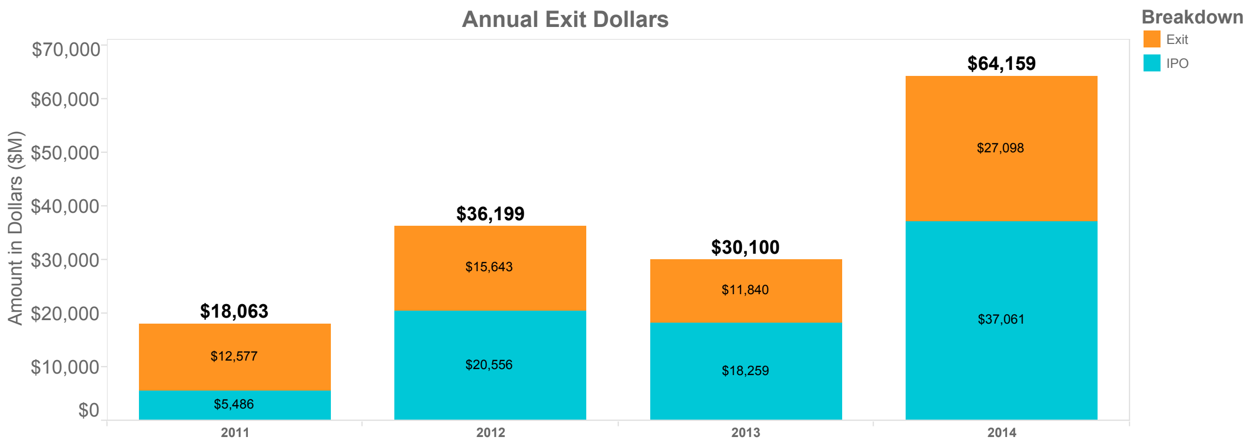
Annual Investment Dollars by Round Type

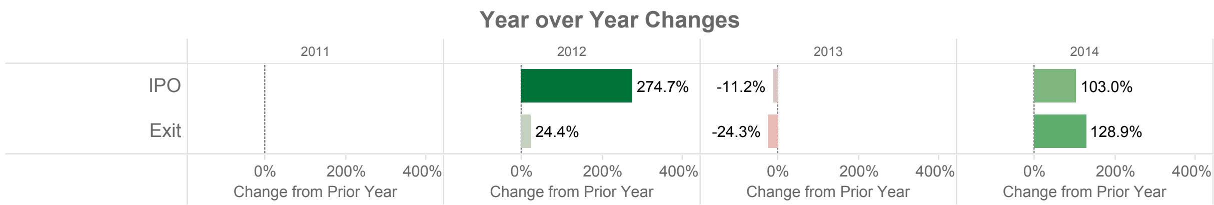




Our full-year data begins in 2011, so no comparison year.

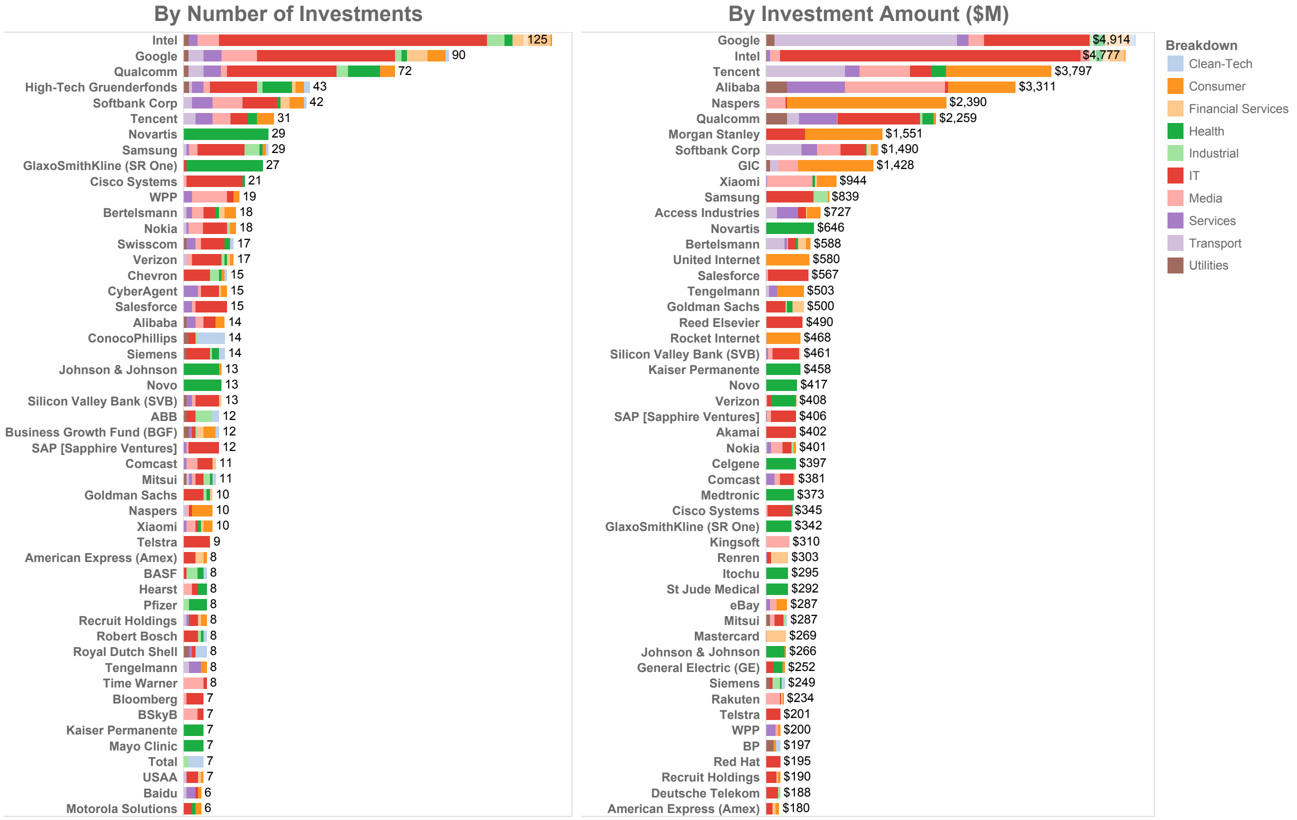
Annual Exit Dollars by Round Type



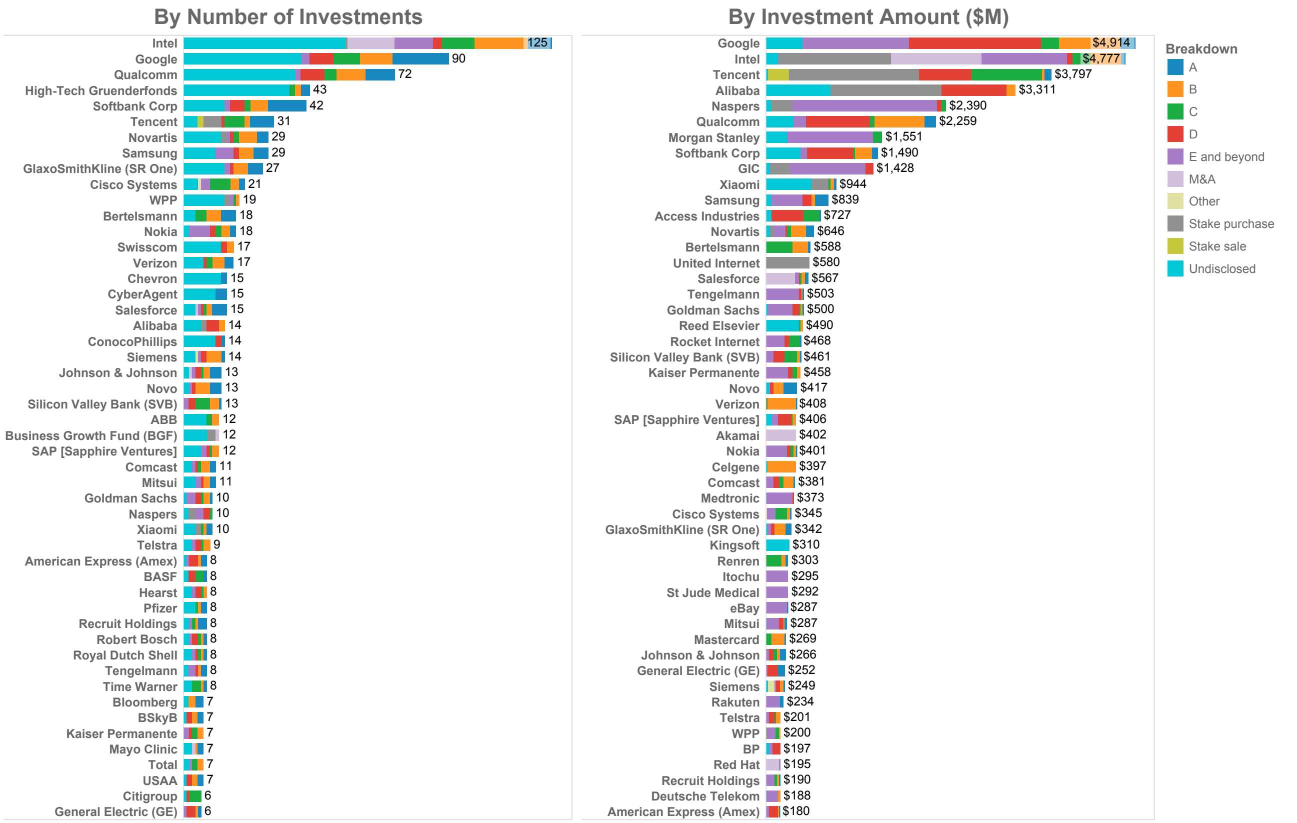


Our full-year data begins in 2011, so no comparison year.

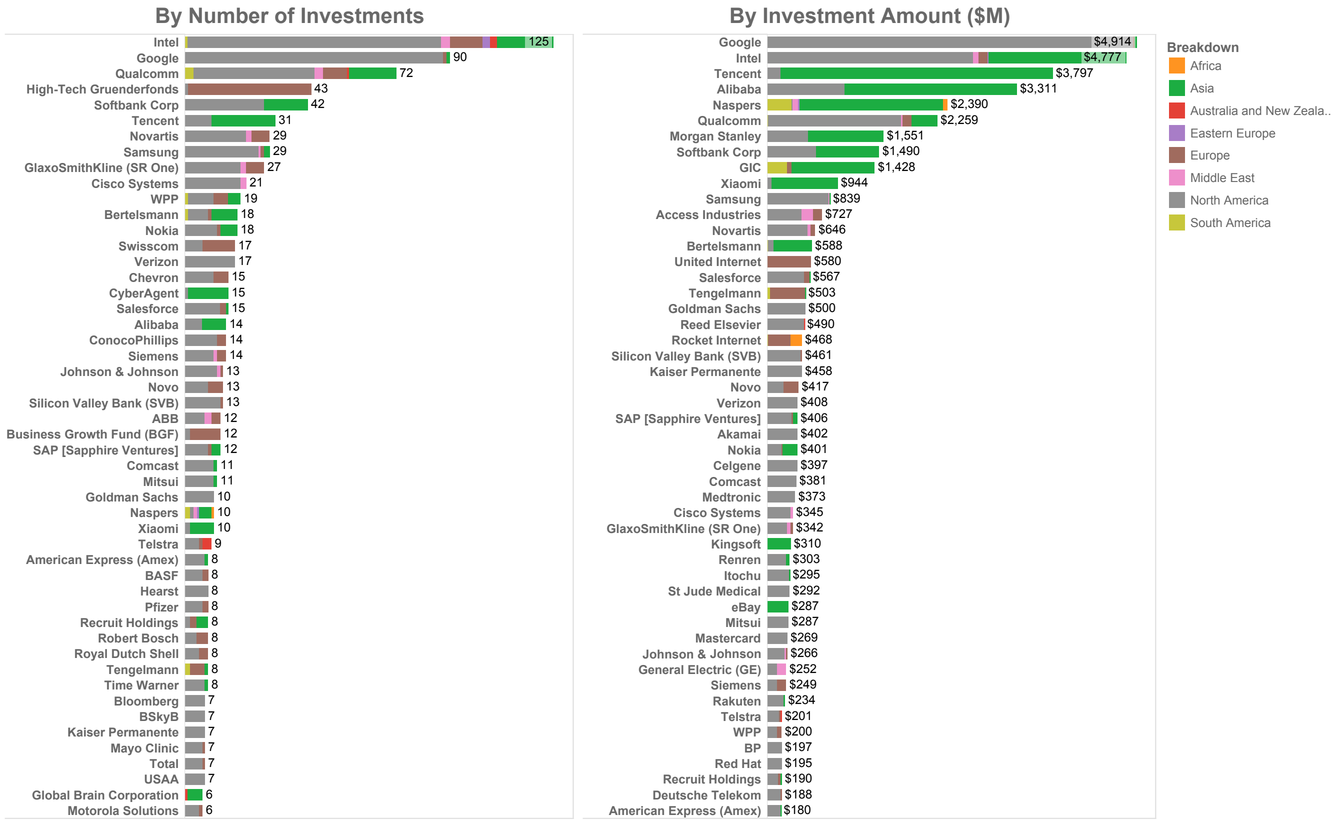
2014 Top 50 Corporate Venture Participants - Investments by Sector



2014 Top 50 Corporate Venture Participants - Investments by Round

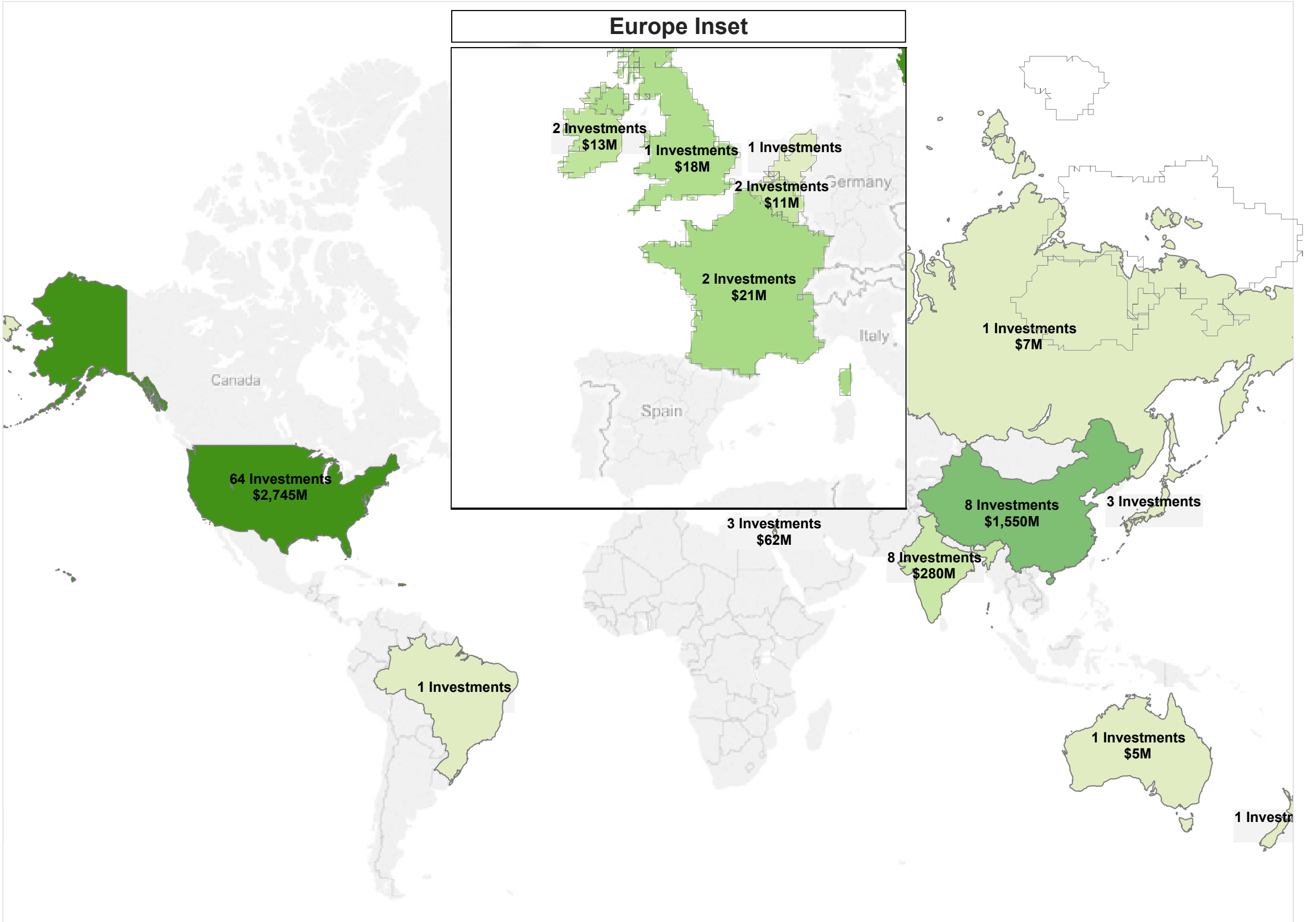


2014 Top 50 Corporate Venture Participants - Investments by Region

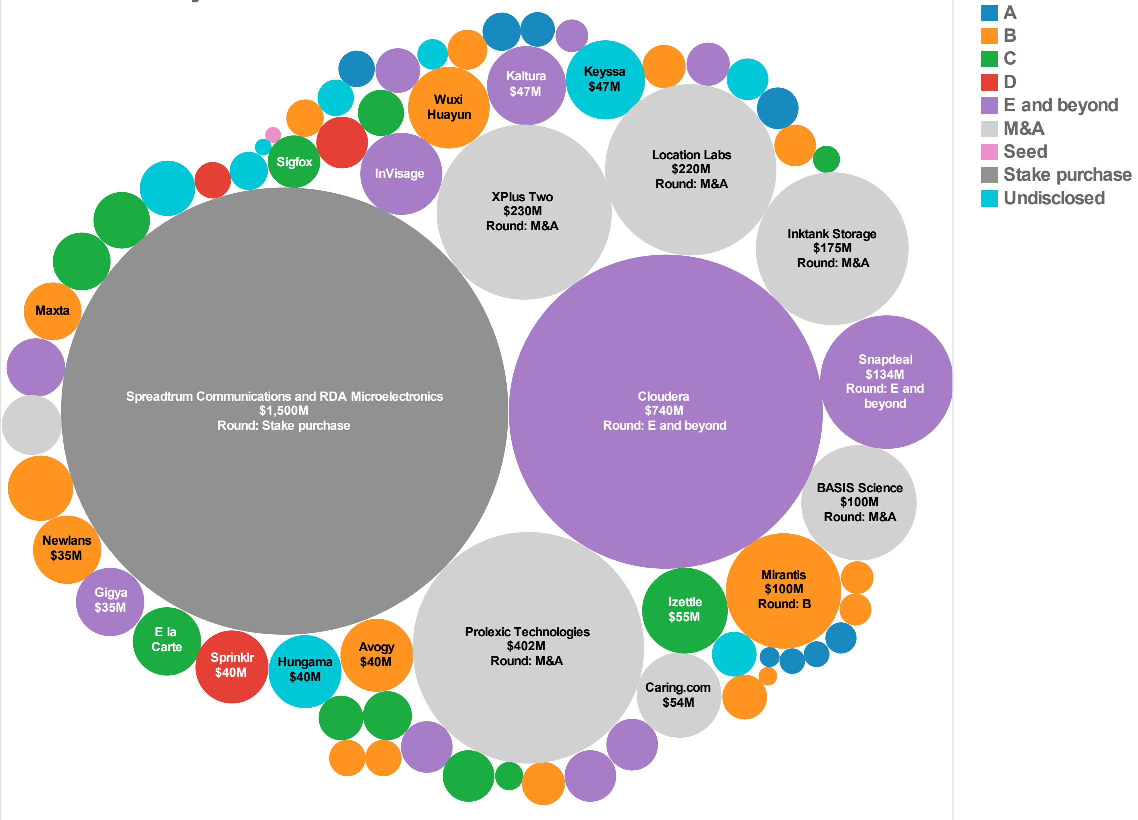


As an experiment, on the followung pages we have mapped some corporate venturing portfolios. We picked Intel and Qualcomm as two of the most active corporate venturing operations, and a corporation with a medium-sized level of venture activity, Bertelsmann. Global Corporate Venturing will be pursuing similar analysis regularly throughout the year.

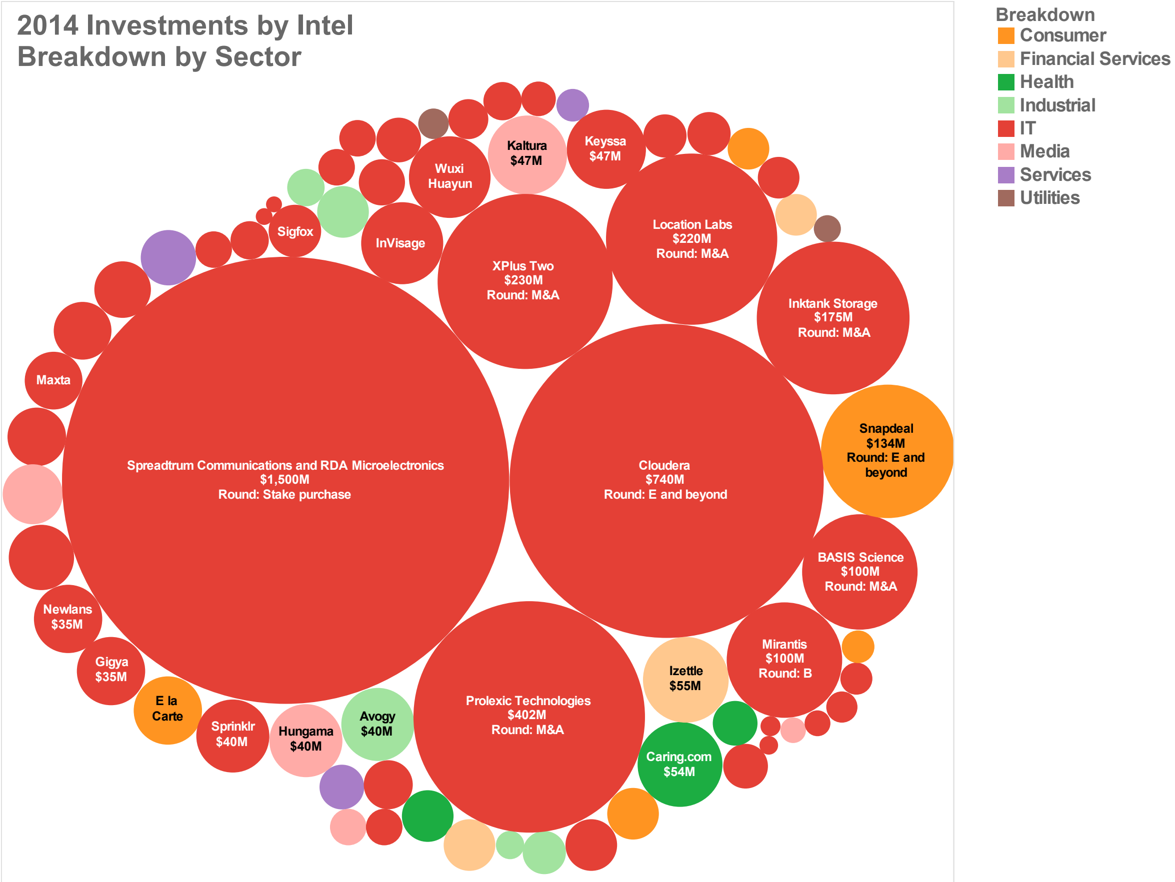
2014 Intel Investments



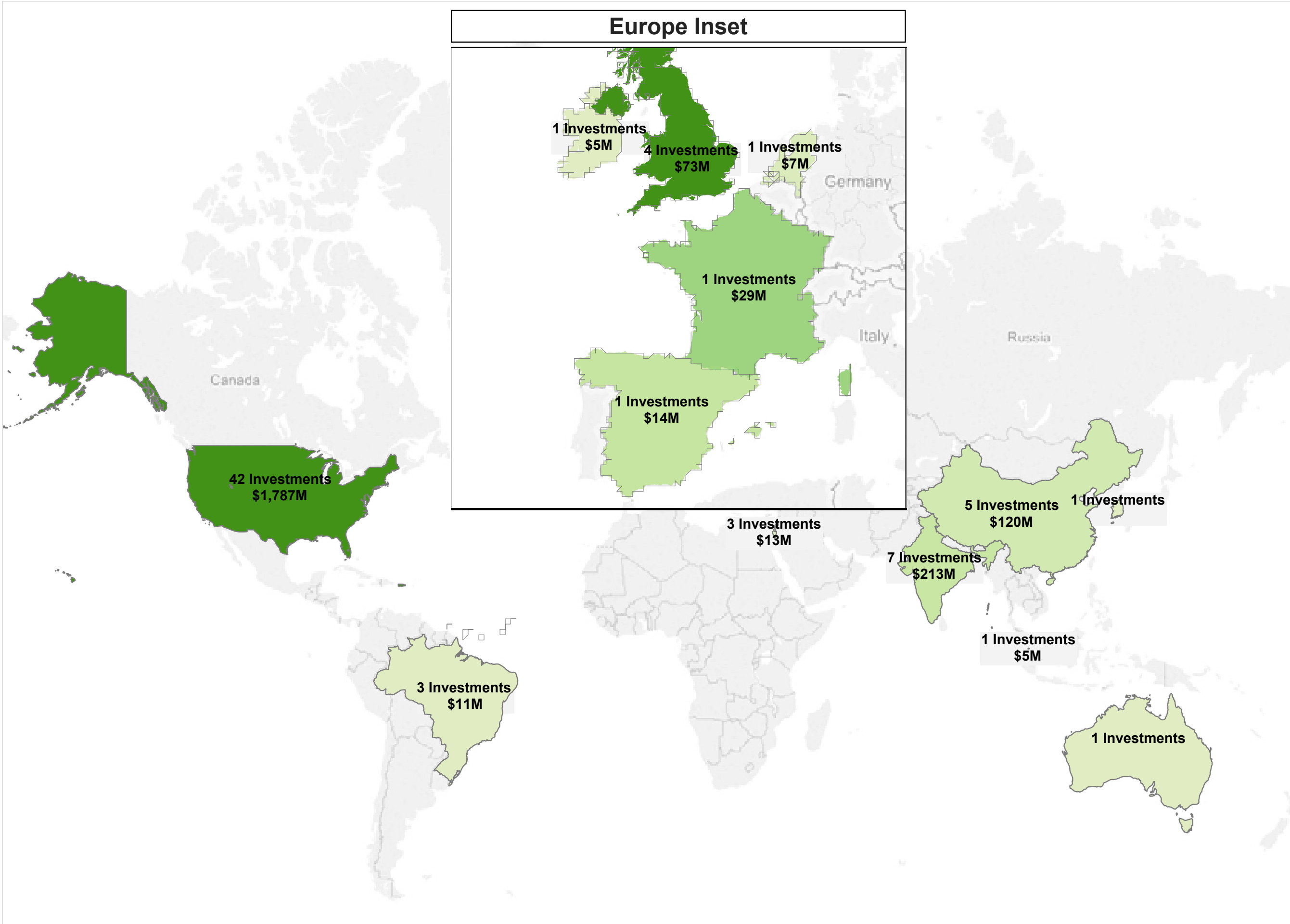
2014 Investments by Intel Breakdown by Round

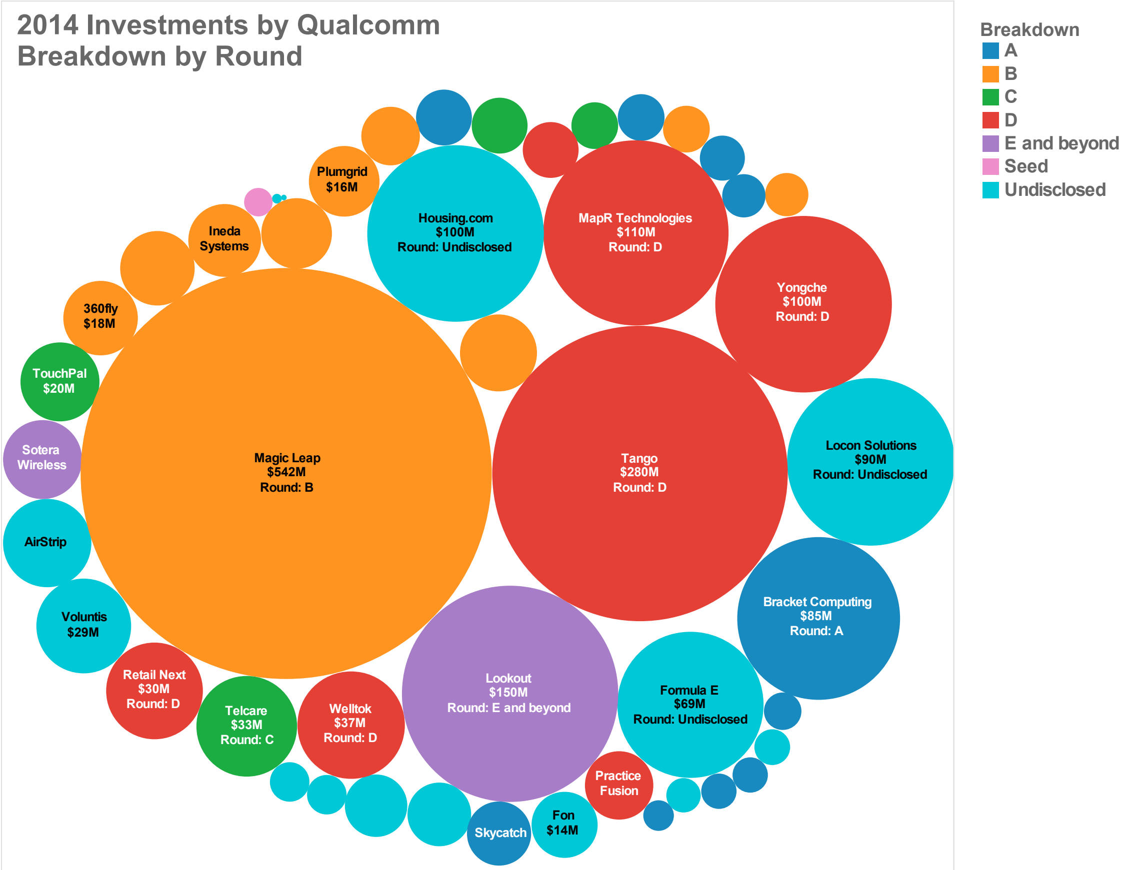


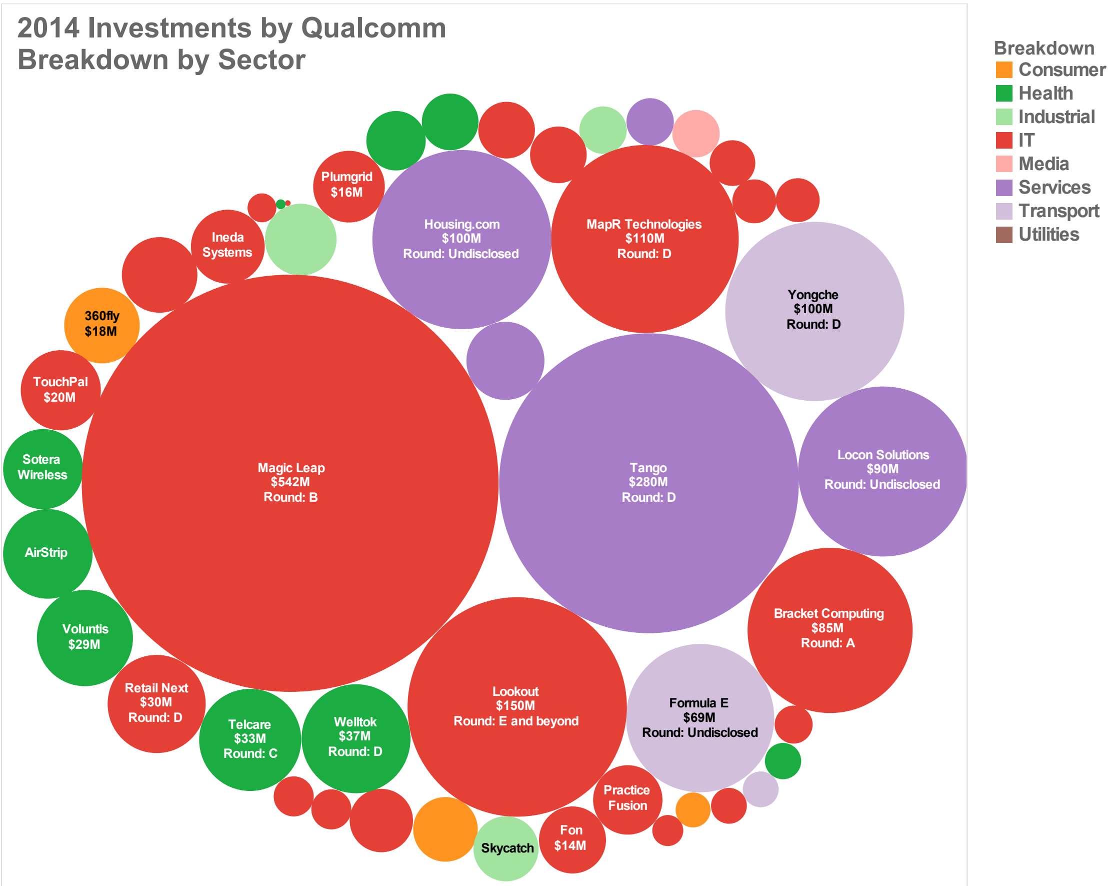
2014 Investments by Intel Breakdown by Sector



2014 Qualcomm Investments




2014 Investments by Qualcomm
Breakdown by Round
Magic Leap
$542M
Round: B
Tango
$280M
Round: D
Lookout
$150M
Round: E and beyond
MapR Technologies
$110M
Round: D
Housing.com
$100M
Round: Undisclosed
Yongche
$100M
Round: D
Locon Solutions
$90M
Round: Undisclosed
Bracket Computing
$85M
Round: A
Formula E
$69M
Round: Undisclosed
Welltok
$37M
Round: D
Telcare
$33M
Round: C
Retail Next
$30M
Round: D
Voluntis
$29M
AirStrip
Sotera
Wireless
TouchPal
$20M
360fly
$18M
Ineda
Systems
Plumgrid
$16M
Practice
Fusion
Fon
$14M
Skycatch
Breakdown
A
B
C
D
E and beyond
Seed
Undisclosed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Systems
Plumgrid
$16M
Practice
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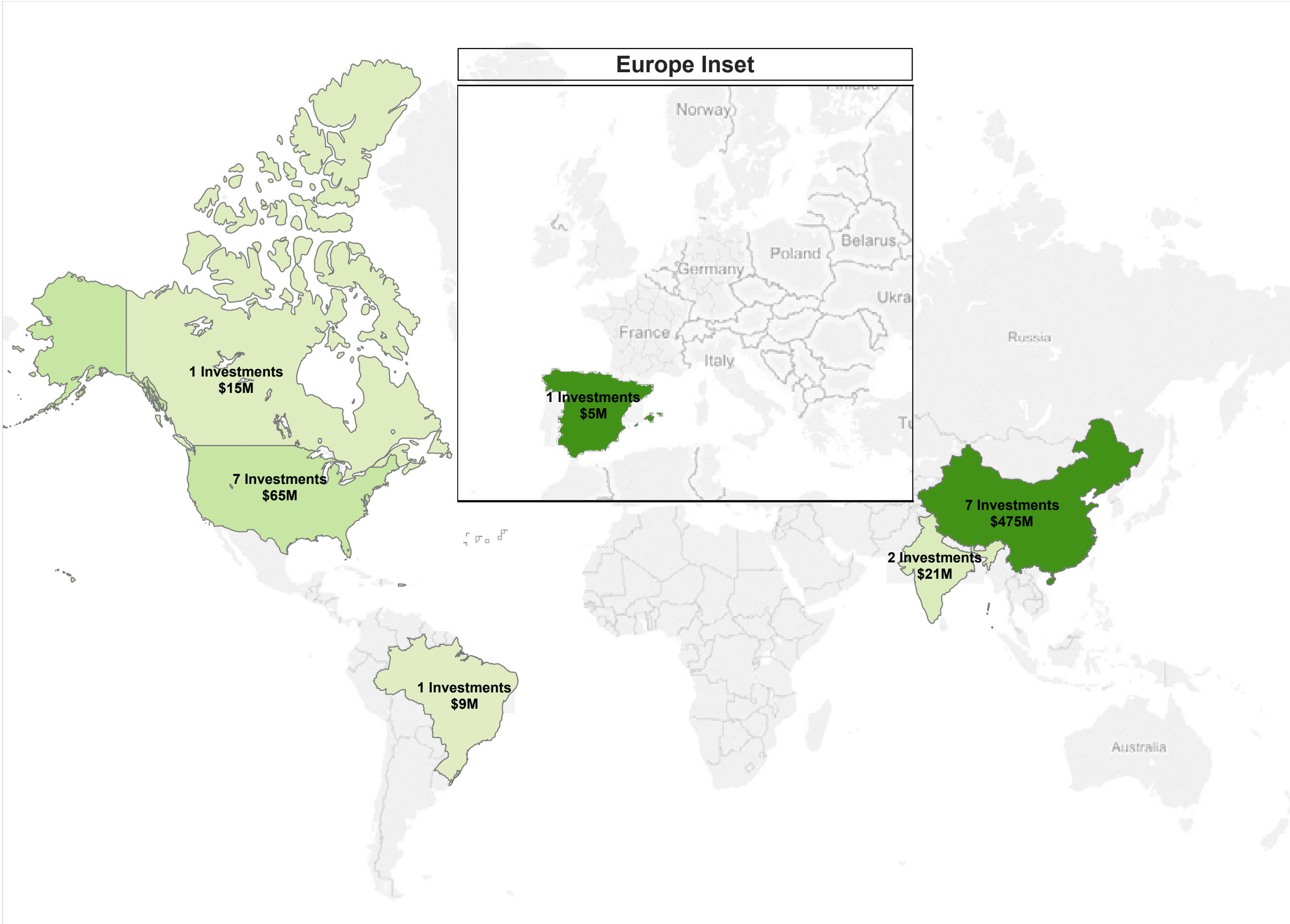
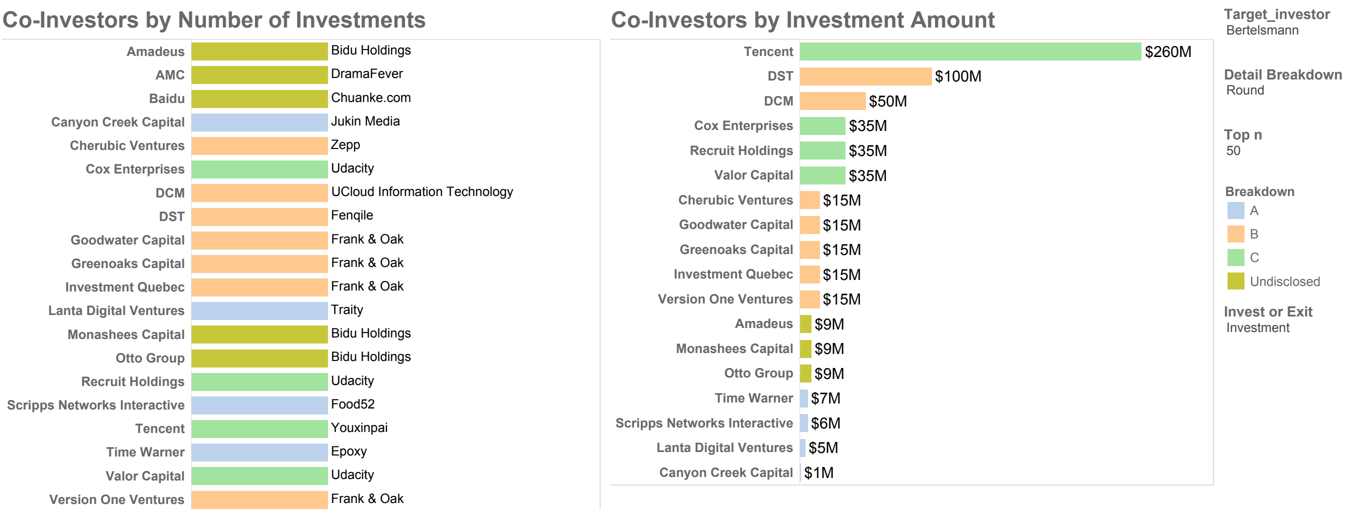
IT
Media
Services
Transport
Utilities

2014 Bertelsmann Investments by Region



Top 2014 Investment Co-Investors with Bertelsmann
Breakdown by Round



BERTELSMANN

PART 3

SNAPSHOT OF THE INDUSTRY AT THE START OF 2015

Toby Lewis, editor, Global Corporate Venturing

Nearly half, 47, of the 100 biggest US companies are involved in venturing, according to research by Global Corporate Venturing for the World of Corporate Venturing.

This was revealed by detailed analysis of the Fortune 500 in combination with Global Corporate Venturing's database.

However, while nearly half the top 100 are actively pursuing corporate venturing, the picture is more mixed for the other 400.

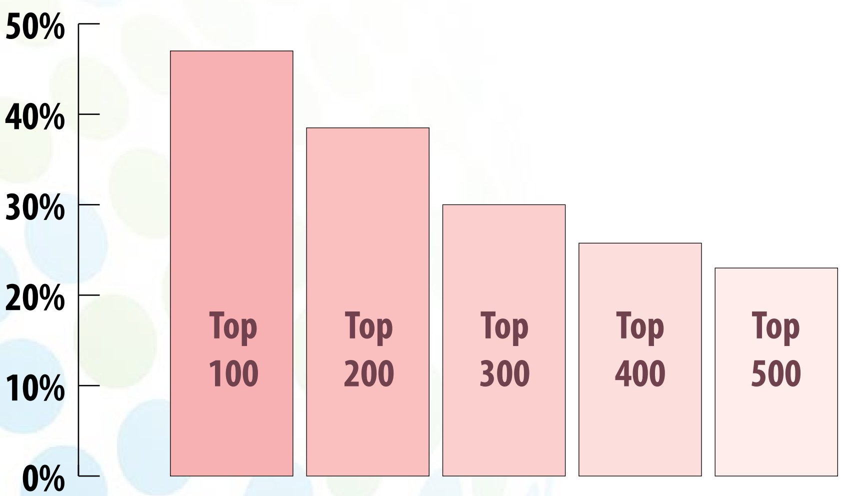
GCV found 115 companies of the Fortune 500 are corporate venturers – just 23.2% of the list. Excluding the top 100, that amounts to only 17% of the remaining 400.

The research is likely to fuel debate about how companies should be approaching corporate venturing. The top 100 of the Fortune 500 all have revenues greater than $31bn.

The graph below shows that many groups in the second 100 – 30% – are vigorously pursuing corporate venturing. Groups in the top 200 of the list have revenues of over $14.5bn.

Excluding the top 200, only 12.7% of the remaining 300 are involved in corporate venturing..

Corporate venturing companies in the Fortune 500



HOW CORPORATE VENTURING CAN FAST-TRACK INNOVATION


Peter Bryant and Scott Bowman, partners, Clareo

Case study: Castrol InnoVentures

What would Castrol, the leading provider of industrial and automotive lubricants, do in a world that does not need lubricants? Although it may be difficult to imagine a world in which the combustion engine takes a back seat to electric vehicles, that scenario may be closer than we think. Peter Bryant sat down with Mike Johnson, former CEO of Castrol, to discuss the process involved in pushing the Castrol organisation to think beyond this world and into the next, ensuring Castrol stays ahead of the pack.

Castrol's bold move to new areas of innovation began at a meeting on February 2010 in Oslo. BMW's global strategy director presented BMW's latest concept car. That presentation represented a turning point in the company's thinking. "We realised that, if electric cars were going to make a significant impact in the market, there would be much less need for lubricants," says Mike Johnson, former Castrol CEO. "So we had to ask ourselves: Where do we go from here? What is our concept car? "

From that day, Johnson engaged Castrol's executive team to plot a path for the future of the company. "We have got this massive brand, a fantastic presence, and good relationships with global OEMs [original equipment manufacturers]," Johnson continues. "How do we take Castrol today, which is about performance in lubrication and evolve into performance in mobility?"

Reimagining from the outside in

The Castrol team began by taking a long look at game-changing trends in IT, communications, biotechnology, personal mobility, manufacturing, shipping and nanotechnology that could potentially disrupt the transportation and industrial spaces.

Moving so far outside the bounds of the core business meant the team would

> The people we met in Silicon Valley helped us realise that the future is already here. We saw technologies in development that we had no idea even existed ”

Mike Johnson

need to challenge the company's conventional wisdom and deepen market understanding. And that meant reaching out to thought-leaders in a wide range of disciplines.

Reach out they did – at multi-day insight workshops in Silicon Valley, China, UK and India. In addition to sharing insights with representatives from academia, economics, business, industry and technology, Castrol executives met representatives from startup operations and venture capitalists who were working on a wide range of breakthrough technologies.

It was an eye-opening experience. "The people we met in Silicon Valley helped us realise that the future is already here," says Johnson. "We saw technologies in development that we had no idea even existed."

Following the workshops, the company engaged in an internal ideation effort to define and articulate four future territories for the business:

- Intelligent operations – supporting customers in facilitating and improving the production and logistics process.
- Next-generation engineering – exploiting and investing in Castrol's technology leadership in liquids and materials in order to transform the capabilities of engines and machines.
- Smart mobility – providing a better mobility experience in the vehicle, around the vehicle, and independent of the vehicle.
- Responsible Castrol – providing sustainable solutions for consumers and industry in the context of accelerated demand and a low-carbon world.

Castrol formed their innovation and corporate venturing unit, InnoVentures, with a very clear mandate – to build, invest, partner and acquire businesses for Castrol beyond lubricants and align with the four future territories. Today, Castrol sees InnoVentures as a platform for open innovation with the dual mandate of creating the foundation for emerging business opportunities and broadening its capabilities and understanding in emerging markets.

"We went into corporate venturing for many reasons," says Johnson. "For one thing, it enables Castrol to participate in a low-cost manner in emerging sectors. It serves as a cost-effective entry ticket to innovative technology."

Corporate venturing also supports the company's "build, partner, buy" approach. It enables the company to build organic offers internally, serving as an extension of research and development. It also offers a window to new markets and enables the company to extend existing businesses, while buying access to markets and technology and partnering young companies that are leading the way in developing disruptive technologies to learn and test approaches.

Getting in the game

Corporate venturing is a powerful tool for accelerating growth, generating new innovation and strengthening resilience. Johnson offers a few more insights to keep in mind as you move forward:

Make sure you have a dedicated team. "When we launched InnoVentures, we created a separate business within our business, gave it a separate budget and staffed it with one or two of our internal brand people as well as a group of people from private equity and other industries," says Johnson. "It was one of the best decisions we made."

Insulate, don't isolate. Your corporate venturing initiative should be protected from internal and external efforts to undermine it, while leveraging the capabilities of your organisation. "You need the sponsorship of the CEO and senior leadership. In our case, the InnoVentures team reports to the global marketing director who is tuned in to new opportunities. The team meets with all the major Castrol brands every eight weeks."

Be patient on the return horizon. "At Castrol, it all came back to the corporate culture. We never looked to the short term. I was determined that we would leave not just a business in good shape, but a business with a legacy. The aim is not necessarily to deliver profit in two to three years, but a business with a future. All businesses need to build some longer-term leeway into their profit and loss figures, or they will never do any serious innovation."

Show progress along the way. You may not have to deliver profit right away, but you do need to choose one or two ideas to present to the company as potential game-changers. Take some of your best concepts to the highest levels at your company. This strategy has allowed InnoVentures to survive through multiple senior-level transitions.

Look from the outside in. "The personal interaction we experienced at our global insight workshops was key. We could never have gotten to this point with just an intellectual exercise. You have to get out and talk to the people who are actually living this.

"This story could not have been told without the help of Clareo," says Johnson. "Working with the Castrol executive team, Clareo helped the Castrol team reach further than it could on its own, by bringing in a broad range of perspectives and taking Castrol on an immersive, transformative journey designed to help it achieve a profound level of business insight and clarity."

Conclusion

Most companies are not scratching the surface of current innovation. "The future is already here, it just is not evenly distributed. There are many disruptive technologies already out there and we had no idea," explained Johnson. "Corporate venturing allows us to jump-start innovation and reinvent Castrol to succeed in this new reality."

Today it is not the big eating the small, it is the fast eating the slow. InnoVentures allows Castrol to move swiftly and stay relevant.

Peter Bryant and Scott Bowman are partners at Clareo, a growth strategy firm.

VIEW FROM THE TOP

Senior corporate venturing executives, advisers and members of the venture world look back on 2014 and predict what will be the big trends in 2015

A year in review: 2014

Dominique Mégret, head of **Swisscom Ventures**, the corporate venturing unit of the telecoms company:

> SMS and voice are now old-fashioned and are being increasingly replaced by social network-based messaging platforms – WhatsApp and FB. Mobile advertising and cloud were also important.

Geert van de Wouw, head of **Shell Technology Ventures**, the corporate venturing unit of the anglo-dutch oil and gas company:

> The return of corporate venturing in clean energy and clean-tech.

Geert van de Wouw

Eileen Tanghal, head of **Applied Ventures**, the corporate venturing unit of semiconductor company Applied Materials:

> Gene synthesis and gene sequencing.

Darren Young, an investment professional at **Micron Ventures**, the corporate venturing unit of semiconductor company Micron Technology:

> Health and fitness devices becoming more pervasive, for example Fitbit.

Bo Ilsoe, managing partner at **Nokia Growth Partners**, the corporate venturing unit of the Finland-based technology company:

> The rise of the connected car.

Roger Lacey, chief executive of Nasdaq-listed broadband company **CSI**:

> Increasing speed in innovation.

Keith Muhart, director of marketing at **Qualcomm Ventures**, the corporate venturing unit of the US-based technology company:

> Wearables and internet of things.

Paul Jacquin, managing partner at **Randstad Innovation Fund**, the corporate venturing unit of the Netherlands-based human resources company:

//Workforce engagement.

George Coyle, head of **ConocoPhillips Technology Ventures**, the corporate venturing unit of the US-based oil and gas company:

//The focus on alignment with core business technology gaps and priorities.

George Coyle

Georg Schwegler, head of **Transamerica Ventures**, the corporate venturing unit of Netherlands-based financial services company Aegon:

//Digital currency is getting more mature in its ability to meet regulatory requirements.

Thierry Piret, head of **Solvay Ventures**, the corporate venturing unit of the chemicals company:

//Corporates playing a growing role.

Diego Díaz Pilas, head of new ventures at **Iberdrola**, a Spain-based energy utility:

//In energy, distributed energy resources (DERs).

Minette Navarrete president of **Kickstart Ventures**, a subsidiary of telecoms company Globe Telecom:

//Innovation and investments are shifting from high-growth direct-to-consumer businesses to underlying platforms, which could be B2B or consumer marketplaces.

Ignaas Caryn, head of corporate venturing at Netherlands-based airline **KLM** and an executive at its related venture firm Mainport Innovation Fund:

//Increasing venture capital and corporate venturing collaboration.

Kai Engelhardt, head of **Mahle Corporate Venture Capital**, the corporate venturing unit of the Germany-based automotive parts company:

//The trend towards digital topics, combined with hardware, for example Industry 4.0.

Anna Westerberg, head of **Volvo Group Venture Capital**, the corporate venturing unit of the vehicle group:

//Internet of things, software-as-a-service, big data and analytics, e-commerce.

Detlef Pohl, investment partner at **Siemens Venture Capital**, the corporate venturing unit of the Germany-based industrial conglomerate:

//Increasing demand for security software.

Dion Lisle, vice-president of ventures at **First Data Ventures**, the corporate venturing unit of the US-based transaction processing company:

//Apple Pay's effect on the payment ecosystem.

Ewa Grzechnik, investment manager at **3M New Ventures**, the corporate venturing unit of the conglomerate:

//Digital healhcare, embedded systems. In general, very inflated valuations especially in the Silicon Valley area and the recovering initial public offering market.

Maria Peterson, a corporate venturing and innovation executive at materials innovation company **JSR Micro**:

//3D printing.

Margot Bethell, executive director at New Zealand-based venture firm **BioPacific Partners**:

//Size and scale of corporate venture funds. In our area – life sciences – there seems to be more mergers and restructuring than ever.

Luca Binda, general manager of **IMI Fondi Chiusi**, a venturing unit of Italy-based bank Intesa San Paolo:

//Wearable devices.

Paul Morris, director of corporate venture capital at **UKTI**:

//Continuing growth of corporate venturing as a percentage of total venture investment, most notably in life sciences.

Brad McManus, of **Capbridge Ventures**, a corporate-focused venture firm:

//Good venture exits and returns attracting corporations to venturing – more deals, more capital, more new corporate venturing units – like moths to a bright light.

Brad McManus

Amir Pinchas, principal of **Microsoft Ventures**, the corporate venturing unit of the US-based technology company:

//Cyber and cyber-security have emerged as one of the most important trends, the cyber-attacks on strategic assets of states and public companies are causing a lot of pain in storing and securing data across the organisation.

Rob van Leen, chief innovation officer at Netherlands-based materials company **DSM**:

//The increasing role of corporate venturing versus venture capital.

Peter Cowley, head of **Martlet**, the corporate venturing unit of UK-based industrial company Marshall:

//Negatively, the rise of unsophisticated investors in crowd equity platforms pushing up early-stage valuations. Positively, the economy in many countries.

The big opportunities in 2015

Bo Ilsoe, managing partner of **Nokia Growth Partners**, the corporate venturing unit of the Finland-based technology company:

//Industrial internet of things enabled by mobile connectivity and sensor intelligence.

Darren Young, investment professional at **Micron Ventures**, the corporate venturing unit of semiconductor company Micron Technology:

//Digital and the internet of things for the home, driven by Apple and Google.

Jay Reinemann, head of **BBVA Ventures**, the corporate venturing unit of the Spain-based bank:

//Continued adoption of crypto-currencies.

Roger Lacey, chief executive of Nasdaq-listed broadband company **CSI**:

//The internet of things.

Dominique Mégret, head of **Swisscom Ventures**, the corporate venturing unit of the telecoms company:

//The cloud and the internet of things.

Dominique Mégret

Brad McManus, of **Capbridge Ventures**, a corporate-focused venture firm:

//A consumer spending revival driven by energy cost decline dividend.

Eileen Tanghal, head of **Applied Ventures**, the corporate venturing unit of semiconductor company Applied Materials:

//Robotics.

Kay Enjoji, president of **TEL Venture Capital**, the corporate venturing unit of Tokyo Electron:

//Acquisition of portfolio companies.

Clara Gutierrez, senior associate, **BBVA Ventures**, the corporate venturing unit of the Spain-based bank:

//User experience in the banking sector.

Keith Muhart, director of marketing at **Qualcomm Ventures**, the corporate venturing unit of the US-based technology company:

//Robotics.

Thierry Piret, head of **Solvay Ventures**, the corporate venturing unit of the chemicals company:

//Asia.

Diego Díaz Pilas, head of new ventures at **Iberdrola**, the Spain-based energy utility:

//In energy, many deals related to distributed energy are expected for 2015. I would name as specific areas distributed behind-the-meter storage, offgrid solar and energy data analytics.

Detlef Pohl, investment partner at **Siemens Venture Capital**, the corporate venturing unit of the Germany-based industrial conglomerate:

//Industrial digitalisation.

Georg Schwegler, head of **Transamerica Ventures**, the corporate venturing unit of Netherlands-based financial services company Aegon:

//Better valuations and secondary components in deals.

Geert van de Wouw, head of **Shell Technology Ventures**, the corporate venturing unit of the anglo-dutch oil and gas company:

//Deployment of western technologies in China and Africa; cross-business fertilisation, for example sensors and robotics in oil and gas – drilling automation, underwater pipeline inspection, high pressure and high temperature sensing in the well; cost-reducing technologies in oil and gas, given lower oil prices.

Minette Navarrete, president of **Kickstart Ventures**, a venturing subsidiary of Globe Telecom:

//Still big data, but real concrete businesses rather than conceptual. IT security – consumer and enterprise grade – will be more important. Emerging market business models.

Minette Navarrete

Ignaas Caryn, director innovation and venturing at airline group **Air France-KLM** and an executive at its related venture firm Mainport Innovation Fund:

//Big data, ag-tech, feedstock technology and cyber-security.

Dion Lisle, vice-president of ventures, **First Data Ventures**, the corporate venturing unit of the US-based transaction processing company:

//Executing against business-to-business payments with startup.

Margot Bethelli, executive director at New Zealand-based venture firm **BioPacific Partners**:

//Multiple synergistic corporates working together to support and develop new innovation opportunities.

Maria Peterson, a corporate venturing and innovation executive at materials innovation company **JSR Micro**:

//Digital health.

Luca Binda, general manager of **IMI Fondi Chiusi**, a venturing unit of Italy-based bank Intesa San Paolo:

//Cardiovascular.

Paul Jacquin, managing partner at **Randstad Innovation Fund**, the corporate venturing unit of the Netherlands-based human resources company:

//Collaboration platform.

Paul Morris, director of corporate venturing at government body **UK Trade & Investment**:

//Expansion of corporate venturing through new participants from all geographies, and growth of corporate venturing commitments through larger and later participation.

Paul Morris

Amir Pinchas, principal of **Microsoft Ventures**, the corporate venturing unit of the US-based technology company:

//The internet of things is one to watch as it is just blooming with innovation and seeking to disrupt and become mainstream. The predictive analytics and quantified self will disrupt the way people complete everyday tasks, that will become more automatic and rich with data mashes across work and personal personas.

Peter Cowley, head of **Martlet**, the corporate venturing unit of UK-based industrial company Marshall:

//The ramp up of business-to-business internet-of-things deals.

Sven Rohmann, managing director of **SMR Capital**, part of consulting firm SMR Consulting:

//Digital health and orphan drugs.

Graeme Martin, president and CEO of **Takeda Ventures**, the corporate venturing unit of the Japan-based pharmaceutical company:

//Deeper, direct engagement with innovation at the concept stage.

Graeme Martin

Aslak Andersen, financial analyst at **Agder Energi Venture**, the corporate venturing unit of the Norway-based energy company:

//Exits in the Nordic area.

Matt Hermann, senior managing director at **Ascension Ventures**, the corporate venturing unit of the US-based healthcare system:

//Big changes coming to healthcare.

The internet of things is one to watch as it is just blooming with innovation and seeking to disrupt and become mainstream ”

FOUR MAIN TYPES OF CORPORATE VENTURER

This analysis of the four main types of corporate venturing was carried out by the Corporate Innovator's Huddle, in research for their New Realities of Corporate Venture, updated in October 2014. The types were crowd-sourced from the wider corporate venturing industry.

The Huddle divided corporate venturing into four types – strategic, independent, blended objective and multi-corporate. This is how it characterises the four types and how you can expect the different types of unit to interact with the wider venture capital and entrepreneurial community and corporations.

	"Strategic"	"Independent"	"Blended Objective"	"Multi-Corporate"[2]
Example	Sony	SAP (Sapphire)	Amex, QCOM	Aster, Iris
Dedicated Fund?	Probably not	Possibly	Probably not	Fund w multiple corporate LPs
Primary Objective?[1]	Strategic	Financial	Strategic + Financial	Financial + Strategic
"Efficient" Process	Possibly	Probably	Probably	Very Probably
Early/Active?	No/No	Maybe/Maybe	Maybe/Maybe	Maybe/Yes
Notes	Supporting HQ innovation partners and ecosystem. May be non-financial support.	Use LP name for financial gain but some freedom from HQ.	VC closely blended with other innovation tools like M&A to assist HQ growth and ecosystem building, funding partners	Run by CVCs, leveraging strategic LPs

1. All CVCs need to be both "financial" and "strategic" to some degree. When the primary objective is "financial", it can also refer to valuation-sensitivity, financial experience of CVC team, independence of investment theses, independence in decision-making. "Strategic" objective may come from exploration of adjacent businesses of corporate LPs or non-financial support.
2. There are really 3 types of Multi-Corporate funds: 1) "Outsourced CVC" (Granite, Atrium) 2) "Corporate+Financial LPs" (Translink), 3) Multiple Corp LPs only (Aster, Iris). We are only considering the 3rd type here. It is also worth noting the rise of vertically-focus, multi-corporate incubators.

	"Strategic"	"Independent"	"Blended Objective"	"Multi-Corporate"
Start-up Pros	• May pay up? • Passive? • Knowledge • Validation	• Faster process • Follow-on likely • Knowledge? • Deal w parent? • Validation? • Active?	• May pay up? • Faster process? • Follow-on likely? • Knowledge • Partnership • Validation • Active?	• Faster process • Follow-on likely • Knowledge • Partnership? • Validation? • Active
Start-up Cons	• Not efficient? • Not active? • No follow-on? • Partnership? • No "Chinese wall"?	• Partnership? • Knowledge?	• Slower process? • No "Chinese wall"?	• Knowledge? • Partnership?
Co-investor Pros	• May pay up? • Knowledge • Validation • Partnership?	• Faster process? • Follow-on likely? • Knowledge? • Partnership? • Active?	• May pay up? • Faster process? • Follow-on likely? • Knowledge • Partnership • Validation • Active?	• Faster process • Follow-on likely • Knowledge • Partnership? • Validation? • Active
Co-investor Cons	• Not efficient process? • Not active? • No follow on?	• Partnership? • Knowledge?	• Slower process?	• Partnership?
Parent Co Pros	• Insights? • Funds partners? • ROI expected?	• Insights? • Funds partners? • ROI expected	• Insights • Funds partners • ROI expected?	• Insights? • Funds partners? • ROI expected
Parent Co Cons	• No financial ROI? • Limited deal flow	• Insights? • Not funding partners • No meaningful financial ROI?	• No meaningful financial ROI?	• Insights? • Funds partners? • No meaningful financial ROI?

PUSHING THE BOUNDARIES

Heidi Mason, above left, co-founder and managing partner of consultancy Bell Mason, talks to Deborah Hopkins, Citi's chief innovation officer, about approaches to corporate venturing in its maturity

Mason: What does success look like five years from now for Citi Ventures, and how will you, as Citi's chief innovation officer (CIO), lead to execute on that?

Hopkins: Success five years from now will mean several things. First, I hope that Citi Ventures will have been a key catalyst in completely redesigning Citi's end-to-end customer experience and that Citi will be recognised as the industry leader in that realm.

We also want to be recognised as the best-in-class corporate venturing team. This is important because venture investing is how we bring the outside in and accelerate time to market for our businesses. We must also continue to inspire and energise the organisation by creating the systems, capabilities and processes that support innovation and sustainable growth.

We might not know exactly what the future looks like, but having a system for seeing and channelling innovation into the corporation is critical.

Mason: And in a way that innovation can be understood, absorbed and put to work by the corporation – no small issue with the natural antibodies it calls up within the established organisation, operation and culture, which has spent years tuning and streamlining its culture and operation to the present day's businesses and size.

But it has long been said that maintaining the status quo is not enough to win, or ensure position for the long term. Without an integrated approach to corporate venturing and innovation – and in a dedicated business unit that focuses on developing the commercial impact of innovation in ways that score for the corporation and contribute to its strategies for growth – staying power is questionable.

The ability to expand, reinvent, hold industry leadership positions in this dynamically changing world … well, you really have no prayer of getting to the next stage without this.

Hopkins: I completely agree, and I often say that one of the most critical success factors in our journey has been building and headquartering the team out of Palo Alto, California. As a dedicated team, Citi Ventures is able to sit in the heart of where disruptive forces are born and, among other things, place smart bets on entrepreneurs – trailblazers who are pushing out the borders of banking.

This year we will look at over 1,000 entrepreneurial companies as part of these efforts. As a result, we help our businesses capitalise on outside forces in a way that is targeted and actionable through the deep domain knowledge that we gain by locating here.

Mason: Though the CIO is still a new role within executive management structures, over the past five years we have seen this role appear across industry sectors as a much more mainstream and a vital means of making innovation a practice with output, beyond a concept. In fact, I see the CIO emerging as the "chief executive of the business of innovation" and one of the prime architects of the corporation's continual renewal and staying power.

How have you shaped this vital role as Citi's first CIO for the past five years? What attributes and background do you think are essential in a CIO for making this role work at an executive management level?

Hopkins: I think of my role as being a catalyst and sometimes a provocateur. We have to be engaged with and relevant to Citi's businesses and help them find ways to step into disruption. I regularly draw on my experiences across multiple industries – automotive, aerospace, computing, telecommunications – and my former roles as chief financial officer of Boeing, and of Lucent Tech, and chief operations and technology officer at Citi. These experiences contribute insights ranging from systems thinking to product development expertise.

Ultimately, a CIO needs to have the ability to build the adequate support for his or her ideas, the perseverance to knock on doors multiple times when need be, a healthy sixth sense to take into account timing and organisational considerations, and the natural instinct to recognise patterns in order to unearth opportunities.

Mason: How have you organised your unit to fit your vision and achieve its goals within Citi?

Hopkins: Our work is structured around three areas. Venture Investing, led by Vanessa Colella, creates value for our businesses through strategic investing by actively scouting the most promising technologies and accelerating adoption within Citi through our commercialisation efforts.

Second, DesignWorks, run by Busy Burr, hastens our competitive advantage by designing new businesses and new capabilities including our end-to-end customer experience.

Third is the Citi Innovation Network led by Debbie Brackeen. It partners Citi's Global Innovation Council, which is a senior forum we founded to sponsor high-priority projects, capabilities and culture initiatives. Brackeen's team is also connecting all labs in Citi to identify opportunities to scale smart experiments from one business across the organisation. It is important to remember there is no single trail map for this, and so much of the work building a system for a lasting innovation business is tailoring the model to the culture of the organisation.

Mason: What about your core team and operations? How is it structured for its own growth in the innovation business on Citi's behalf? How important is formal business process and risk management to your success?

Hopkins: The former CFO in me determined early on that we needed to establish a best-in-class governance system that would make senior management comfortable that we are strong stewards of the firm's reputation and capital.

I am very pleased with what we have built here – for example, our investments are vetted and monitored by a risk review committee which meets on a weekly basis and is represented by nine functions ranging from finance to compliance to bank regulations. We also conduct quarterly portfolio reviews for all Citi Ventures projects and portfolio companies. Through these types of processes, we have created a strong partner-peer culture that ensures robust transparency and accountability.

Mason: So while personal executive champions are always important to your business, you are now institutionalising Citi Ventures' processes, mechanisms and core DNA, as part of the Citi organisation and operation, to bring long-term replicability and sustainability to the practice.

We believe that if you are building a professional organisation to last, rather than just being a hobby wholly owned and protected by an angel executive champion, the innovation business organisation design and transparent process is the enabler. This is fundamental to getting your department through the painful but natural cycles of the parent corporation's management turns and reorganisations, and escaping the typical start-stop-start-over syndrome it imposes on the innovation business – that, and a lot of consistent internal and external outreach and leadership by the CIO.

Hopkins: Definitely. We benefit from having a venture board made up of senior leaders across the company with whom we have an ongoing dialogue about trends and critical priorities. In addition, we employ a regular cadence of engagement with the businesses to truly understand their priorities so we can match the right opportunities to their needs.

Mason: And your current Citi Ventures programme leaders – how did you get Citi to support you in building your team? How did you find who you needed?

Hopkins: We were incredibly fortunate to have a thoughtful human resources partner from the start. She understood the big picture and how Citi Ventures was different in size and talent-mix requirements. She understood that these were new roles that required people with certain specialised skill-sets and traits – such as design-thinking expertise and the ability to thrive in an atmosphere of ambiguity.

Mason: One who can see a new kind of order – dots and how they connect – out of complexity.

Hopkins: Exactly.

Mason: How do you think of a career planning for those and others in these different but complementary corporate venturing and innovation programmes – venture capital-style longevity of partners, or rotation of talent?

Hopkins: You want the right mix of people who are passionate about their area of expertise, such as venture investing, complemented by business unit transfers who are eager to grow professionally in Citi Ventures and eventually want to assume business leadership roles in other groups in Citi. We also bring in select external individuals who bring unique innovation skills to the table. It is a highly diverse team bounded by a common mission.

> One of the most critical success factors in our journey has been building and headquartering the team out of Palo Alto, California

PART 4

CORPORATE INVESTORS: PROTECTING YOURSELF AND YOUR COMPANY

Megan Muir and Mark Radcliffe, partners, DLA Piper

Corporate investing individuals and their companies can reap great rewards through corporate venture activities – including accessing innovative technologies, increasing customer and partner ecosystems, and financial returns. But such individuals and the corporate investor entity can face significant legal risks as they work with portfolio companies.

This three-part article contains guidelines to assist corporate investors to reduce such risks. Although few disputes between corporate investors and portfolio companies result in court cases, disputes can occur, particularly in cases where the investing company and its portfolio company have significant technology or customer overlap. Follow these simple steps to help reduce your exposure to risk.

Best practice for corporate venturing board observers

Corporate investors who wish to have more information about their investments have two choices – board member or board observer. The authority and duties of board members are created primarily by corporate law, but the rights and duties of board observers are created by contract.

Many corporate investors choose to have a board observer rather than a board member to reduce the potential liability to the individual serving in the position as well as that of the investing company. Board observers may attend and participate in company board and committee meetings, but they are not formal members of the board and cannot vote on board matters.

Contractual rights and duties

Board observer rights agreement: The corporate investor must carefully consider the rights it wants prior to negotiating its board observer rights.

The right to appoint a board observer may be contained in one of the main financing documents or in a separate document, often called a board observer side letter. A corporate investor should consider developing its own form of board observer side letter spelling out the rights it wants. If the corporate investor is not using its own form, it should carefully review the provisions in the proposed board observer letter in order to understand the scope of the rights being granted and the contractual obligations being imposed. The portfolio company's standard board observer side letter may be inappropriate because it may have been drafted for use with traditional venture capital fund investors and may not be appropriate for corporate investors.

Areas to be covered in observer agreement: The board observer agreement should address the following key areas:

- The right to attend board meetings.
- The right to attend board committee meetings.
- The right to receive information about the portfolio company.
- The scope of use of confidential information.

Provisions that may be problematic: Corporate investors should be wary of three provisions that may be requested by the portfolio company:

- The application of fiduciary duties to the board observer.
- The limitation on the rights to obtain and use information.
- The limitation on the right to attend board or committee meetings.

Carefully review duties imposed by the board observer agreement. First, corporate investors should review any board observer agreement to make sure it does not attempt to impose fiduciary duties on the board observer. While board members have fiduciary duties of loyalty and care to the company under corporate law, board observers do not have fiduciary duties to the portfolio company unless they agree to such duties by contract.

The corporate investor should reject the language imposing fiduciary duties on its board observer to avoid creating substantial additional risks to the corporate investor and the observer without the right to vote on issues which a board member would have.

Choosing a board observer over a board member

- Reduced potential liability to the individual and the investing company, versus serving as a board member or director
- Observers may still attend and participate in board meetings
- Observers may negotiate the right to receive the same information given to board members

Tips for board observers

- Develop your own form of board observer agreement
- Carefully review terms of board observer agreement if not your form
- Avoid taking on fiduciary duties if an observer
- Promptly disclose conflicts of interest
- Consider recusing yourself from discussions involving a conflict
- Remember observers are not voting board members

Look for limits on portfolio company information to be provided to observer. Corporate investors should be careful about provisions that limit the board observer's access to information. As a general rule, board observers should have access to all of the same notices, minutes and other written materials the portfolio company provides to its board members. Board observer agreements will generally provide that an observer may not receive certain sensitive materials, such as those relating to personnel matters and transactions with competitors, but such exclusions should be as limited as possible.

Make sure rights to attend meetings include appropriate board and committee meetings, with few limitations. Corporate investors should be careful about terms that limit the board observer's rights to attend board meetings. The board observer's attendance rights should include all meetings of the board and board committees. Board observer agreements will generally provide for exclusion of an observer from attendance at certain portions of the meetings.

The most common exclusions are: (i) attendance could adversely affect the attorney-client privilege between the portfolio company and its legal counsel; (ii) discussion of the portfolio company's relationship with the corporate investor; (iii) discussion of the portfolio company's transactions with a competitor of the corporate investor;

and (iv) discussion of a potential acquisition by a competitor of the corporate investor. These limitations should be carefully negotiated so as not to be overbroad.

Conflicts of interest and recusal

Be careful with the portfolio company's confidential information. A corporate investor should generally have the board observer come from its venture group and not its business unit. This approach reduces the risk of inappropriate use of confidential information. If the corporate investor determines the board observer will be from a business unit, the board observer should be from a division that is not directly competitive with the portfolio company.

The board observer agreement may place limits on the ability of the observer to disclose information learned in his or her capacity as an observer, such as a prohibition on sharing such information with a corporate investor's business unit that competes with the portfolio company. In any case, the corporate investor should have confidentiality procedures in place with respect to the use of the portfolio company's information.

Consider disclosure and/or recusal from certain board discussions. A board observer should be sensitive to whether the topics being presented at a board meeting may create a conflict of interest with the corporate investor and the board observer should promptly disclose that potential conflict to the board. The board observer should also consider recusal from further discussions to limit the risk of learning confidential information that could create a problem for the corporate investor.

Role of a board observer

A board observer's main roles are to monitor the portfolio company for the corporate investor and to provide guidance to the portfolio company. The board observer's presence at board meetings and contributions to board discussions should be focused on strengthening the relationship between the portfolio company and the corporate investor. The board observer should be sensitive to the culture of the board and the degree to which the board observer should participate.

Some boards welcome participation of board observers as if they were board members, but others boards have a culture in which only board members participate in the discussion during the meetings.

Although a board observer may participate in board discussions and generally assist the portfolio company with its strategy, he or she should always keep in mind that a board observer is not a formal board member and does not have a right to vote on official board matters. Note that, under corporate law, board members are not permitted to delegate their board votes to anyone else, not even to board observers or other board members.

Differing duties of board members

Many corporate investors have begun to shift from using board observers to board members in their portfolio corporations. A board member, by the nature of his position, has access to more information about the portfolio corporation and has more influence in guiding it. However, the position of board member has legal obligations different from those of a board observer. Corporate investors should consider these differences in making the decision to request a board member rather than a board observer.

The legal obligations of a board observer to the portfolio corporation are entirely governed by contract and are much more controllable by the corporate investor. On the other hand, the duties of board members are controlled by the corporate law of the state of incorporation. Most technology corporations are incorporated in Delaware, so we will focus on Delaware corporate law, but many other states use Delaware decisions as a reference in corporate law so this analysis has broad applicability.

A corporation's board of directors is responsible for managing and directing the business of the corporation. Each board member is bound by certain fiduciary duties under state law that obligate all board members to serve the best interests of the corporation and its stockholders. Courts have articulated these fiduciary duties – and legislatures have subsequently codified them into state corporate law – in order to regulate the extensive power of directors to influence corporate actions and to help ensure the directors work effectively to serve the stockholders who own the corporation.

Under Delaware corporate law, by serving on a board, a director undertakes three broad fiduciary duties owed to the corporation's stockholders – the duty of care, the duty

Why have a board member?

- Board members have a vote on all issues coming before the board.
- Board members generally have greater access to information from the portfolio corporation.
- Board members generally have greater influence on the portfolio corporation.

Tips for board members

- Ensure the portfolio corporation has a broad indemnity provision in the certificate of incorporation.
- Ensure the portfolio corporation has waived damages and limited liability for breaches of fiduciary duties to the extent permitted by the relevant state law.
- Ensure the portfolio corporation has a waiver of the corporate opportunity doctrine in the certificate of incorporation if permitted by the relevant state law.
- Have an individual indemnification contract with the portfolio company to supplement the indemnity in the certificate of incorporation and avoid termination of indemnity rights due to amendment of the certificate of incorporation.
- Consider having the portfolio corporation obtain director and officer liability insurance – more appropriate for late-stage corporation.
- Consider having the corporate investor add the director to its liability policy as a backup to the portfolio corporation's indemnity, and have a clear agreement that the portfolio corporation's indemnity will be used prior to any use of this secondary insurance.

Best practices

The corporate investor who is considering requesting a board position rather than a board observer should take the following steps:

Conduct a due diligence review: The corporate investor should conduct a due diligence review of the portfolio corporation and its management to ensure that they have the procedures and advisers in place to manage corporate goverance effectively.

Ensure that the corporate investor designates an appropriate representative: The corporate investor should be careful to ensure that its prospective board member understands his duties and has the background and available time to discharge those duties.

Adopt sound practices to discharge duty of care: In order to comply with their duty of care to the portfolio corporation, employees of the corporate investor serving as directors of such corporation should take the following stesp: diligently review board materials; insist on careful and deliberate review and discussion of all important board actions; and avoid not only haste, but the appearance of haste, in making important decisions.

Adopt sound practices to discharge duty of loyalty: In order to comply with their duty of loyalty to the portfolio corporation, employees of the corporate investor serving as directors should ensure that proper procedures are in place within the corporate investor for the protection of the portfolio corporation's confidential information and communications and that these procedures are properly documented so as to be useful in the event of future litigation. And the corporate investors should have procedures in place to avoid the usurping "corporate opportunities" of the portfolio corporation.

of loyalty and the duty to act in good faith. Failure to meet these duties can result in personal liability for the director's actions as a board member, such as approving or failing to approve a transaction. However, under the business judgment rule, a director's decisions, even if they prove unwise or unsuccessful, have strong protection from liability if the director acts in good faith, uses common sense and acts in a manner he or she reasonably believes is in the best interest of the stockholders.

Duty of care: This requires that a director use reasonable care in making decisions. To meet this duty, the board must focus on procedural as well as substantive issues. Procedural issues focus on the completeness of the information provided, the time taken in reviewing such information and the opportunity to engage and question experts.

Substantive issues focus on the actual decisions by the board and whether such decisions are consistent with the advice received from its experts, within the normal range of such transaction within its industry, and reasonable, given the alternatives.

Duty of loyalty: This requires that a director make decisions based on the best interests of the corporation, and not any personal interest. The duty of loyalty prohibits self-dealing by directors. Directors are required to have an absence of personal financial interest in the matters before them.

A more common issue for directors employed by corporate investors is the requirement under the duty of loyalty that a director make a business opportunity related to the business of the corporation available to the portfolio corporation before the director may pursue the opportunity for the director's own account or for the account of another entity, including the corporate investor and that the director not use information provided at the board meeting to compete with the portfolio corporation.

Duty of good faith: This is the duty to act in a reasonable and deliberate manner and in the best interest of the corporation. The Delaware Supreme Court has stated: "The good faith required of a corporate fiduciary includes not simply the duties of care and loyalty … but all actions required by a true faithfulness and devotion to the interests of the corporation and its stockholders."

Minimising the risks of misuse of confidential information

Corporate investors face special risks. As an employee of a corporate investor serving as a board member, you face risks different from those of board members from traditional venture capital firms. These risks arise because the corporate investor may have interests in the business and opportunities which you learn about through your participation as a board member or board observer.

As a reminder, under corporate law, as a director you have a personal fiduciary duty of loyalty to the portfolio company – you do not have such a duty under law as a board observer, but you may agree to such obligations by contract, which we advise against. This duty of loyalty requires you to act in the best interests of the portfolio company and all of its shareholders collectively, including putting the portfolio company's interests above those of your corporate investor employer.

How do these risks arise? Two common scenarios can increase your risk of liability as a director of a portfolio company – receipt of confidential information from the portfolio company that is useful to your employer, and business opportunities that may be valuable to both the portfolio company and your employer.

As a board observer, only the first issue is a risk because the "corporate opportunity" doctrine is based on corporate laws which apply solely to directors, unless you agree otherwise by contract.

Advice box

- Understand your fiduciary and contractual obligations relating to confidential information.
- Educate your employer about these obligations.
- Have a system in place to manage confidential information from a portfolio company.
- Consider recusing yourself from discussions that would result in obtaining confidential information.

Information of use to both companies

As a board member or board observer, you will often learn of confidential or competitively sensitive information in board meetings and by receiving materials circulated by management. Some of this portfolio company information may be relevant to your work on behalf of your corporate investor employer.

If the corporate investor pursues a similar or competitive direction, you could be accused of misusing the portfolio company's information to benefit your employer, which could result in a claim that you have breached your duty of loyalty to the portfolio company as a director or violated your contractual obligations as a board observer.

The violation of this obligation can be very expensive. A court awarded $120m in damages against a director accused of disclosing Lexar Media's confidential information to a competitor when he was serving on its board – this award was part of a $465m judgment, although the case was later settled.

Craigslist and eBay were recently in court over the alleged competitive use by eBay of Craigslist confidential information said to have been received from an eBay board member who served on the board of Craigslist.

How to protect yourself from claims of misusing confidential information: You need to ensure you and your corporate investor employer understand these obligations and the associated risks. Corporate investors should put in place policies limiting the use and sharing of a portfolio company's confidential information.

The existence of, and adherence to, such policies can be important in proving that confidential information was not shared or used inappropriately. You may be asked by the portfolio company not to disclose information it provides you to business units of the corporate investor and you should abide by such requests. You may also want to document an understanding with the portfolio company that certain types of information will not be shared with you, so as to avoid the potential taint of such information within your organisation. Note, however, that limiting the information you receive may affect your ability to serve as a fully-informed board member.

You should consider recusing yourself from voting on issues for which you have not been able to review adequate information. You may also want to recuse yourself from discussions in which you could learn problematic confidential information.

Corporate opportunities of potential interest to both companies: You may learn of business opportunities that could benefit both your employer, the corporate investor, and the portfolio company. As a director, your duty of loyalty to the portfolio company requires that "in some circumstances … a director may make a business opportunity available to the corporation before the director may pursue the opportunity for the director's own or another's account".

For example, you may learn of the need of a large company for a product which can be satisfied by both the portfolio company and the corporate investor.

Advice box

- Understand the corporate opportunity doctrine.
- Obtain a waiver of the corporate opportunity doctrine.
- Select a board member from an unrelated business unit to limit the chance of obtaining such opportunities.

How to protect yourself from claims of misappropriation of a corporate opportunity: As you evaluate whether you need to offer a potential business opportunity to the portfolio company first, consider the following.

- How similar to the portfolio company's existing or contemplated business is the opportunity?
- Did you come to know of the opportunity in a manner related to the portfolio company?
- Is it likely to be a significant growth opportunity to the portfolio company?
- Would the portfolio company reasonably expect you to make the opportunity available to it?
- Does the portfolio company have the resources to take advantage of the opportunity?

Some corporate investors limit this risk by designating a director from a business unit that is not competitive with the portfolio company to help avoid the possibility of such a conflict.

However, the best approach is to have an explicit agreement in the investment documents – frequently in the certificate of incorporation – that makes clear that the corporate investor may undertake competitive activities and competitive investments. Such agreements are clearly enforceable under US Delaware law because of an explicit provision for it, but their enforceability in other jurisdictions is less certain.

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PART 5

DETERMINING AND ACHIEVING STRATEGIC AND FINANCIAL BENEFITS

Andrew Gaule, leader and founder, Global Corporate Venturing Academy

Setting the strategic purpose and then demonstrating the performance, is a key challenge for many corporates and venturing units. Over my 14 years in the sector I have seen many approaches and learning outcomes which have tried to address this challenge in corporate venturing.

The following articles outline

- Approaches to identifying and quantifying the metrics.
- Survey and insights from leading corporate venturing units.

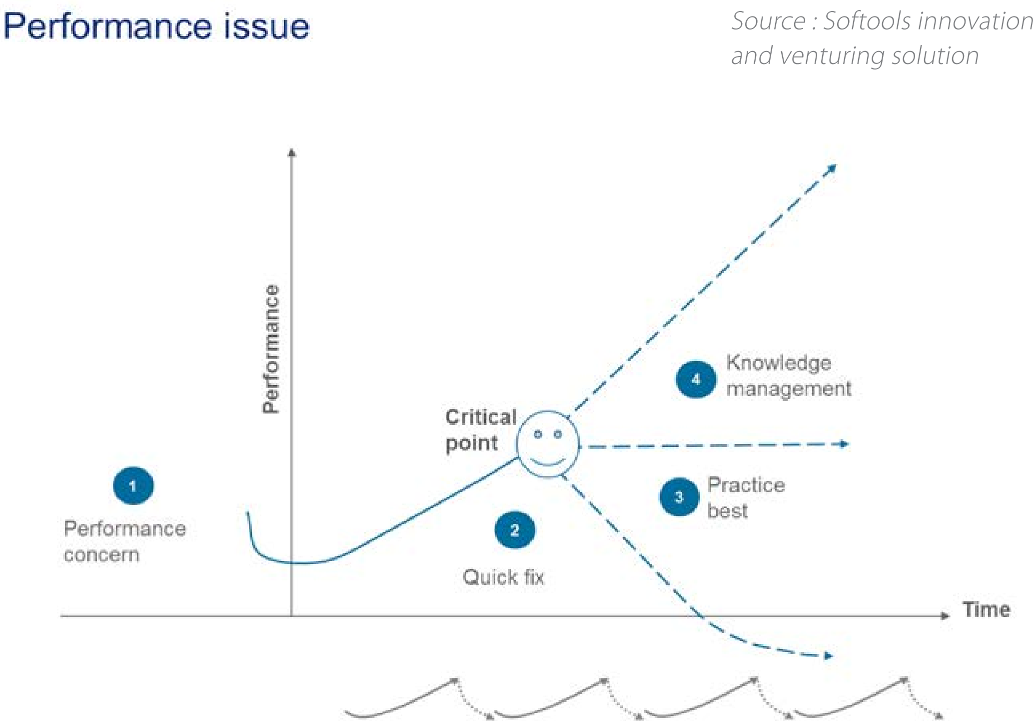
By way of introduction I would highlight some key perspectives.

- Corporate venturing and innovation programmes need a better strategic purpose, defined and iterated as insights on technology, business models and partners.
- Venturing units do not stay strategic for long unless they gain senior executive and business unit support and achieve financial returns.
- Strategic returns and financial returns are not an "either", "or" but "and".
- Delivering strategic benefit and bigger prize of financial benefits will not be achieved unless the impact of a venturing activity – for example, investment insights, new technology, change in process – is implemented and scaled in the core business or in new emerging business areas.

Delivering the strategic and core scale financial performance

The performance of a corporate venturing unit needs to be considered early in its development but is often not considered until many months or years after its start, which then creates a performance concern.

The image above illustrates the cycle that I have seen occur in a number of leading global corporate venturing organisations.



1 Performance concern – are we delivering financial and strategic benefits? This can be made more difficult to progress as there has been no good discussion and agreement on the strategic and financial purpose of the unit.

2 A quick fix may be done by communicating a purpose, clarifying the process and trying to quantify the financial and strategic benefits.

3. Practise the best approaches, which include strategic workshop, roadshows, senior executive engagement, business unit engagement programmes and effective working on venture programmes with emerging business areas. Many practical examples of these were well illustrated at the GCV Academy Fundamentals of Corporate Venturing programme, with case studies and lessons from BP Castrol InnoVentures and Reed Elsevier Ventures. To see short videos of Castrol and Reed Elsevier at the GCV Academy discussing the strategic important areas and engaging with the business, see *http://youtu.be/k46auTJJmio*

4. A process to deliver the benefits and change in the core business or creating new emerging business areas is required.

An example of looking to deliver in the core business occurred in one organisation I worked with where a pilot solution with a venture startup was justified on the tens of millions process saving from the new technology. The venture unit achieved its objective of proving the pilot project, but the real benefits were not achieved as there was no process and tracking of the implementation in the core business.

New technologies and business models may not in many cases fit with the current business. Creating new emerging business areas, as IBM and DSM call them, is therefore needed and this fits outside the responsibility of the corporate venturing and business units. A broader responsibility of what some organisations call a chief innovation officer, or a strategic visionary chief executive or chief operating officer, is therefore needed.

In your corporate venturing programme can your CEO and your executive team be clear about why it has been set up and what the corporate venturing group is doing? The executive team cannot do this without the leadership of the corporate venturing unit providing the framework, process and activities to engage the executive – the process of deciding investments or collaborations, considering current and future business needs and then ensuring delivery of the results in the business. This needs an enhancement of the capability of the team and process, sometimes with a software solution, to ensure the implementation, tracking and shared learning.

The case for delivering strategic and financial benefits from corporate venturing is not just related to being able to measure the benefit but ensuring:

- Corporate venturing is part of the strategic change.
- Processes are in place to deliver in the core business.

MEASURING INVESTMENT EFFECTIVENESS

Brad McManus, director, Panasonic Venture Group

Financial aims and metrics

Clearly-defined methodologies for measuring the effectiveness of corporate venturing are imperative for long-term programme sustainability. Validation of any organisation's accomplishments against a plan is just good business sense. However, it seems many colleagues struggle with defining and tracking the effectiveness of their corporate venturing programmes.

How many times have we seen at innovation and corporate venturing conferences the question of how you measure corporate venturing effectiveness make many highly-experienced corporate venturing professionals squirm their seats? No need to squirm folks. In this article I will offer some insights on instituting corporate venturing measurement methodologies and metrics, and related complications, that I have observed in the industry and which we have refined over the past 14 years at the Panasonic Venture Group.

Basic tenets of business management advocate the principles of setting objectives and metrics in advance of launching business endeavours and then regularly tracking the results. Objectives need to be achievable, metrics need to be representative of those objectives and management must be accountable for the outcomes.

Accountability is feasible, and useful, if objectives are clear and if metrics are evaluated. And monitoring our results throughout the process, not just at the end in hindsight, will enable us to make course corrections as needed to reach our ultimate targets.

In applying these management principles to corporate venturing, there are some complications that will emerge. The first is that in developing the unit's objectives, you realise there may be multiple stakeholders to which the corporate venturing team is accountable.

If you have just one stakeholder, then setting objectives is a bit easier for you. But for the rest of us, we need to balance the objectives of sponsors, disparate business units, administrative organisations, review committees and others. And the corporate venturing group also has stakeholders outside the corporation, especially their portfolio companies and co-investors.

The various stakeholders need to be acknowledged by all involved with the organisation, and an understanding of the group's obligations and priorities to each stakeholder should be articulated before proceeding to define the objectives and the appropriate metrics of the corporate venturing unit.

It is at this point that the most familiar complication arises. A successful and sustainable corporate venturing programme almost always has two broad objectives – strategic and financial – which are not always consistent and sometimes difficult to define.

These two macro-objectives co-exist because investment capital is utilised as a means to provide the corporation access to startups with the intent to achieve strategic benefits through an alliance. Therefore, there are financial objectives, and respective metrics, in regard to the investment capital deployed – funded alone or alongside financially-driven angels and venture capital firms (VCs) – and there are strategic objectives pertaining to the proposed alliance between the two companies.

While I will describe methodologies for financial and strategic outcomes each on an individual basis, which should be implemented diligently, corporate venturers might also consider establishing and reporting an aggregated return metric (ARM). The ARM will include financial return metrics combined with strategic return metrics, including both qualitative and quantitative metrics.

Financial objectives are easy to understand, so we will start with that – well, maybe not so easy for corporations. For VCs, it is straightforward, since their fund investors, the limited partners (LPs), are seeking the highest risk-adjusted return through venture investments.

But for corporate venturers, the investor is the corporation – whether as an LP or direct from the balance sheet – and while producing high internal rates of return (IRRs), a measure of annual performance, may seem to be generally welcome, most corporations are not financial investment companies and therefore their shareholders expect management to achieve earnings through operations and not by betting capital on venture startups.

The point here is that scale of capital matters, meaning that too much financial return – or substantial losses – that seriously affects earnings results is not advisable. Corporations need to balance the amount of capital deployed in venturing proportionate to annual free cashflow so as not to create issues with shareholders.

Although some corporate venturing groups' financial returns may not match the very top-tier, financially-motivated VCs' returns – and it could be argued that with strategic results the priority for the corporation, it is difficult to attain VC-calibre IRRs – corporate venturers should still apply financial metrics for their programme. If no financial return metrics are established, then the group will probably not be managed as a venture investment organisation for sustainable success, but is instead more likely to be run as a pet project fund and in the end the capital will be wasted.

The common financial return metrics for corporate venture investing are:

- Return of capital, plus a cost-of-capital rate.
- Return of capital, plus a cost-of-capital rate, plus the operating expenses of the corporate venturing unit.
- Percentage IRR (time-based cashflows) or cash-on-cash multiples (on invested capital), plus the operating expenses of the corporate venturing unit (or management fee).

Earlier I touched on accountability, which is important in managing a corporate venturing team. Rewarding the venturing team for good financial performance for which they are accountable is also vital for attracting and retaining venture-experienced professionals.

I strongly recommend companies implement a carry-like bonus compensation package reflective of their financial objectives that is similar to the carried interest model used by VCs, in which the venture partners in aggregate qualify for payouts based on the portfolio's financial returns – for example, 20% of profits. Likewise, a bonus tied to strategic metrics, which I discuss further below, should be considered. Such a reward plan will align the team and the company's common interests.

Another matter corporate venturers need to be aware of is the portfolio effect of venture investing – financial returns will benefit a critical minimum number and balance of investments that a corporate venturing fund needs to generate positive returns from the portfolio. If a corporation makes too few or too concentrated investments over a period of time, its financial returns will be impaired.

One final point about financial objectives for corporate venturers is that targeting good financial results is not only beneficial to the corporation but also positive for the startup. Selecting good companies is the first part of producing favourable returns, but also continuing to support portfolio companies with follow-on investments is an essential part of venture investing, not only to provide the startup with the capital it requires over time, but also to position the corporate venturer potentially to generate positive returns on the additional capital deployed.

And at times it can be essential to protect your investment rights, such as with pay-to-play situations. Do not abandon your portfolio companies after the corporation's strategic returns are fulfilled as that may not only affect your portfolio financial returns, it will affect your credibility as a long-term, trusted venture investor. If your reputation becomes tarnished, it will reduce your dealflow and you will not have opportunities to partner other startups in the future.

The venture world is a tight-knit community where your dealflow sources, your co-investors and entrepreneurs are continuously observing your actions. So be vigilant in your role as a committed and respected venture investor to preserve your place in the venture community.

Strategic objectives

Now we will turn to some principles and implementation guidelines for measuring strategic effectiveness.

Most corporate venturing units are targeting innovation and growth-oriented strategic objectives, such as business, technology and process, through their association with venture startups. Specific objectives will vary and, periodically, the company may not know at the beginning of a venture startup engagement what particular benefits will be derived from the alliance. Nonetheless, corporate venturing units must develop and implement effective methods for planning and measuring the outcomes of their strategic efforts.

Business achievements, such as increased product sales and profits and improvement in profit margins, can usually be measured easily in a straightforward, quantitative way. These objectives can be articulated quite literally in terms of their numerical improvement from some historical benchmark – such as, 20% additional contribution to sales and profits over the past three-year average – but more often the targeted objective will be stated in more nebulous terms – such as, seeking a window to opportunities for growth or generation of seeds for innovation. So, how do we come up with success metrics that communicate the intended outcomes before they are implemented and after they are accomplished? And how do we manage the organisation toward bona fide results if the measurements are so subjective?

One of the most important principles in contributing to corporate innovation is to acknowledge that innovation is a process, not just an outcome. There are many ways to describe the process, but for simplicity I like to characterise it as the 4i's of innovation – ideate, investigate, incubate and implement *(see graphic below)*.

Most companies fail on two levels when implementing their innovation strategies. First, they jump from the ideation phase right to the implementation phase. Second, too many focus mainly on their internal capabilities, competencies and resources and do not make use of partnerships to meet their growth and innovation goals. Corporate venture investment and partnering are carried out by less than half the largest global corporations, and among those that have corporate venturing units, most struggle with defining and monitoring subjective strategic objectives.

Each of these four phases of the 4i innovation process is associated with definitive actions carried out by the corporation. Actions lead to results. To measure effectiveness in corporate venturing, the focus should not just be on the objectives or success factors, but more on the process and actions of the organisation. A prerequisite for the venturing team's success is successfully defining the essential actions that will enable it to deliver positive impact on each of the four phases in the innovation process.

At Panasonic Venture Group, our mission is to "contribute to corporate technology innovation to deliver customer value and accelerate corporate growth". Certainly in regard to our mission statement, you can envision a few quantitative, measurable goals pertaining to corporate growth. But how do you measure contribution to corporate technology innovation, let alone contributions to customer value? And how do you measure technology innovation on a relatively short time horizon, such as quarterly or annually? And while I am piling on such scepticism, how do you deal with shared contribution – for example, joint efforts with multiple parties? Often, the partnership with the venture company is based on a co-development initiative in which the engineers of the startup work with the engineers of the large company to contribute elements of a solution, such as sub-systems or components, not even complete solutions. This creates complex challenges for measuring the results of the partnership.

It is these complexities that cause some corporate venturing units to surrender on their attempt to develop and install sound measurement methodologies. Well, don't give up. Take a sequential approach, starting at a high, mission and objective, level and then work with your stakeholders to define a handful of success factors they expect from the corporate venturing group. From the success factors, map out a process of key phases required to meet the success factors. Then with the process, determine the actions that your group must

The titles of each of the above objectives are self-explanatory, except maybe how technology enablement differs from joint development. Technology enablement is when a technology innovation can be utilised through a partnership without a joint development project. An example might be know-how that is transferred under a preferential relationship.

perform to complete the process. Actions, for the most part, are measureable and focusing on them is the keystone for creating effective metrics.

Let us go back to Panasonic Venture Group's mission. From our mission, we scaled down one level and defined a handful of high-level success factors based on input from our stakeholders. If the venture team could deliver on these strategic outcomes, we will have achieved success for them and for the corporation. At this point, we do not have clearly defined metrics, but we understand what our stakeholders want us to focus on. The five objectives Panasonic Venture Group seeks to deliver to stakeholders are listed in the graphic below.

Of course, it is very important to define the meaning of each general success factor. In the case of joint development for existing business area, for example, it was necessary for us to define what joint development actually means, and idea collaboration and information sources requires clarifying the form of the information and what sort of information is desired, and so on.

In order to define the requisite actions, we created process flowcharts since typically there are multiple, mutually dependent actions required to, for example, create a joint development alliance. Not all minor activities need to be specified in this exercise, just those that are high-priority. The outcome of this effort should be a short list of priority process steps which are clearly linked to each objective, culminating in 10 to 15 actions. In Panasonic Venture Group's case, we have about a dozen primary actions that are tied to our five objectives.

To demonstrate the process, for the ideation phase of innovating, the corporate venturing team needs to identify and screen seeds of innovation, in the form of venture startups and related trends, that can contribute to the corporation's awareness of actionable, emerging opportunities. The primary action required of the corporate venturing unit in this phase is to build a network for sourcing best-of-class startups as candidates for discovering new or alternative ideas, collecting information on market and technology trends, and identifying solutions that address customer needs to complement those being considered by the corporation.

To build an expansive and productive sourcing network, the venture team will implement outreach activities and relationship development efforts targeting venture capital firms, entrepreneurs, thought leaders and domain influencers. So one of the categories of success metrics will be based on relationship network development for information flow. This may include tracking contact development progress, using a contact database, and interaction monitoring for proactive pursuit of the most productive human network. Other measures might include the value of the human network, in which a qualitative scoring method might be used.

Proceeding with the same methodology through all the general success factors, with the objective of defining the respective actions, will allow you fairly easily to create relevant metrics that will lead you to effective management of your corporate venturing unit.

Report cards, or other feedback systems from your stakeholders, are an excellent source of input on management effectiveness and communication. It is best to meet your stakeholders periodically, and often in the early stages of the programme, to understand their expectations and concerns with your activities. Jointly create a methodology based on their high-level priorities, clarifying quantitative and qualitative deliverables. With their input and as the programme evolves, plan to make course corrections in both the actions and the metrics as needed.

There is no single success metric for strategic effectiveness, and as circumstances change, your goals, and maybe even your mission, will change, which will require adjustment to the best metrics for your group. So be flexible and a bit creative with both quantitative and qualitative measurement methodologies as you track your progress toward meeting your objectives.

VENTURE SYNDICATION DYNAMICS

Martin Haemmig and Boris Battistini

Boris Battistini is a senior research fellow at the Swiss Federal Institute of Technology (ETH Zürich) and an associate at Metellus, a venture capital firm based in Zürich, London and San Diego. Martin Haemmig is an adjunct professor at CeTIM at UniBW Munich and Leiden University.

Effective collaboration is of great importance in different settings of work and life. Collaborative behaviour is particularly important in the context of venture capital (VC) investments, where syndications frequently adopt mechanisms that allow different investors to diversify their portfolio, accumulate and share resources and relevant expertise, or reduce the information asymmetries related to a specific opportunity.

The choice of syndication partner is therefore of crucial importance, and likely to affect the outcome of co-investment decisions.

A recent working paper by Prof Paul Gompers and associates at Harvard Business School examines two broad questions on collaboration between venture investors. Specifically, the authors investigate what personal characteristics affect investors' desire to work together and, considering the influence of such characteristics, they test whether this attraction enhances or detracts from performance.

Interestingly, the results of the study show that investors have a strong tendency to partner other investors with a similar ethnic and educational background.

In other terms, VC firms exhibit strong homophily in their co-investment decisions. The authors write: "The tendency of individuals to associate, interact and bond with others who possess similar characteristics and backgrounds has long been viewed as the organising basis of networks. The principle of homophily shapes group formation and social connection in a wide variety of settings, such as school, work, marriage and friendship, in which similarity between group members is observed across a broad range of characteristics, including ethnicity, age, gender, class, education, social status, organisational role, and so on."

In particular, the Harvard researchers found that "individual venture capitalists choose to collaborate with other venture capitalists for both ability-based characteristics – for example, whether both individuals in a dyad obtained a degree from a top university – and affinity-based characteristics – for example, whether individuals in a pair share the same ethnic background, attended the same school or worked previously for the same employer.

Moreover, frequent collaborators in syndication are those venture capitalists who display a high level of mutual affinity".

They continue: "While collaborating for ability-based characteristics enhances investment performance, collaborating for affinity-based characteristics dramatically reduces the probability of investment success."

Having performed a variety of statistical control tests, the authors show that "the cost of affinity is not driven by selection into inferior venture deals". The effect is most likely attributable to poor, inefficient decision-making – resulting from "groupthink" – by high-affinity syndicates after investment.

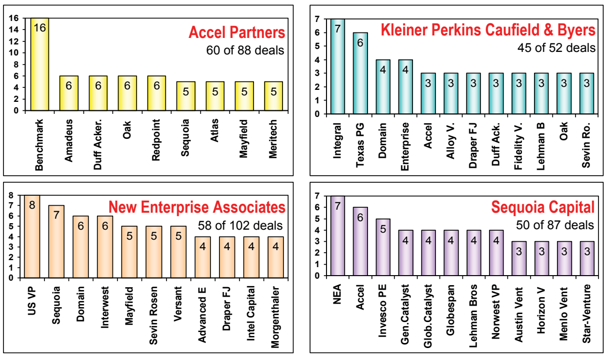
In contrast, the graphs and tables on the following pages are examples of syndication patterns of the strongest co-investor networks in Silicon Valley of leading VCs, micro-vcs, corporates and corporate venturers, top angel investors and accelerators (Y Combinator).

References

Gompers, P, Mukharlyamov, V, and Xuan, Y (2012). The cost of friendship, NBER Working Paper 18141, National Bureau of Economic Research, Cambridge, MA.

VC investor syndication in Silicon Valley (club deals)

2007-2008 H1: The virtuous cycle – success breeds success



Source: Dr Martin Haemmig _ PEA / Data: Dow Jones

Leading Silicon Valley VCs syndication patterns: The four leading Silicon Valley VCs do 50% to 85% of all co-investments with the same six to 10 VC/corporate venturing partners, often referred to as club deals. Syndication helps to spread the risk and gain the benefit of larger networks. The prevalence of syndication varies over time, often depending on the relative supply of capital. In the pre-boom period – the dot.com era of 2000 and the financial crisis 2008 – syndication was the norm. During the boom time, it was comparatively rare.

Corporate venturing in Silicon Valley – top three co-investors

2009-13: Tech-corporates with strongest co-investor network

Rank	Corporate/CVC	Follow-on: 1	Follow-on: 2	Follow-on: 3
1	Google Ventures	Kleiner Perkins Caufield & Byers	Andreessen Horowitz	SV Angel
2	Qualcomm Ventures	Intel Capital	Redpoint Ventures	Motorola Solutions VC
3	Intel Capital	Sequoia Capital	Accel Partners	Kleiner Perkins Caufield & Byers
4	Comcast Ventures	New Enterprise Associates	Kleiner Perkins Caufield & Byers	Accel Partners
5	Salesforce	Kleiner Perkins Caufield & Byers	Google Ventures	Emergence Capital Partn.
6	Time Warner Investments	Intel Capital	Accel Partners	Redpoint Ventures
7	T-Ventures	Accel Partners	Sequoia Capital	Intel Capital
8	Samsung Ventures	Walden International	Intel Capital	Mitsui Global Investment
9	In-Q-Tel	ARCH Ventures Partners	Highland Capital Partners	Harris & Harris Group
10	AOL Ventures	TrueVentures	RRE Ventures	Google Ventures

Source: Dr Martin Haemmig, Data: CB Insights

Top 10 Silicon Valley corporate venturing investors and their follow-on investor syndication network: Most mature corporate venturing groups from around the world also have investment teams in Silicon Valley. The key is to access innovative startups for their technology and emerging business models. As a result, their follow-on investors are local angel groups, accelerators, micro-VCs, VCs, and other corporate venturers. As expected, KPCB, NEA, Accel and Sequoia are the most popular VCs, while Intel and Google are the most popular corporate venturing follow-on investors.

Top angel investors by network in Silicon Valley

Follow-on investors (syndication)

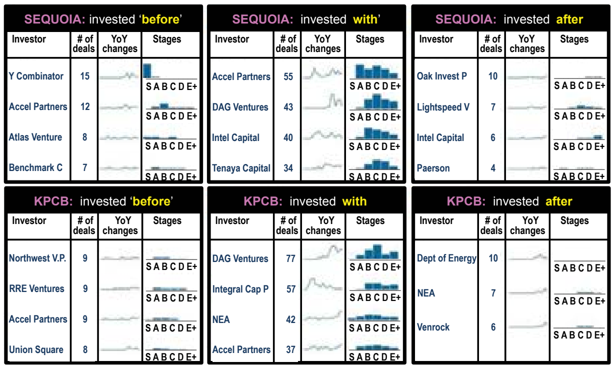
Rank	Angel Investor	Follow-on: 1	Follow-on: 2	Follow-on: 3
1	Alexis Ohanian	New Enterprise Associates	Google Ventures	First Round Capital
2	Max Levchin	Highland Capital Partners	SV Angel	Founders Fund
3	Garry Tan	Andreessen Horowitz	Google Ventures	SV Angel
4	Marc Benioff	First Round Capital	Founders Fund	Greylock Partners
5	David Tisch	First Round Capital	General Catalyst	Lerer Ventures
6	Paul Buchheit	Sequoia Capital	Andreessen Horowitz	First Round Capital
7	Ashton Kutcher	Andreessen Horowitz	Kleiner Perkins	First Round Capital
8	Naval Radikant	Union Square Ventures	Kleiner Perkins	Andreessen Horowitz
9	Scott Banister	Qualcomm Ventures	First Round Capital	Kleiner Perkins
10	Aaron Levie	Khosla Ventures	SV Angel	First Round Capital
11	Tim Ferriss	Google Ventures	Kleiner Perkins	Felicis Ventures
12	Sam Altman	SV Angel	Google Ventures	Andreessen Horowitz
13	Jerry Yang	Benchmark Capital	Trinity Ventures	Clearstone Venture Partners
14	Paige Craig	FF Venture Capital	500 Startups	Crosslink Capital
15	Josh Schachter	Union Square Ventures	500 Startups	Andreessen Horowitz
16	Richard Branson	Insight Venture Partners	Citi Ventures	Index Ventures
17	Harj Taggar	QueensBridge Venture Ptnrs	Doll Capital Management	SV Angel
18	Geoff Ralston	First Round Capital	SV Angel	Sherpalo Ventures
19	Eric Ries	500 Startups	Founder Collective	Bullpen Capital
20	Gil Penchina	Bessemer Venture Partners	New Enterprise Associates	Qualcomm Ventures

Source: Dr Martin Haemmig, Data: CB Insights

Top 20 Silicon Valley angel investors and their follow-on investor syndication network: The top angel investors not only invest alongside other colleagues but ensure their follow-on investments through a tight network of VC, corporate venturing and angel groups. Through previous deals, the different parties get to know each other to the point that they can more or less predict the outcome of a follow-on investment. As a result, angel investors often bring their best deals to a very small group of luminary investors.

VC syndication and club deals in Silicon Valley

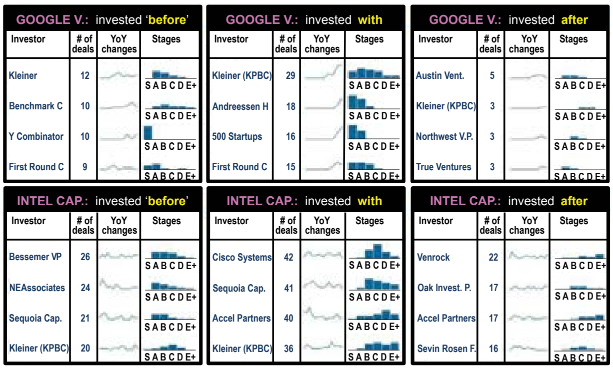
2009-13 Sequoia & Kleiner Perkins



Source: Dr Martin Haemmig, Data: CB Insights (2013)

Corporate venturing syndication and club deals in Silicon Valley

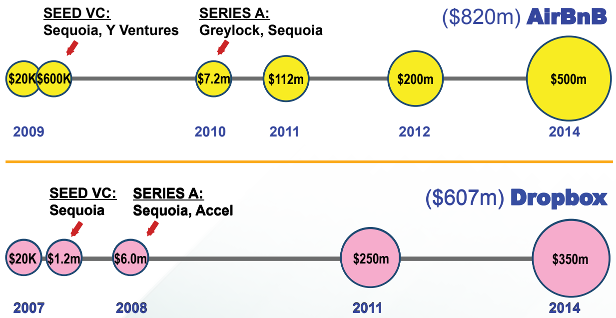
2009-13 Google Ventures & Intel Capital



Source: Dr Martin Haemmig, Data: CB Insights (2013)

Y Combinator's top early-stage club deals

AirBnB 2009-14 ($820m) & Dropbox 2007-14 ($607m)



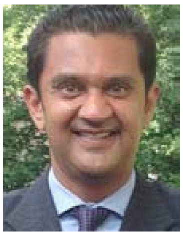
Source: Dr Martin Haemmig, Data: CB Insights (2013)

Sequoia & Kleiner Perkins Cafield & Byers syndication value-chain: Sequioa – Y Combinator is a top feeder, while Accel is top co-investor and a major feeder. Co-investment with Intel Capital, DAG, and Tenaya is limited almost exclusively to post-series A rounds. Involvement with the top five co-investors has remained largely constant except DAG, with more recent activities. KPCB – Accel is a top feeder and also a solid co-investor, while DAG is top co-investor, whereas the US Department of Energy is its largest single follow-on investor, mainly for clean-tech deals. It is interesting to note that KPCB usually co-invests with other large firms at the series B stage or later.

Corporate investors Google Ventures and Intel Capital syndication value chain: Google Ventures – Within four years of its establishment, Google Ventures emerged as the most active corporate venturing arm in 2013. It has developed syndicates with VCs ranging from the largest multi-stage funds to more recently-formed micro-VCs. In April 2014, Google, KPCB and Andresseen Horowitz teamed up to invest in the Google Glass ecosystem. Intel Capital – Although investing since 1991 in more than 1,300 startups, about 300 deals were done in Asia ($2bn). Yet all top feeders, co-investors and follow-on financiers are from the US. The largest co-investor is corporate venturer Cisco for later-stage deals.

Y Combinator shares its $30bn valued portfolio with a small elite syndicate network: Y Combinator is a US seed accelerator – three-month programmes – started in March 2005, which created a new model for funding early-stage startups. The current portfolio (July 2014) is valued at about $30bn, including AirBnB, Dropbox, Stripe, Zenfits,and Machine Zone. The primary VCs in the seed and series A investments are Andreessen Horowitz, Sequoia Capital, Accel Partners, Greylock, Venrock, First Round Capital, General Catalyst, and so on.

MAKING THE BOARD CASE FOR CORPORATE VENTURING



Chirag Patel, managing director and head of corporate ventures, Highnote Foundry

In the blink of an eye, entrepreneurs are turning their ideas into billion-dollar businesses – disrupting entire industries and creating new ones. This environment can present both new growth opportunities and competitive threats to established corporations.

So how do established companies keep up with and respond to this environment? The key lies in applying a new strategic approach to identifying and nurturing growth opportunities and uniting stakeholders around making growth a core part of their business. Corporate venturing is one of the methods that should be pursued as part of this approach.

Making the case for establishing a corporate venturing function requires a well-developed strategy and operating plan – one that defines the corporate venturing objectives against other venturing methods, such as establishing an incubator or accelerator. This corporate venturing architecture must align to corporate strategic growth objectives and be supported by a strong financial business case.

Before making the case for a corporate venturing unit to the board, CEOs should capture input from and build alignment with key internal stakeholders, including division and business unit heads that may view corporate venturing as more of a threat than an opportunity. The CEO must define the urgency and rationale behind the strategy – including how existing businesses can benefit from insights gained from working with external entrepreneurs.

Once internal alignment exists, the CEO can engage the board and make a case with conviction by addressing the what – the opportunity – and the how – the strategy – and covering the following topics.

- **Create a sense of urgency:** Communicate that corporate venturing is no longer a nice-to-have but a must-have, while keeping the board's contending motives and objectives in mind. To do this, articulate the implications of emerging threats and opportunities to the core business, the environment in which they operate and the industry as a whole.

- **Educate the board:** Point out the differences between a corporate venturing unit and a venture capital firm. Hint – corporate venturers have fundamentally different objectives, measures and financial returns. Articulating this at the beginning will set the right expectations.
- **Do not let fear get the best of them:** Illustrate how emerging companies might create new growth opportunities or present a threat to the core business today and in the future. Use analogous and timely industry examples of how well-established companies and their ecosystems are already being transformed by disruptive new business models.
- **Point to the new cycle of innovation:** Emphasise the pace of change. Provide examples where entire industries are being transformed and established companies are being replaced by faster, nimbler startups that are well funded – and it is happening faster than ever.
- **Review past venturing programmes:** Identify why past venturing programmes may have failed and how those failures will not be repeated. Clearly define your strategy, measures, governance models and organisational alignment in a well-organised operating model so that the board knows your plan from the start.
- **Set clear expectations:** Define how the corporation will benefit, both financially and strategically. The business case should define where to invest, how far from the core business to invest, what stage to invest, how commercial benefits can be captured, how the corporate venturing unit will be organised, how existing business units will participate, or not, how much capital is required and the expected financial return.
- **Explain the numbers:** Communicate what the short and long-term financial returns and operating expenses will be and where the funding will come from.

In today's business landscape, the corporate venturing function is no longer a nice-to-have. Established companies must embrace the new competitive environment and see it as a growth opportunity. CEOs can convince key stakeholders, including the board, that this is the case with a robust strategy and rationale and a well-defined operating model.

> Established companies must embrace the new competitive environment and see it as a growth opportunity ”

CORPORATE VENTURING TALENT: FINDING THE RIGHT BALANCE

Georgina Worden, client director, Intramezzo

The short history of corporate venturing has already included a notable boom and a bust, but activity is again on the rise. A CB Insights report found that venture capital (VC) funding has hit its highest mark since 2001, with corporate venturing involved in 15% of deals and accounting for 30% of total US venture capital funding.

While the activity is good news for corporate venturing units, it brings with it significant, if welcome, problems regarding high-level recruitment. Thousands worldwide are looking for the best talent to fill bespoke roles in a relatively new sector. Identifying and recruiting talent has pushed itself to the top of the corporate venturing agenda and, with ideal candidates for top jobs requiring a blend of financial, corporate and entrepreneurial qualities, corporate venturing groups require a strategy for sourcing and retaining talent as much as they need the talent itself.

The chief problem in corporate venturing hiring is finding a mix of strategic and financial expertise, an understanding of corporate culture and an alchemic ability to make money.

Claudia Fan Munce, director of IBM Venture Capital, said: "Attracting talent and building the right team is at the very top of the success factor of a corporate venture team. You need people who have a multiplicity of skills. You need people who can evaluate a company for its merits in terms of tech and for its business model. You need to maintain a relationship with key players inside the ecosystem. At the same time you need to be able to evaluate from a financial investment perspective - not always aligned with the strategic interests of the corporation."

This dislocation of strategy between the corporate parents and their corporate venturing units is a recurring theme when talking to industry leaders within corporate venturing. Ideally they would be hiring people who are fully versed in a company's culture and detail, but the motivations of the corporate, based on quarterly targets rather than seven-year strategies, can be at odds with functioning corporate venturing.

> Spreading the net wider, either in terms of geography or sector expertise, can lead to rewarding appointments

Such motivations are not hard-wired, and the right talent can be trained, but there are other ways of synchronising the heartbeats of the corporate and entrepreneurial sectors.

A people business

Greg Becker, of Silicon Valley Bank, said: "Increasingly, what we are doing has to do with people. You have got to hire the best people – people from financial backgrounds but also people who are more entrepreneurial in how they approach things." It is this entrepreneurism that drives innovation and is essential to explosive growth.

The opportunity for entrepreneurism is also a recruiting tool that can widen the pool of available talent. If you are looking for a successful, experienced CEO then the question candidates are likely to ask is why they should leave their existing, presumably successful, company to join your business. The draw of potential, the challenge of building a venture, can naturally appeal to those with a more entrepreneurial spirit. By searching in a slightly broader way you can increase your options even while the market for talent becomes more competitive.

There are other ways of maximising possibilities for top-level hires. Spreading the net wider, either in terms of geography or sector expertise, can lead to rewarding appointments. We have worked with many corporate venturers who have hired across continents in order to find people with the right skills and connections to help their enterprises. They considered these benefits more important in the long term than any drawbacks associated with a long-distance hire.

Flexibility of employment terms is also worth considering in the search for the right talent. One of our clients, the European venture arm of a major multinational, had an urgent requirement for someone who could deliver a particular process. We found a candidate with extensive experience in both the industry and in growing early-stage companies. The candidate was appointed on an interim contract before developing his own growth strategy. As a result, he was made permanent CEO and put the new business plan into motion, leading to a £35m ($53m) exit with a 10-times return. But the original hire was possible only because of the flexibility of the contract offer.

Five points to consider when building a winning team

- Identify the skills that the unit or venture requires – financial, strategic or relationship-based – to add value.
- Evaluate the strengths and weaknesses of the existing team. Highlight whether you will need to source externally or from within the parent. Recruiting complementary skills is essential to building a productive team.
- Create a strong culture that supports the values of the corporate and founding team but inspires innovation and entrepreneurism.
- Use these values to attract, engage and select the right talent. Often the key to success is replicating this culture, particularly when expanding internationally.
- Consider remuneration carefully – this is crucial for attracting, incentivising and retaining talent.

Key to investment

When thinking about funding rounds and exits, the key to investment, often ahead of product and forecasts, is a confidence from corporate and private equity investors towards the leadership team of the new enterprise. Legendary investor Arthur Rock says: "The problems with companies are rarely ones of strategy. Good ideas and good products are a dime a dozen. Good execution and good management – in other words, good people – are rare."

Tellingly, Rock will look at the résumés rather than the financial projections when examining a company. That is why sourcing talent is so important in raising the ceiling of possible returns. Good people may be rare, but they are also key.

Another issue to consider when hiring is that of carried interest, or carry. A JPMorgan and J Thelander survey found that only three of 60 corporate venturing units questioned included carry as a payment component to their executives, although some large corporate venturing groups, such as

Intel, have started to offer carry-like incentives. In contrast, the survey also found that financial VCs received an average of 23.9% of the profits generated by their deals.

This can be a stumbling block when seeking a hire from institutional VC, and also a block to retaining talent whose heads could be turned by the potentially huge rewards that appeal to the natural entrepreneur. Should the market continue to grow at a faster rate than the supply of outstanding executives, the issue of carry will be hard to avoid.

The concern is that carry could create misalignment in the ways investors and the main board deliver their strategies, but it is becoming a real issue within recruitment.

Lessons from venture capital

Evangelous Simoudis, of Trident Capital, believes a narrow recruiting pool was behind the failure of some corporate venturing teams. He considers them to have been staffed with corporate executives rather than experienced venture investors, as many corporations felt their groups most needed executives with a strong corporate background and understanding of business processes. They also did not offer the rewards, and carry, that would have been attractive to talent with institutional VC experience.

Brad Feld, head of VC firm Foundry Group, thinks it is a category error that heads of corporate venture groups are seen to have a job rather than a mission. He told Wall Street Journal: "Most CEOs are on a mission. I think if you are the head of a corporate venture group, you have to be on a mission, frankly in the same way that a really good venture capital firm is on a mission."

Who to recruit

In deciding who to recruit, and whether to source from the corporate or the financial sector, balances between corporate objectives and the right motives of corporate venturing units must be struck. But new units, without a track record of investing, need to offer added value in order to attract good companies.

The clearest way of delivering this value is through the talent the corporate can bring on board. In recruiting individuals with a network and profile from the investment community, or those who can skilfully manage growth across the venture and corporate ecosystems, corporate venturers can harness talent to make their funds more attractive and dynamic. With Google Ventures and GE Ventures, among others, we are seeing a shift from transactions towards a partnership approach, and partnerships rely entirely on the good people within them. "Talent is the key" is, at last, a truth that unites the corporate and entrepreneurial worlds.

WHY EVERY CORPORATE VENTURER SHOULD HAVE A VC FUND ENGAGEMENT STRATEGY

Paul Morris, director of corporate venturing, UK Trade & Investment

The share of total venture capital (VC) investment represented by corporate venturing units has risen strongly over recent years. Data from Global Corporate Venturing indicates that corporate venturers now account for over 25% of all VC investments, up from 8% in 2010. The number of active corporate venturing units now exceeds 1,100, a third of which have been launched in the last three years.

Many independent VC fund managers have struggled to raise new funds since 2008 and the number of active VC funds has declined. However, they still account for the bulk of capital flows into VC. Every active corporate venturer will come into regular contact with a range of independent VC funds, irrespective of whether the corporates actively seek such engagement. It is essential that a corporate venturer has a proactive strategy for interacting with VC fund managers. Many today follow a more passive or reactive strategy, resulting in sub-optimal outcomes and missed opportunities.

Corporate venturers interact with VC funds in many different ways. Below are eight of the most important opportunities for corporate venturers to gain tangible value from working with VC fund managers. Strong VC-corporate venturing relationships are forged through each party providing input of value to the other. In all of the situations below, the corporate can benefit from working with the VC fund, and vice versa. The first section covers formal VC fund relationships – investment by the corporate venturer as a limited partner (LP). The last section summarises the benefits of informal relationships with VC funds.

GP-LP relationships

Many corporate venturers have active and fruitful working relationships with VC fund managers (general partners, or GPs) without having taken limited partner positions in the respective VC funds. Some of the main benefits of such interactions are covered later in this article. However, some 20% of corporate venturers choose to commit to one or more VC funds as an LP. A formal GP-LP relationship helps facilitate a closer and more intimate relationship. Each corporate venturer should carefully assess the pros and cons of committing a portion of its available capital to one or more third-party limited partnerships. Done well, and framed within a broader strategic investment strategy, selective fund investments can be a valuable additional tool for certain corporate venturers.

Some corporate venturing leaders consider that an active VC fund strategy is relevant for financial return-driven corporate venturing, but not for corporate venturing that follow a primarily strategic approach. This misses the key point that VC fund interactions can support both strategic and financial objectives. Several corporate venturers have stated that they had invested as an LP in independent VC funds in the past, but that this did not work out and thus they no longer took LP positions. In almost all such cases it was not the model that was flawed but rather the implementation. Either the choice of fund was wrong or the way the working relationship was managed was ineffective – or both.

A proactive VC fund strategy can help avoid such costly errors. Some key dos and don'ts are listed in the panel to the right. These are drawn from the experiences of many corporate venturers with whom I have spoken, along with my personal experience as a corporate venturer of investing in 15 VC funds.

Why do corporate venturers take LP positions in funds?

- Access to dealflow of broad general interest: This is particularly relevant for corporates who have just launched new corporate venturing units and have not yet built up other independent sources of dealflow.
- Diversification: access to sector-specific or geography-specific dealflow. Corporates with well-established dealflow sources in their main markets may use fund LP positions to access new sectors or geographies that they are less familiar with.
- Source of expertise: The partners of a well-established VC fund will typically collectively have 50 years or more of VC investment experience. This can be a valuable source

Do

- Elaborate clearly the purpose and desired outcome of investing in a VC fund. Be clear on how this enhances your direct investment strategy. Ensure there is broad internal understanding and buy-in.
- Research thoroughly all active VC fund managers in your target sectors and geographies. Identify those that best fit your profile. Meet the fund partners and decide on a shortlist of two to four.
- Be very clear about your objectives in investing as an LP. Are you convinced the GP is able and willing to commit fully to the desired relationship and exchange of information you desire?
- Conduct this assessment process over sic to 12 months if possible, during which time you can develop an informal working relationship, to be formalised as and when you commit to invest in the fund. Request an invitation to the next investor meeting the GP will hold. This provides an opportunity for you to speak with other LPs in the fund, some of whom may have invested in previous funds managed by this GP. Remember that managers typically raise a new fund only once every four years.

Don't

- Commit more capital to the VC fund than the minimum required to achieve your strategic objectives. If your objective is primarily financial return then a different rationale needs to be applied.
- Invest in a fund where only a small percentage of its dealflow and investments fit your investment scope, even if that fund is the best of all those surveyed.
- Make the mistake of equating the role of the VC fund senior managing partner with that of a corporate CEO. Most VC funds are structured as partnerships and you need to develop relationships with all the key partners and also any analysts and associates that have a specific focus on technologies or markets of strong interest to you.
- Believe that once you sign the partnership agreement and respond to the first capital call you can then sit back and wait for the GP to deliver all you are interested in. What a strategic corporate venturing investor gets out of a fund investment, over and above that which an institutional investor gets, is very much a function of the time and effort committed by the corporate venturer to the relationship on a continuing basis.

of information, guidance and expertise for a corporate venturing executive, particularly where he or she is new to VC.

- Precursor to full launch: A corporate venturer may choose to test the market and gain familiarity with the VC ecosystem by making one or more small LP commitments. This may be a precursor to implementing a direct investment programme.
- Operational budget limitations: Some corporate venturers may have limited resources to run a broad direct investment operation. As such, they complement a limited number of direct investments with VC fund positions to achieve the desired sector coverage.
- Multi-corporate funds: A few funds have been established through collaborative LP commitments made by a small number of corporate VCs. These are typically managed by an independent GP and the participating corporates have complimentary rather than competing core businesses. Aster Capital (Rhodia, Alstom, Schneider Electric) and Ecomobilité Ventures (Orange, SNCF, Total) are two such examples.
- Sole LP fund: Certain corporates may set up a dedicated fund in which they are the sole LP and appoint a third party to manage the fund. The degree of strategic focus of the fund and the extent to which the GP can make unencumbered investment decisions is negotiated as part of the GP-LP agreement. Dow Chemical had one such fund, managed by CMEA.

Informal relationships

Syndicate partners: Most VC-backed companies will count several different investors on their shareholders roster. It is rare for a company to be funded from inception to exit by a sole VC investor. A corporate VC with a portfolio of 20 companies may have over 50 different syndicate partners, many of which will be VC funds. A strong working relationship between the corporate venturer and its VC fund syndicate partners is essential if the corporate venturing unit is to achieve its individual investment objectives. Key interactions may include board meetings, follow-on funding round negotiations, and raising awareness and understanding of the corporate venturing units strategic/ business objectives over and above its financial return target. Where the corporate venturing unit has existing portfolio companies that are seeking to raise additional capital, the corporate venturing unit should be able to facilitate introductions to VC funds from its network.

Dealflow sources: VC fund managers can be valuable sources of pre-screened dealflow, notably those with partners who have been active in a particular sector for many years and have built strong reputations. A VC fund may be willing to share dealflow with a corporate venturer whom they regard as a desirable syndicate partner. The VC fund may also invite the corporate venturing unit to join a funding round of a company in which the VC fund has previously invested. Such exchanges usually require the corporate venturing unit to have previously interacted with the VC fund and to have established a mutual interest to explore opportunities together. This can help mitigate the fact that GPs will favour corporate venturers that are LPs in their funds over corporate venturers who are not LPs when it comes to sharing dealflow. A corporate venturer should actively research which are the leading VC funds in a) each of the sectors the corporate venturer invests in, b) each of the main geographies that the corporate venturer is targeting, and c) each stage at which the corporate venturer desires to invest – in practice, seed, early-stage and growth stage.

Sources of investment expertise: VC fund partners with extensive investment experience can be valuable sounding boards for corporate venturers, particularly – but not limited to – those who are new to investing. The willingness of the VC fund manager to commit time and effort to such communication will, however, be far greater if the corporate venturer is an LP in the fund, or – note well – is considered to be a potential future LP.

Due diligence: Many VC fund partners have deep expertise in certain technologies and sectors. Where a corporate venturer has a strong enough relationship to tap into this

VC fund partners with extensive investment experience can be valuable sounding boards for corporate venturers, particularly those who are new to investing

wealth of knowledge considerable time and effort can be saved in doing due diligence. The fund partner may have already assessed a particular company that is of interest to the corporate venturer and may be prepared to share the key outcomes with the corporate venturer. Corporates can build such relationships by reciprocating where they have internal technology and market expertise.

Human capital: For much of the last 15 years, Corporate VCs have been frustrated to lose high calibre investment professionals to independent VC funds. In the last three or four years, however, corporate venturers have flagged this issue much less frequently. Indeed, as corporate venturing continues to expand and many independent VC fund managers struggle to raise new funds, there has been a flow of talent in the opposite direction. The opportunity or otherwise to earn carried interest will continue to be an important factor in any such job transfer deliberations. corporate venturers that are looking to expand their teams should consider VC funds as a potential source of human capital.

Market/sector information: Experienced VC fund managers will often have cutting edge technology and market information for the sectors in which they are active. In certain cases the relevant partner may be a key influencer in a sector via participation in governing bodies, thought forums and conference keynotes. The partner can convey not only his/her knowledge but also the collective wisdom of all the portfolio companies that person manages.

Geographic Reach: A VC fund active in a geography that is unfamiliar to a corporate venturer can provide valuable insights into opportunities in that region. The VC fund manager may be prepared to share these openly if the corporate venturer becoming active locally is seen as a positive development by the VC.

15 PREDICTIONS FOR 2015

Tracy Isacke, managing director, Silicon Valley Bank

Predictions are a dime a dozen at this time of year, but they are fun to do. I love my job at Silicon Valley Bank (SVB) because I spend much of the day talking to people who are at the top of their game in their fields and view the world as a place ripe for change. Technology cannot solve all our problems, but it can go a long way to making our lives better. Personally, I could not be more excited to know you can now print chocolate delicacies with a 3D printer – chocolate on demand works for me.

1 With machine learning, big data and analytics all converging, you will not need me to make predictions next year – a machine can do it. Seriously, an algorithm will ultimately do a better job.

2 Corporate accelerators are on the rise – often run in conjunction with accelerator professionals. This is a good way for corporates to access the early stage and gain a view over the horizon.

3 Corporates are now investing more than 25% of funds in earlier series A and B rounds and are an integral part of the innovation ecosystem, starting at the earliest stage, and that looks set to continue in 2015.

4 Innovation is the best defence against cyber-criminals, and there is ample opportunity here for humans and machines to put a crimp in their sordid business. The new mantra – there is no such thing as 100% security, the key is to manage the risk effectively.

5 Forget the cloud – space really is the new frontier for tech. Not space shots for tourists but the promise of space research 21st-century style. Move over Tang and Teflon. A serious question overheard at a recent Silicon Valley tech gathering was: "What is your space strategy?"

6 Back on earth, more of us will become even more interested – for some, obsessed – with our quantified selves, using wireless monitoring technology to keep tabs on our health and habits. It will be fascinating to see the spin-out businesses created as a result of all that information.

7 Personalised medicine is getting hotter. SVB's healthcare team is reporting a rise in investor interest in diagnostics and tools companies, as micro-technology advances allow for the delivery of actionable data in real time.

8 My world of banking is on the brink of major change, too. In late 2014, we saw alternative credit companies go public, which will open the door for more in 2015. A recent SVB survey of marketplace companies confirmed the finance, healthcare and education sectors are most likely to see shake-ups based on the online marketplace model.

9 New vertical marketplaces and expansion based on mobile adoption will continue to change how we access and consume all types of services. The survey also found these companies see balancing supply and demand as their greatest issue, and establishing trust with their users.

10 The customer is king – while changes in technology and consumer behaviour are setting the stage for marketplaces to thrive, online reputations are becoming a more reliable indication of offline trustworthiness, and consumer satisfaction initiatives may become as important as product innovation, though the two go hand in hand.

11 Living in our connected worlds, we easily forget that around two-thirds of the world's population still have no reliable, if any, connection to the internet. Still, global mobile data traffic grew by 81% in 2014, according to Mobile Future. In 2015, there will be even more pressure on the mobile infrastructure to keep up.

12 Back to space, Elon Musk is talking about launching a fleet of 700 micro-satellites to provide data access in the farthest reaches. Google is working on a balloon solution and Facebook on drone solutions.

13 Overall, entrepreneurs are in the driver's seat. The cost of starting companies in general will continue to drop. But scaling will bring challenges, particularly when it comes to hiring specialised engineers. Anybody with data scientist on his resume can probably write his own ticket.

14 The same is not always true for women. The lack of women in technology got a lot of attention in 2014. SVB launched a series of interviews with female entrepreneurs: www.svb.com/women-in-technology/. Now Google, te Entertainment Industries Council and the National Centre for Women in Information Technology are partnering to offer a new award in 2015 – the best portrayal of women in tech. To make a nomination, go to https://plus.google.com/+LifeatGoogle/posts/KfDrjGbbdcb. And look out for Code, a documentary on the gender gap due out in a few months.

15 The consumer electronics and mobile shows are going to kick off 2015 with a kaleidoscope of wearables, and a host of exciting new technology. I am hoping this year brings the wearable outfit that does not need to go to the dry cleaner.

In summary, whether you prefer to disrupt, invent or engineer, I predict 2015 will be very exciting, but will require all of us to be vigilant and on our toes. The innovation cycle only has one gear – super-fast.

New vertical marketplaces and expansion based on mobile adoption will continue to change how we access and consume all types of services ”

CONVERGENCE ENGINEERING AND CORPORATE VENTURING

Author Jens Maier interviews Heidi Mason, managing partner, Bell Mason

When investigating the approaches to convergence engineering, we also have to look at the role of corporate venturing as another way corporations participate in global innovation and new venture development to ensure strategic expansion and long-term growth.

University of California Berkeley Business School professor Henry Chesbrough developed the paradigm of open Innovation that observes that companies benefit from external ideas, as well as their own internal strengths and ideas, and asserts that the combination of these internal and external paths to market accelerates technology and innovation acceptance and commercial growth.

Corporate venturing is the operationalisation of these ideas – particularly aiding companies to access external innovation, playing a role in the development of innovation and new business models for growth on a global scale. Corporate venturing programmes typically focus on technologies and new markets adjacent but distinct from the company's core businesses. Corporate venturing teams require a degree of organisational autonomy in order to blend corporate and new venture investment and development effectively.

In 2011 Heidi Mason, of consultancy Bell Mason, wrote a landmark article – Catching the Fifth Wave, in Global Corporate Venturing, February 2011 – summarising the 50-year-old history of corporate venturing by identifying five waves, which seem to be associated with the ups and downs of the business cycle.

Wave 1: In the 1960s some 25% of Fortune 500 companies established corporate venturing units. This wave lasted until the early 1970s.

Wave 2: This started in the late 1970s, fuelled by tax changes, especially involving high-tech and pharmaceutical companies. The wave lasted until the stock market crash in 1987.

Wave 3: Involving the dot.com era until 2000.

Wave 4: A short wave – 2006-08 – very much curtailed by the financial crisis in 2008

Wave 5: Since 2011, involving a shift from vertical to horizontal thinking, internal innovation networks linking to external ecosystems, and performance measurement becoming more sophisticated.

The first four waves described by Mason focus on the vertical – how a company can outperform within its industry. The fifth wave includes some significant implications for horizontal innovation – the convergence between industries.

I asked Mason how she sees the role of corporate venturing today, especially in the context of convergence and its potential for convergence engineering.

Mason is a veteran of Silicon Valley and co-founder and managing partner of Bell Mason, a speciality consultancy serving global corporations that seek strategic growth through corporate venturing and innovation initiatives. She is a strategic adviser to Global 1,000 corporations focused on innovation, new markets and new business creation through venturing.

What happened after you wrote the article in 2011?

Significant changes happened. More than half of current corporate venturing units were formed after 2009. There has been significant growth in the level of activity. Global Corporate Venturing has been monitoring the level of investment activity for many years. In 2014 they detected a record level of global deal activities through broadening corporate investment syndicates and collaborations. The change has been significant. The drive towards horizontal innovation – convergence – is much more pronounced than we anticipated.

What were the drivers for this shift?

The need for growth. Following the financial crisis, organisations were under enormous pressure to identify growth opportunities in an uncertain macro-economy. This pressure led to a fresher thinking and to the acceptance that thinking beyond industry boundaries was required. At the same time, organisations such as Google and Amazon showed how they can take existing industries to a new level, without the constraints of legacy businesses. The threat of these new disrupters galvanised many incumbents into action.

Are we still on the fifth wave?

Looking back at the 50-year history of corporate venturing, I think we are now in the middle of a tectonic shift. In today's context, the relatively incremental progress we have described as waves is no longer adequate to characterise today's environment.

What constitutes this tectonic shift to a new generation? What is different this time?

The landscape is changing in fundamental ways, and these changes are reshaping industries.

Technology is ubiquitous – mobile, cloud, social media, internet of everything – this perfect storm affects every business everywhere on the planet. This has led to collapsed development times and a necessarily faster cadence for innovation.

Horizontal thinking is now required. Vertical or functional siloes are now understood to be counterproductive, and connecting partners across ecosystems is necessary. These new competitors have no such structural limitations.

Customer-centric solutions, resulting from ubiquitous technology, mean end-to-end solutions are increasingly possible and, when possible, superior.

We have identified three key pivot points for a new era of corporate venturing.

The first is time compression. A three-year timescale is the necessary new norm in which to demonstrate meaningful progress inside a global corporation as outside in the global marketplace. This is a significant reduction from the previously accepted innovation timeframe of five years plus. Internally, this timescale reduction is compounded by what seems to be the natural tenure of corporate executives in positions and typical cycles of corporate reorganisations – also three years. If progress is not seen within three years, the new corporate executive with responsibility for venturing will probably start all over again, or, at the very least, interrupt the current operation and slow its momentum, often enough to lose competitive positioning and deal access.

Second are next-generation corporate venturing power tools. One is ecosystem mapping. This frames investment focus areas and connects portfolio strategy to a map for its execution – corporate venturing ecosystem mapping is challenging and time-consuming to do well, but those who are doing it are also accelerating their performance against their goals. End-to-end ecosystem models deconstruct how local-to-global ecosystems operate, creating a picture of how their key elements and players interrelate and connect. This provides a frame for the corporate venturing team to identify a system of focal points for investment and develop a cogent make-minority invest-buy-partner strategy to drive integrated portfolio development – convergence. This corporate venturing ecomapping technique helps teams turn their strategic portfolio investment map into impactful types of strategic and financial value return, faster.

Other aids to corporate venturing involve market-maker investment tools. Many groups' charters are expanding beyond individual minority investments, now including active engagement with mergers and acquisitions (M&A), growth private equity, and other means of quickly building roll-ups and collaboration among their portfolio companies – another type of convergence of previously separate tools adapted as a continuous corporate venturing tool suite. The benefit for all is instant leverage points among portfolio companies and other types of identified partners, insuring embedded strategic and financial multipliers, and portfolio position for each of its investments. Other forms of innovation business and technology partnering also are now converging in corporate venturing programmes, connecting the dots with other corporate innovation mechanisms and groups that handle strategic alliances, research and development, intellectual property and licensing, M&A, joint ventures and joint development, commercial piloting and incubators, and so on.

The third key point involves the corporate venturing team istself and compensation – the key to recruiting, retention and, finally, institutionalisation of corporate venturing as a mainstream corporate innovation function and contributor to long-term corporate growth.

Corporate venturing compensation structures are the test of the corporation's intentions and its ability to compete effectively for the right senior team members with the required mix of specialised skills, and ensure they stay together. Corporate venturing teams require a unique blend of skills that complement one another and are rarely found complete in one individual. Ambidextrous organisational principles and convergence thinking are now critical to building the right type of team of individuals whose special skills mesh to bridge the corporate and venture worlds.

Corporate venturing compensation structures are the ultimate test of corporate seriousness on this topic. A position in a venturing unit must be seen as a beneficial career move within the corporation, with rational risk-reward compensation structures and performance expectations, along with a formal path for succession planning. Otherwise, venturing positions at the corporation are really a limitation for an individual who is high performance and career oriented – the corporate venturing role instead becomes functional training, professional development on the way to another more respected and impactful operating job, and assuring a revolving door of corporate venturing candidates and team members of variable qualifications. In these cases, the loss of programme momentum and ability to deliver performance is inevitable, along with the loss of institutional knowledge that comes and goes with individuals not incentivised to stay and build the corporate venturing programme and team.

Can you provide examples of good convergence engineering?

In today's high-urgency, rapidly-moving world, it can no longer be just about individual deals or even about a portfolio, and the solutions depend on converged systems engineering. This is required if the results are to be sustaining.

Global Health Innovation (GHI), the corporate venturing group set up by Merck in 2010, is a good example. GHI's leader and team are emblematic of the new era of corporate venturing. Their portfolio strategy and significant value return to date is driven by their ecosystem vision, expanded suite of corporate venturing market-maker tools and the leader's assembly of the right team.

For example, GHI portfolio company Preventice, a remote patient care system, combines the knowledge and leverage of the pharmaceutical company Merck and that of the Mayo Clinic. Under GHI's stewardship, Preventice has merged with another of GHI's portfolio companies in remote monitoring, eCardio, which was also backed by Sequoia, a top-tier Silicon Valley venture capital firm. Combined, they accelerate GHI's and Merck's influence in the fast-growing remote monitoring market with an anchor position in GHI's portfolio, building a powerful platform to drive innovation and accelerated market growth in the next stage of the healthcare industry.

In agriculture, Monsanto has been pushing the boundaries in augmenting their key capabilities around seed with climate information and work on pest control that has led to significant increases in soil yields. The benefits of these successful convergence engineering efforts by Monsanto Growth Ventures will be felt globally.

Citi Ventures, the integrated internal innovation and external investment arm of Citi, is also leading the way for the future of banking, embodying corporate venturing attributes and portfolio strategy in areas of mobile cloud, big data analytics, cyber-security and virtual currency, and has worked closely with the Silicon Valley ecosystem, partnering for investment in innovative companies such as Square.

You have been based in Silicon Valley, which in itself has been praised as being the prime example of a successful ecosystem. In terms of convergence

engineering, even Silicon Valley may be too small an ecosystem. How will the role of ecosystems develop?

Here is where ecosystem mapping comes in. Ecosystems have to be seen from an end-to-end perspective and the global ecosystem needs to be supported by local ecosystems. Ecosystems come from a blend of entrepreneurial infrastructure and insight with the implications of global, interconnected markets.

The entrepreneurial 'best practices' unquestionably originated in areas like Silicon Valley. Its unique ecosystem is the high-performance engine behind its historical success, which has led others in other areas around the world to strive to replicate and adapt the Silicon Valley model in their local environments.

Understanding the dynamics and unique skills of local players and local environments that comprise these international innovation hubs – and how local players connect end to end – becomes critical to understanding how to succeed for local collaboration. At the same time, localised innovation eco-understanding converges at a larger, global level in a vision and system strategy for how to connect one to another at a global level, leading the way as to how to effectively manoeuvre and connect elements across these hubs and ecosystems from a local to global level, to accelerate corporate venturing programmes, portfolio and investment development, corporate value delivery and the corporation's emerging market impact and influence.

As we have all progressively understood, especially in the past five years with the explosion of technologies and access that instantly connects and enables us all, local is not enough to be successful in today's world. In addition to global corporations with business infrastructures established around the world, new ventures must have a global outlook from their birth. Innovation hubs in other parts of the world are now critical to new ventures that form in them, providing a local environment with better perspective on the necessities, demands and opportunities for global strategies and market development.

Ecosystems have to be seen from an end-to-end perspective and the global ecosystem needs to be supported by local ecosystems ”

PART 6

COMPENSATION TRENDS

We have partnered J Thelander Consulting to republish the executive summary of the compensation consultancy compensation report – the most comprehensive effort to provide cross-industry external benchmarks for corporate venturing compensation levels and structures

The Thelander-CVI2 2014 CVC Compensation Report provides data from 116 corporate venturing executives representing more than 80 leading programmes at Global 2000 corporations. The survey was conducted by compensation specialist J Thelander Consulting in partnership with the Corporate Venture & Innovation Initiative (CVI2), a consortium of thought-leading advisory service firms dedicated to serving the corporate venturing and innovation industry. This survey was supported by trade bodies the National Venture Capital Association (NVCA) in the US, the European Private Equity and Venture Capital Association (EVCA), Innovator's Huddle and conference organiser International Business Forum.

In recent years, there has been tremendous acceleration in the number of companies launching corporate venture capital funds and programmes. According to CVI2 charter member and pioneering industry tracker and media company Global Corporate Venturing, today worldwide there are more than 1100 corporations with corporate venture programmes, more than 475 of those having formed since the beginning of 2010.

Companies use corporate venturing as a compelling means to drive outside-in – open – innovation for access to new and disruptive technologies, the development of new business models and participation in emerging markets, all of which may contribute to corporate growth. Furthermore, as the traditional venture capital industry continues to consolidate, corporate venturers are playing an increasingly important role in assisting startups with commercialisation, providing their portfolio companies with operational and market development support as well as financing. Additionally, corporate venturers are amplifying internal corporate innovation initiatives and accelerating external market impact through mergers and acquisitions (M&A) and other forms of investment partnerships and collaborations.

For most corporate venturers, corporate investment goals are a combination of strategic impact and financial return. Historically this has created a compensation conundrum for recruiting, rewarding and retaining corporate venturing professional talent – how to frame corporate venturing compensation relative to both traditional venture capital risk-reward models and established corporate salary structures.

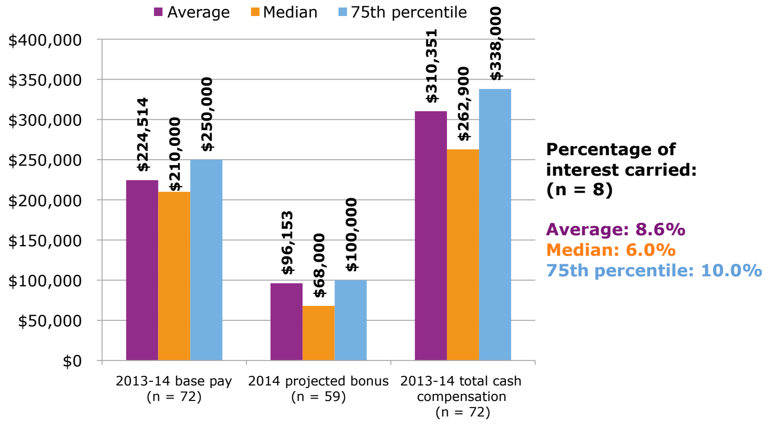
As we see for the second year in this survey, nearly all corporate venturing professional compensation structures are in cash, a mix of base salary and bonus, compared with the venture capital model of carried interest – or carry, a share of returns from the firm's investments – which very few corporate venturers receive.

The 2014 survey shows that corporate venturing unit leaders earn, on average, $305,052 a year plus $164,732 in cash bonuses. The survey also includes minimum, maximum and 25th and 75th percentile data for the unit leader position as well as the following roles – senior investment professional, portfolio manager, unit chief financial officer (CFO), investment or programme manager, analyst or associate, and vice-president innovation. This last role is not to be confused with the chief innovation officer, to whom the corporate venturing group may report, and a role this survey does not yet track.

In the future, drill-down surveys are planned to explore sector and unit age-specific variations, as well as on and off-balance-sheet corporate venturing structures.

As corporate venturing has become a more mainstream strategic innovation activity, CVI2 is seeing a broader range of mandates aimed at maximising unit impact. Although 96% of survey participant units make minority equity investments, 20% also make majority equity investments more consistent with growth private equity strategies, and 23% also are involved in innovation M&A activity. Furthermore, 42% have commercial piloting or incubation responsibilities, or both, that actively link corporate venturing investments and business unit activities. This variety of roles suggests corporate venturing compensation

Corporate venturing compensation: Senior investment professional



approaches will need to continue to evolve, in keeping with the expansion of the units' mandates and individual corporate venturing responsibilities.

Incentives for success

In addition to recruiting and retention, compensation structure can also signal the focus and intent of corporate executive management. Do CEOs and CFOs still view corporate venturing as an experiment or an opportunity to temporarily expose promising personnel to venture capital/innovative startups for career development? Or is corporate venture now a sufficiently critical priority to create the human resources and compensation policies required to effectively recruit and retain a team of specialized corporate venturing personnel?

About 71% of the respondents to the 2014 survey said their current title and compensation structure failed

Thelander 2014 Investment Firm Report – venture firms
Investment professional less than $1bn

Investment professional	No. of companies reporting	Average	Minimum	25th %ile	Median	75th %ile	Maximum
2014 base $	28	$510,634	$216,000	$300,000	$400,000	$600,000	$1,301,750
Bonus for performance 2013 $	16	$346,156	$60,000	$111,000	$300,000	$500,000	$1,000,000
2014 total cash compensation	28	$694,152	$250,000	$400,000	$605,000	$900,000	$1,500,000
2014 projected bonus $	14	$452,143	$100,000	$150,000	$417,500	$500,000	$1,500,000
Carried interest	24	17.1%	3.0%	8.0%	16.5%	22.0%	36.0%

to compensate them accurately and appropriately as a corporate venturing professional. This outcome should not come as a surprise – in 2014, fewer than a quarter of corporations look to external benchmarks to determine comparables for corporate venturing compensation and career path planning, while 44% continue to rely on existing internal corporate and human resources benchmarks and banding as the primary means of framing the approach to venturing professionals' compensation, recruitment and retention.

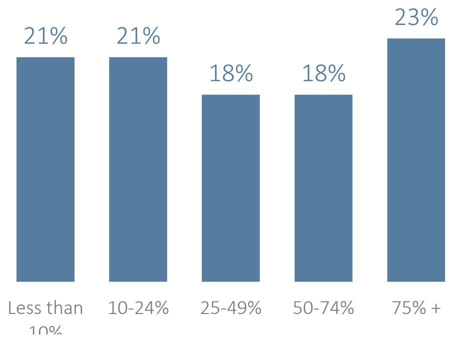
However, the 2014 survey shows increasing efforts are being made to define and reward individual and unit performance beyond deal-sourcing (80%) and traditional financial metrics (62%). Close to 50% of respondents noted that their individual bonus structures now include some level of strategic impact metric to capture value-add to the parent corporation – business unit input, pilots, tech transfers and so on.

Nearly half the factors behind cash bonuses paid were a result of the overall parent company's performance over the previous year, with the individual or team's contribution making up the remainder. Half the survey respondents said they were granted options or shares in their corporate parent.

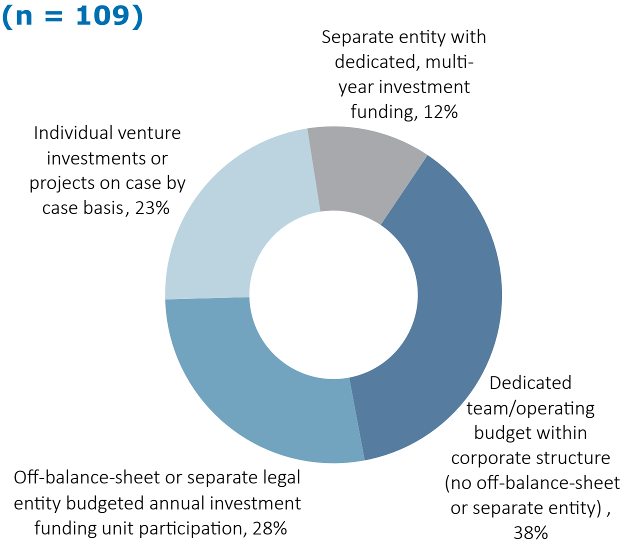
Unlike financial venture capitalists, only 3% of respondents included payment of carried interest as a component of compensation to their venturing executives. Another 8% have incentives that reflect created profits through a shadow or phantom carry component of compensation.

The comparison of the corporate venturing compensation survey results for 2013 and 2014 showed an interesting consistency – the average compensation numbers for the various venturing team roles remained similar, even though the number of 2014 respondents to the survey doubled in size from 2013. CVI2 is encouraged that this may be an indicator of evolving standard bands of cross-industry compensation structures for venturing professionals. It is clear that corporate venturing roles are different from their financial venture capital counterparts, but it is also clear that corporations are still in process of adjusting internal, established compensation structures to accommodate venturing professionals better. This 2014 survey data creates an opportunity for corporations to make use of the growing volume of external, cross-sector peer reference points to define more consistently corporate venturing roles, compensation packages and career path planning.

What percentage of the current corporate venturing team came from the parent corporation?
(n = 114)



What is the structure of your investment fund?
(n = 109)



Sisyphus syndrome

The frequency of senior management rotations, particularly CEO and CFO, directly correlates with the limited tenure of corporate venturing leaders – nearly half the respondents said they had experienced a CEO or CFO change in their parent company in the previous three years.

CVI2 notes that these typical turnovers in the senior ranks of the corporation often trigger corporate venturing programme reviews, especially if there are changes in direct reporting structures.

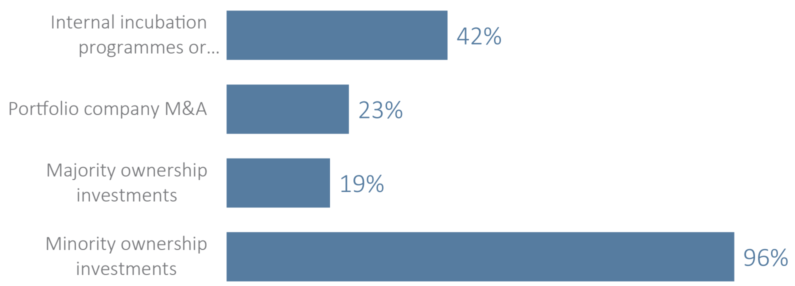
This phenomenon may prove additionally challenging for venturing programmes and team retention, as change in leadership may slow the unit's external investment momentum and progress against long-term goals, as well as require a temporary shift of time and attention for reframing and educating new leadership on programme value and results.

One corporate venturing veteran of more than 20 years described this as similar to the myth of Sisyphus having to roll a boulder uphill every day only to see it fall back every night.

Of the venturing unit leaders who responded to the survey, nearly 40% had been in place less than two years and a third for less than five years. These terms are significantly shorter than the term of most corporate venturing units, 46% of which have been in business more than six years.

This relatively short tenure might also partly reflect the rapid growth in the industry over the past three years. Many have recruited experienced managers from other companies or with financial venture capital background to complement their internal executives.

Corporate venturing unit charter and responsibilities (n = 113)



Of the 116 respondents to the survey, 60% said less than half their team were sourced from internal moves from the corporate parent. Nearly a quarter (23%) said at least three-quarters of their team came from the parent company. The internal-sourced corporate venturing team members were seen to provide internal access and networks, with the outside hires to bring corporate venturing deal-making and market domain expertise.

The most common venturing unit structure (38%) is to draw money from the parent company each year with a dedicated team and operating budget. Nearly 40% operate either as a completely separate entity (12%) or through a limited liability company or off balance sheet with an annual investment budget (28%). Close to a quarter rely on obtaining investment funds from the parent company on a case-by-case basis.

Previously, most of the information on corporate venture compensation and structure has been anecdotal or opinion based. With the Thelander-CVI2 2014 CVC Compensation Report, the market realities have become much clearer, and the decisions for executive management and corporate boards can be more informed.

To purchase a full copy of the Thelander-CVI2 2014 CVC Compensation Report, the Private Company Compensation Report or the Investment Firm Compensation Report, visit: jthelander.com/thelander-surveys/

PART 7

SECTOR BENCHMARK ROUND-UPS

In this section we display activity by investors in the various sectors we cover, breaking down where they are investing by region and round against their peer group

Global Corporate Venturing data powered by

qbix ANALYTICS

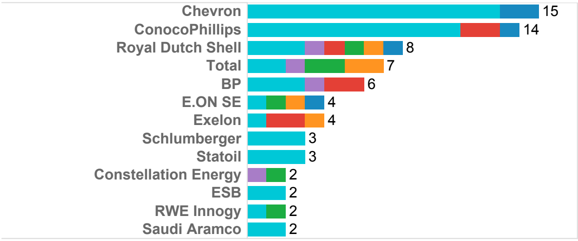
and

Relevant EquityWorks

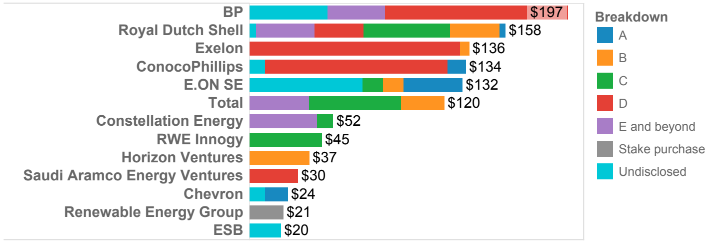
2014 Top Corporate Venture Participants

In the Energy Category, Breakdown by Round

By Number of Investments



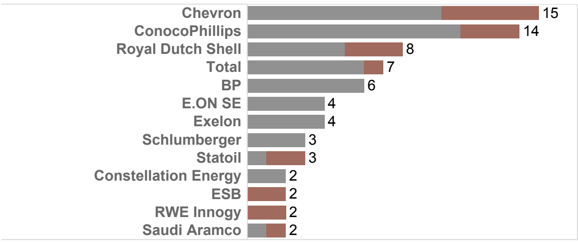
By Investment Amount



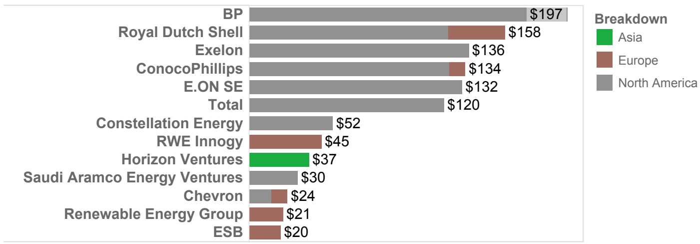
2014 Top Corporate Venture Participants

In the Energy Category, Breakdown by Region

By Number of Investments



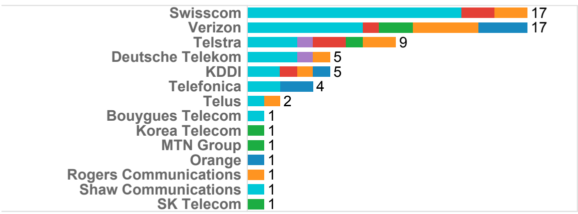
By Investment Amount



2014 Top Corporate Venture Participants

In the Telecoms Category, Breakdown by Round

By Number of Investments



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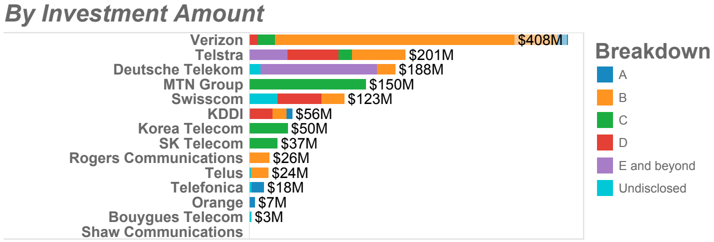
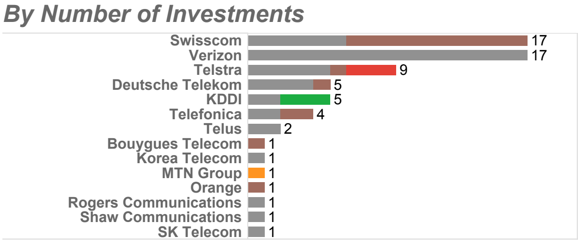


2014 Top Corporate Venture Participants

In the Telecoms Category, Breakdown by Region

By Number of Investments



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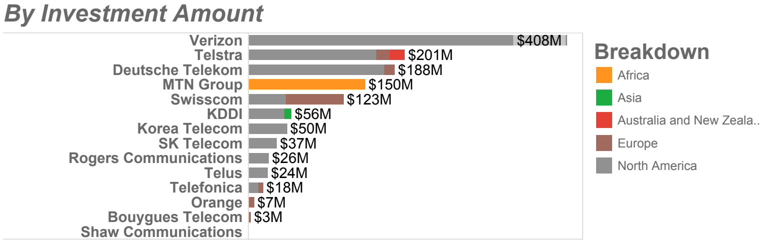
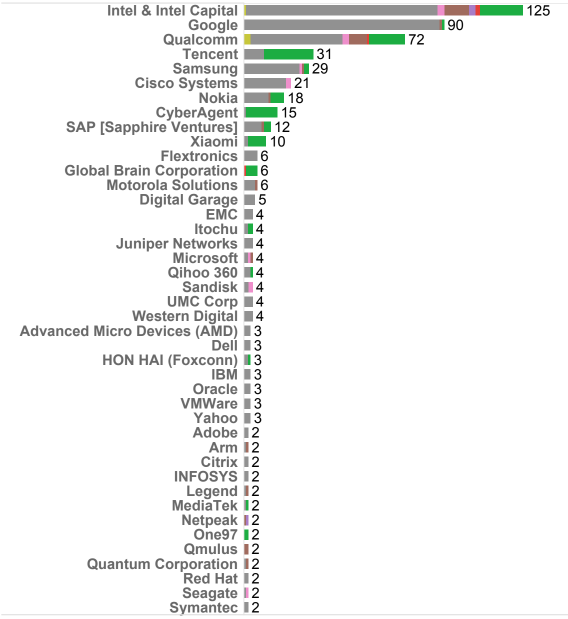


2014 Top Corporate Venture Participants

In the IT Category, Breakdown by Region

By Number of Investments



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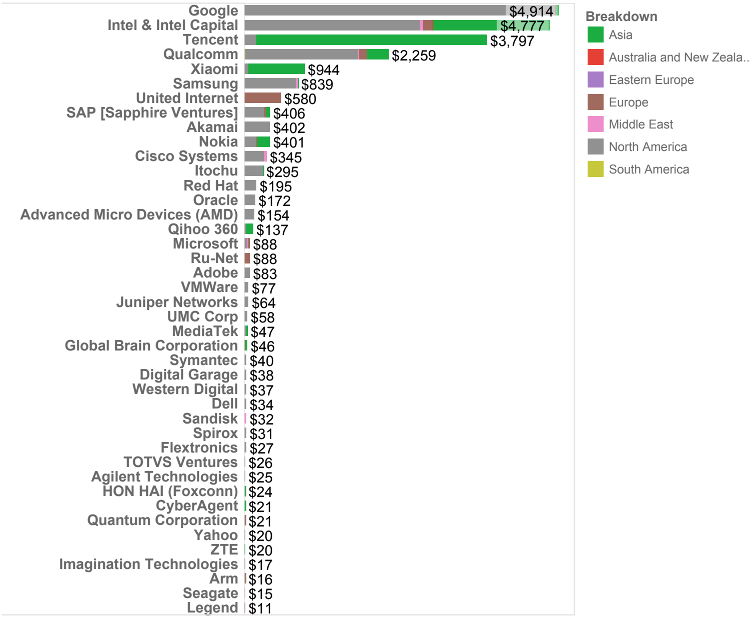
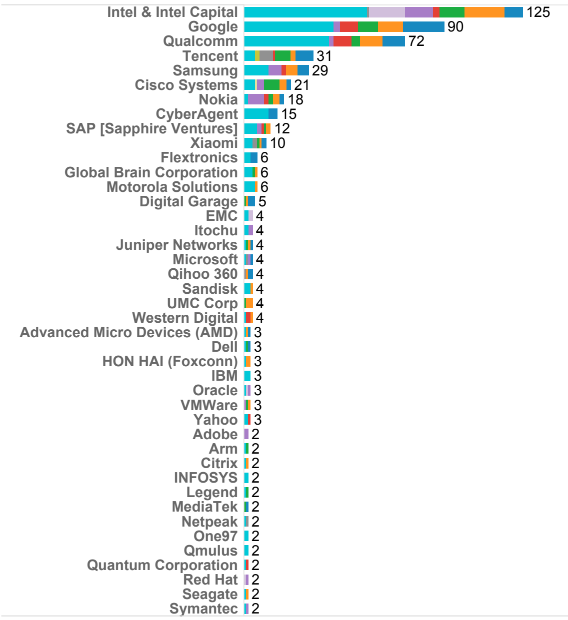


2014 Top Corporate Venture Participants

In the IT Category, Breakdown by Round

By Number of Investments



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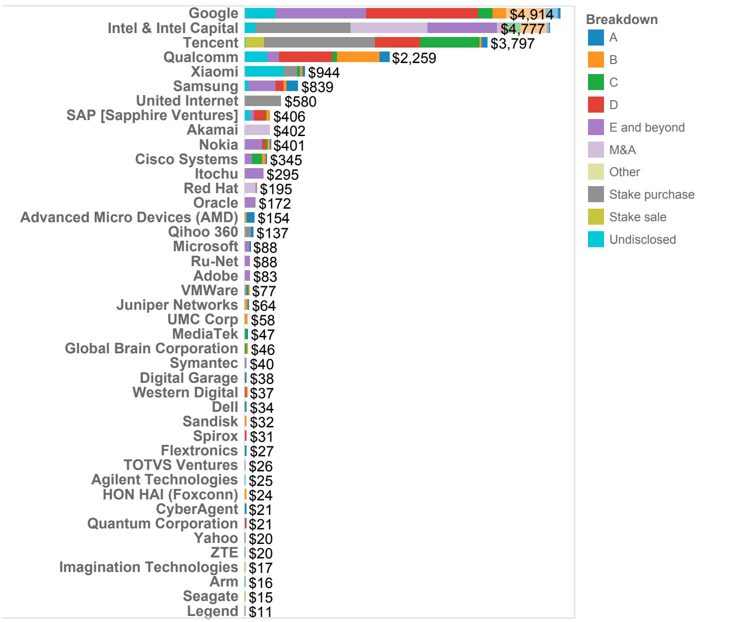
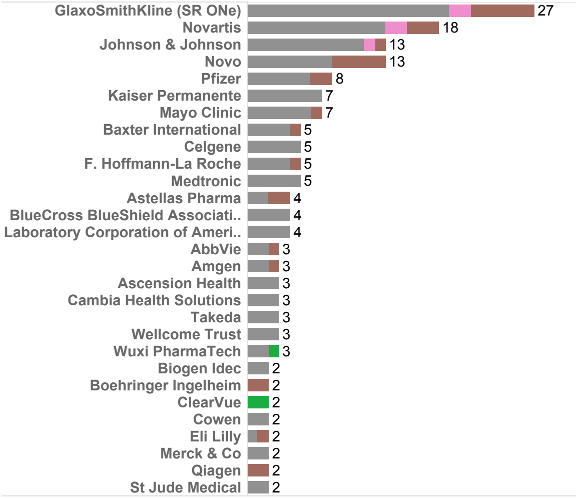


2014 Top Corporate Venture Participants

In the Health Category, Breakdown by Region

By Number of Investments



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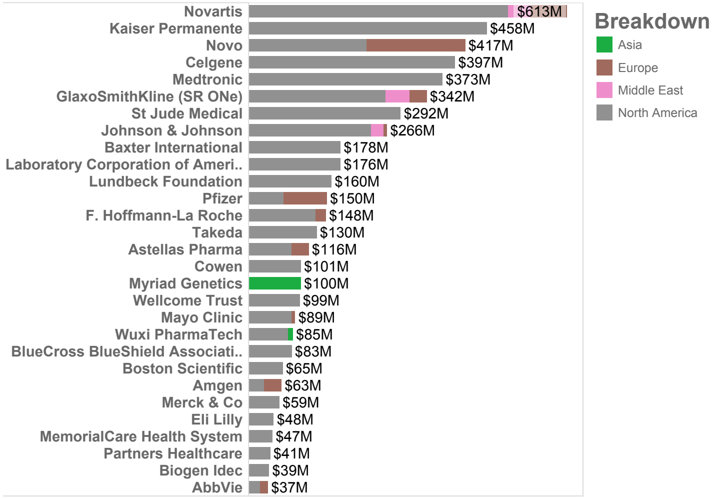
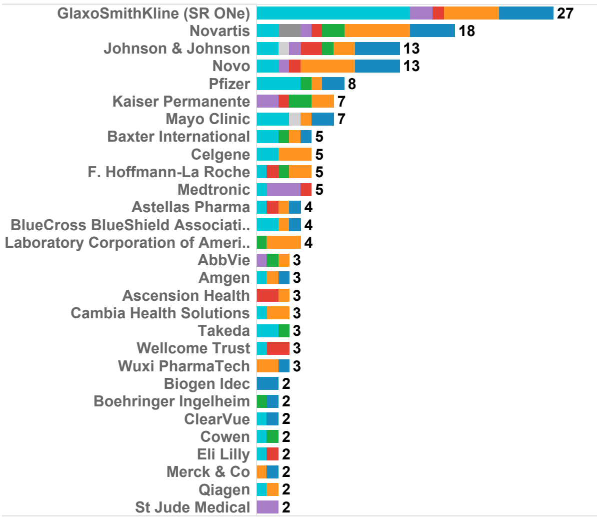


2014 Top Corporate Venture Participants

In the Health Category, Breakdown by Round

By Number of Investments



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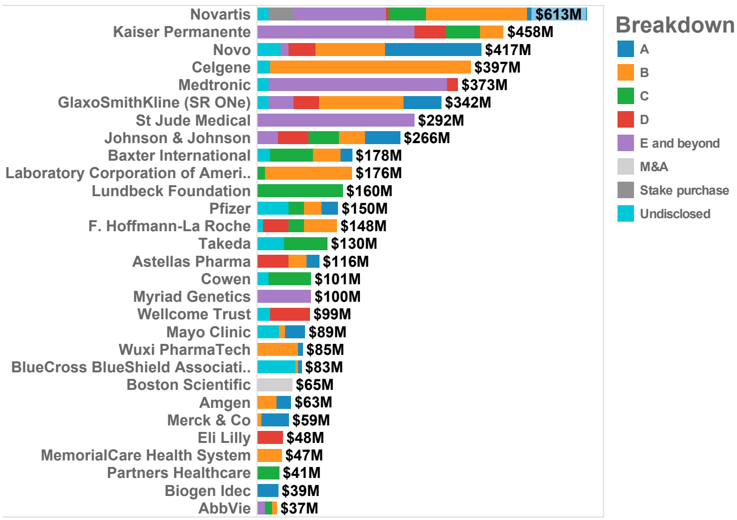
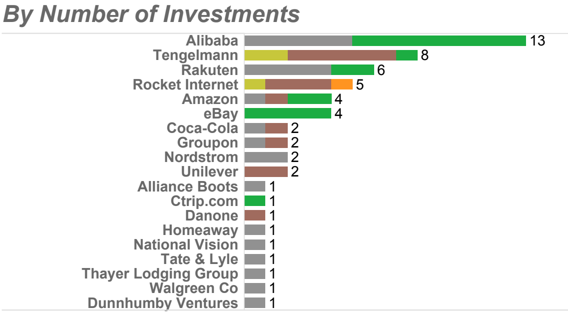


2014 Top Corporate Venture Participants

In the Consumer Category, Breakdown by Region

By Number of Investments



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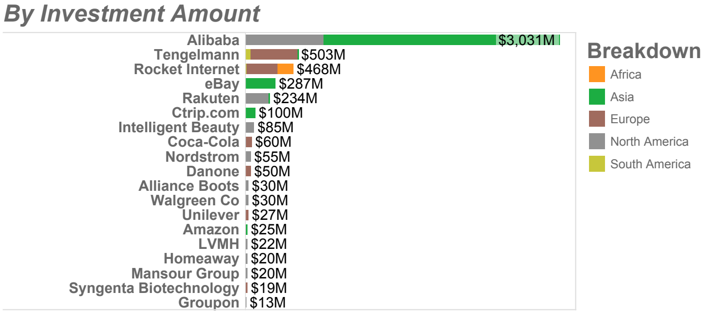
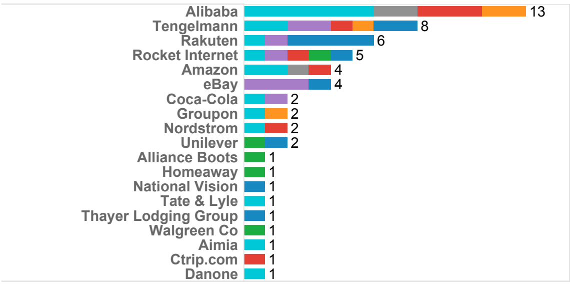


2014 Top Corporate Venture Participants

In the Consumer Category, Breakdown by Round

By Number of Investments



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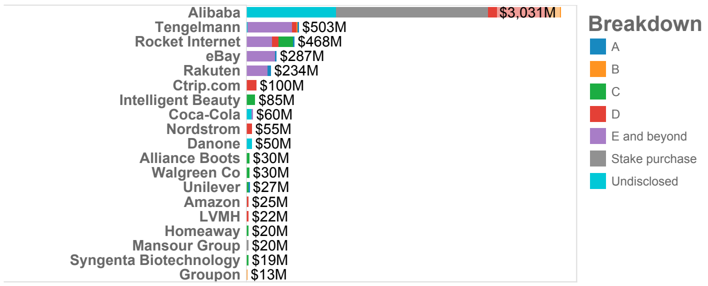
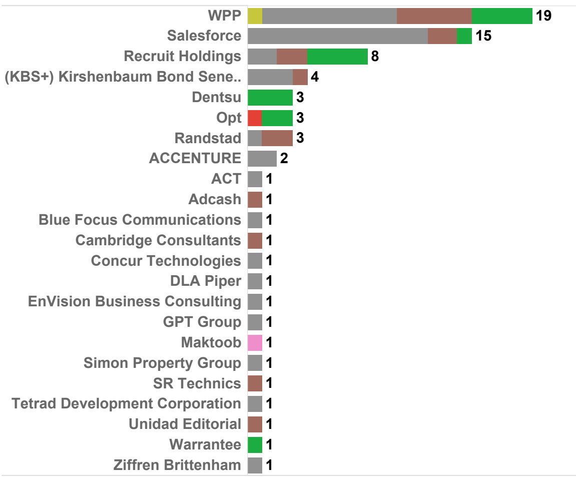


2014 Top Corporate Venture Participants

In the Services Category, Breakdown by Region

By Number of Investments



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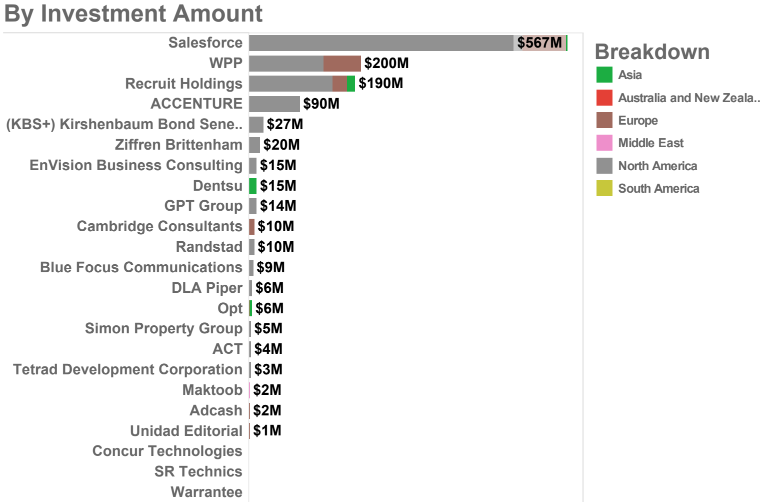
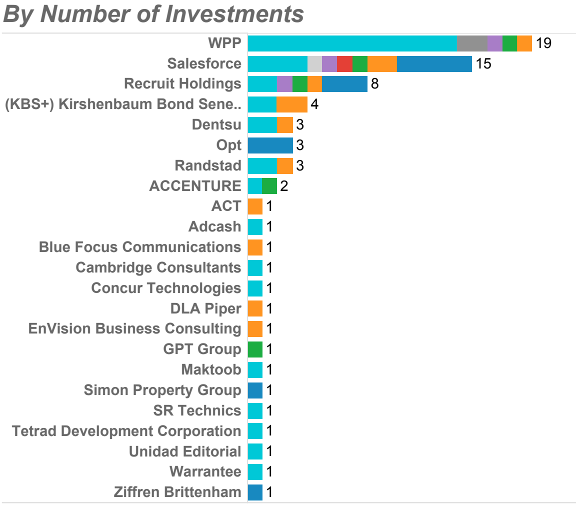


2014 Top Corporate Venture Participants

In the Services Category, Breakdown by Round

By Number of Investments



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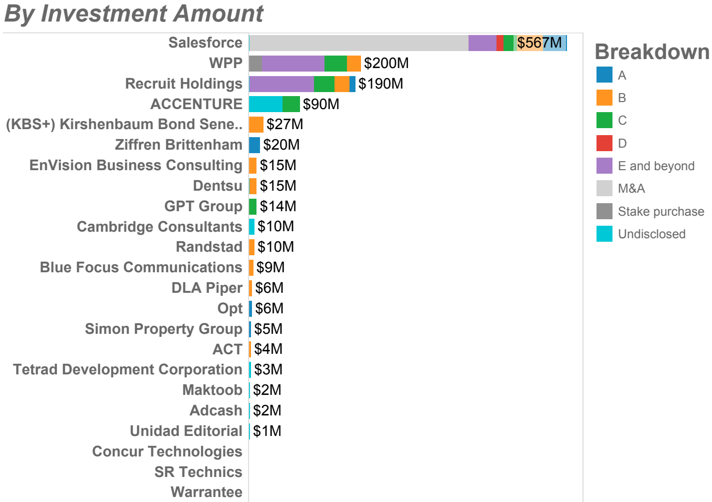
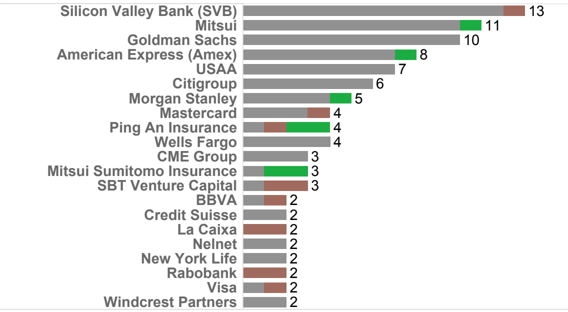


2014 Top Corporate Venture Participants

In the Financial Services Category, Breakdown by Region

By Number of Investments



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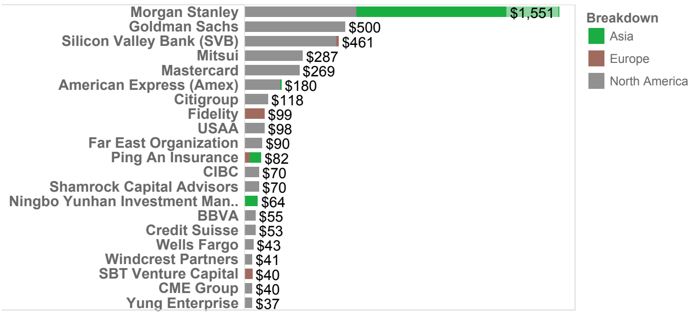
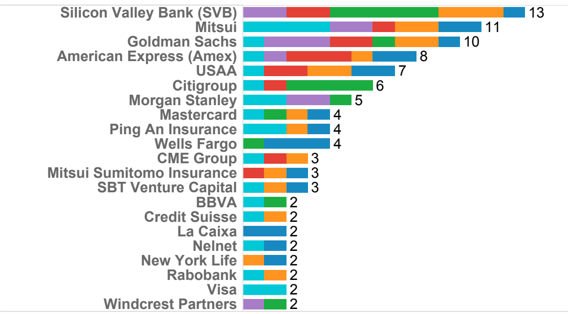


2014 Top Corporate Venture Participants

In the Financial Services Category, Breakdown by Round

By Number of Investments



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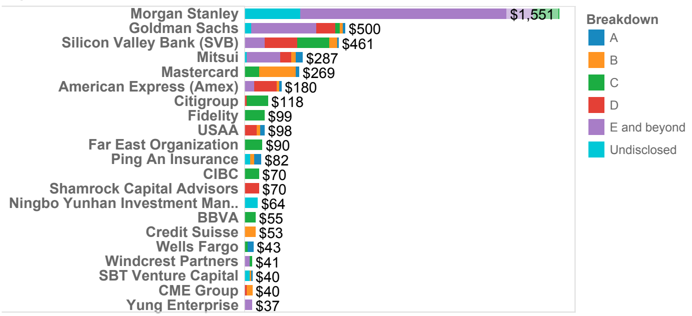
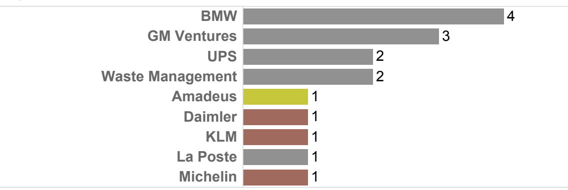


2014 Top Corporate Venture Participants

In the Transport Category, Breakdown by Region

By Number of Investments



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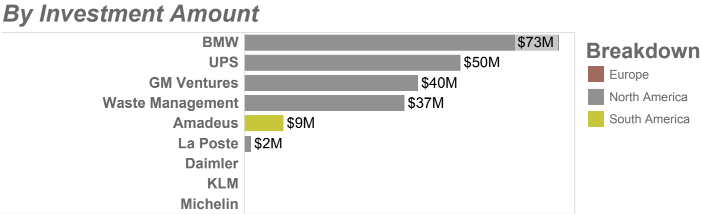
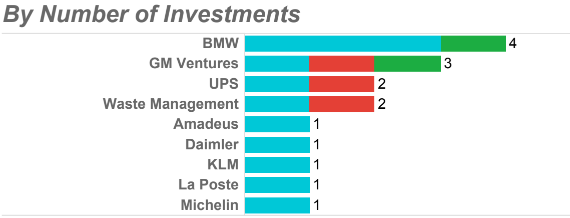


2014 Top Corporate Venture Participants

In the Transport Category, Breakdown by Round

By Number of Investments



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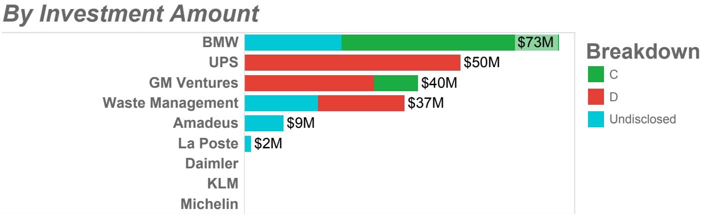
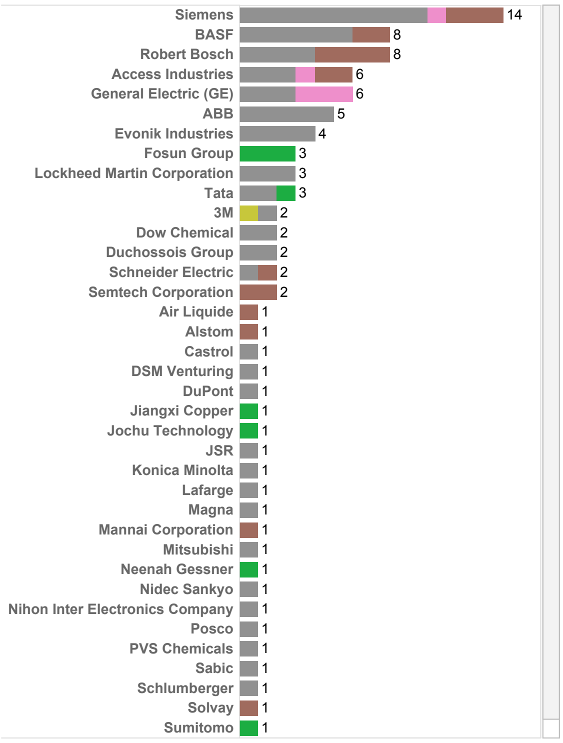
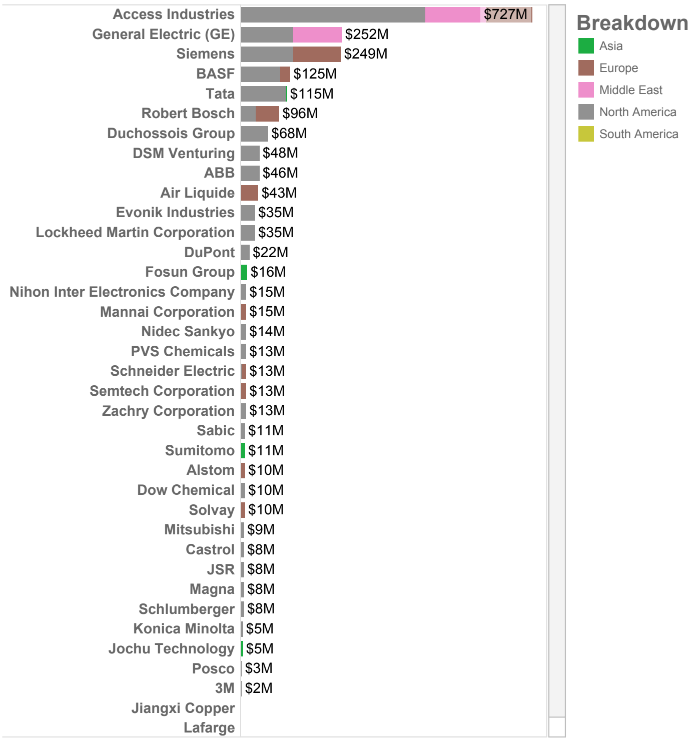


2014 Top Corporate Venture Participants

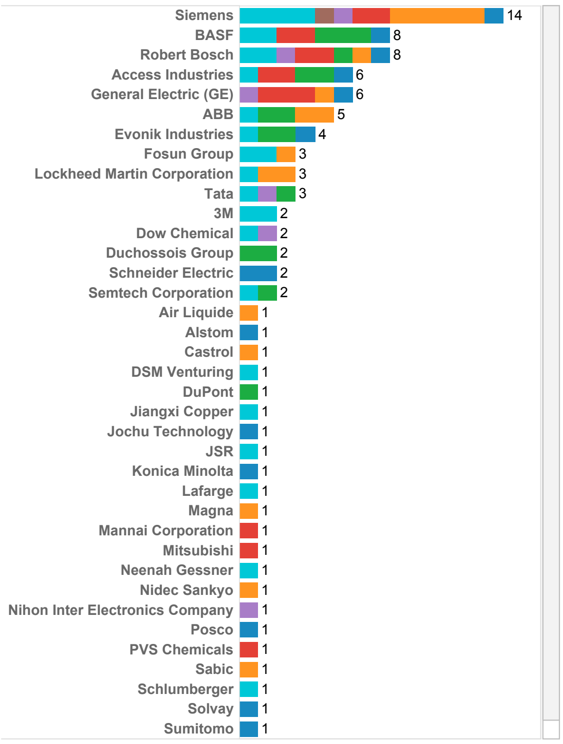
In the Industrial Category, Breakdown by Region

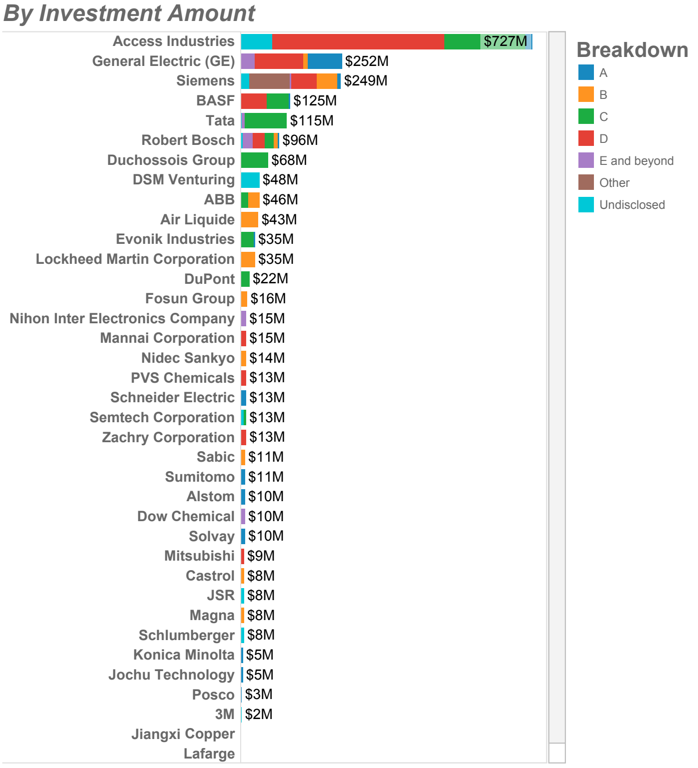




2014 Top Corporate Venture Participants

In the Industrial Category, Breakdown by Round

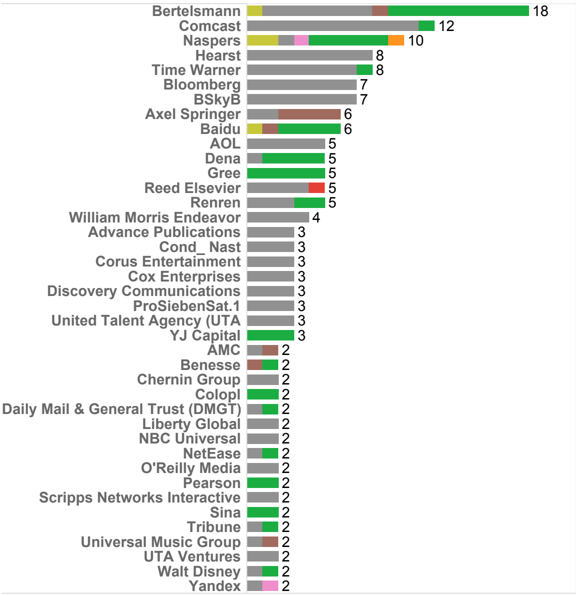




2014 Top Corporate Venture Participants

In the Media Category, Breakdown by Region

By Number of Investments



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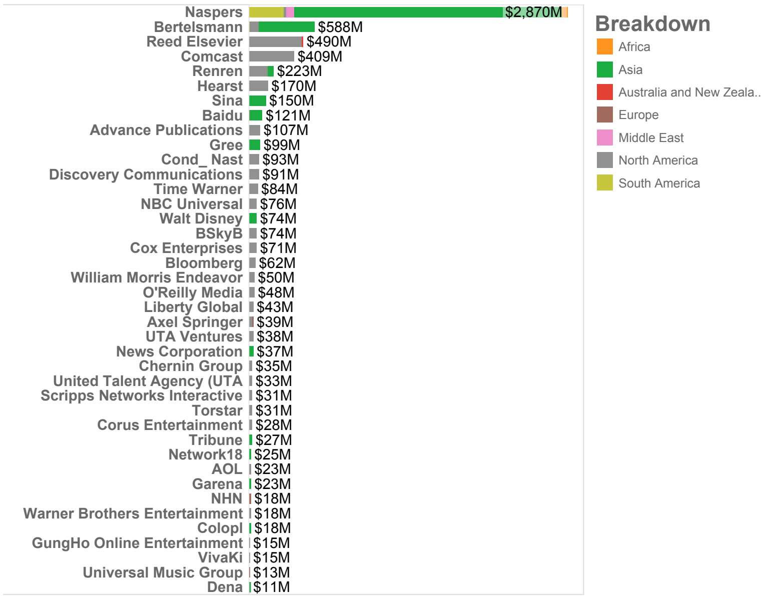
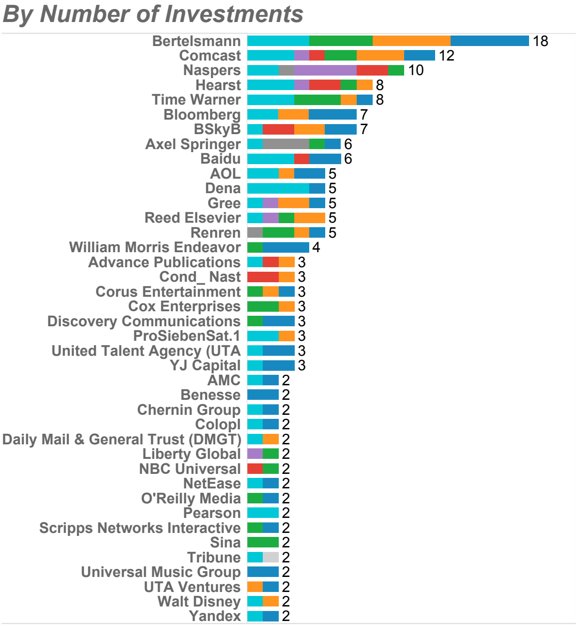


2014 Top Corporate Venture Participants

In the Media Category, Breakdown by Round

By Number of Investments



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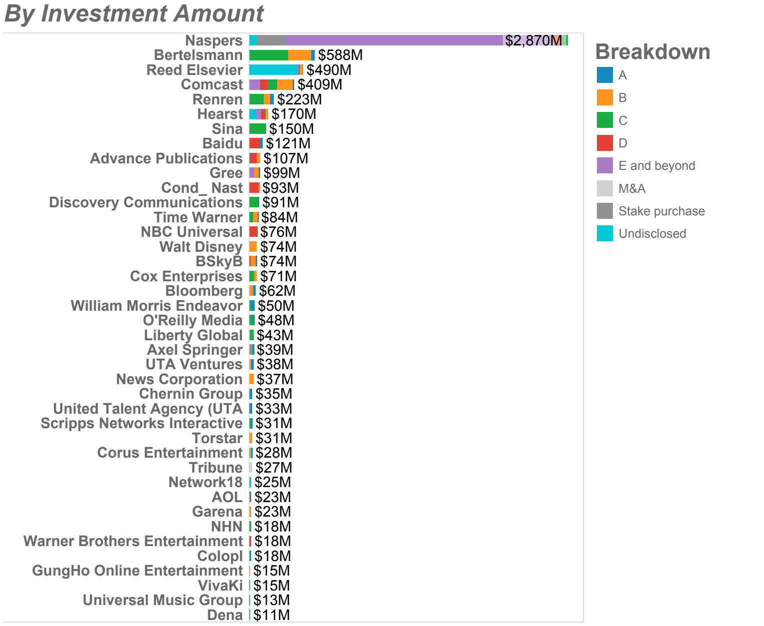

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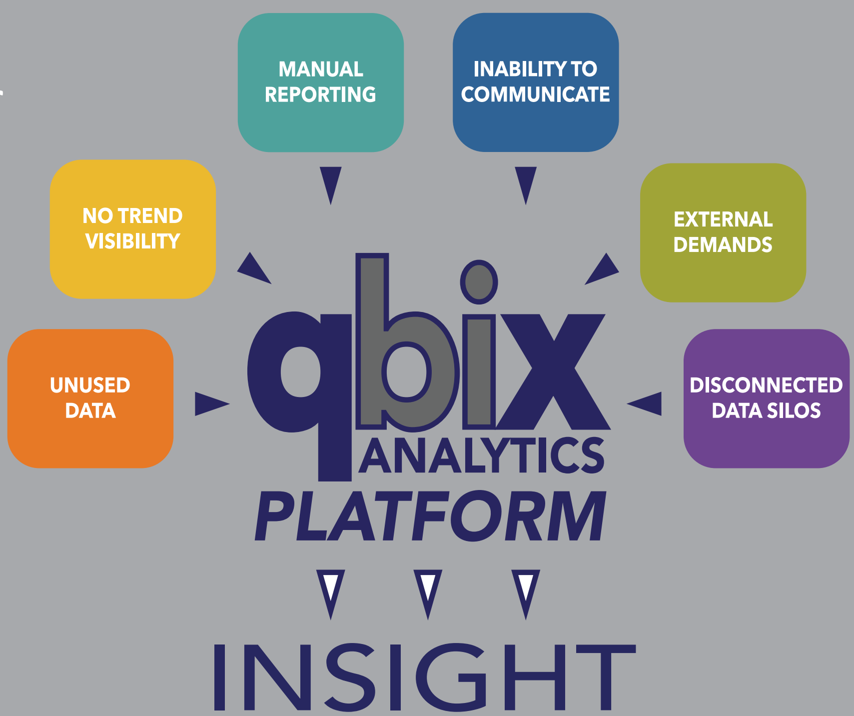

PART 8

CORPORATE VENTURING IN A CHANGING WORLD

Charmian Love, co-founder and director, and Amanda Feldman, director, impact and innovation, Volans

Corporate venturing cannot singlehandedly solve the greatest social and environmental challenges we face – but there is a good case for it to try. We are living through the early stages of a market revolution, where business leaders will need to adapt and thrive in the face of emerging 21st century demands.

These demands will come as no great surprise to well-informed leaders. Resource constraints are demanding greater supply chain efficiency and transparency than ever before. Public service providers, in the face of ballooning government debt, are looking to market-based solutions to deliver essential needs such as access to health and education. In emerging economies, last-mile market demand is transforming distribution networks globally.

There are substantial upsides for those with the eyes to see where the future is headed. The key to today's corporates thriving among these changing demands will be, in no small part, how well they invest in viable solutions that future-proof both the business and the communities in which they operate.

Like the jet pilots who encountered the sound barrier in the 1940s and 1950s, society now faces a complex nexus of seemingly impossible challenges – among them poverty and disease, rising global consumption, ageing populations and climate change. While human nature may drive us to do more of what has worked in the past, the winners are increasingly betting on a new order of ownership, co-creation, accountability, transparency and human rights.

As C-suites grapple with the future of their business, corporate venturing may prove more useful than ever in leveraging existing networks, talent and technology to scale entrepreneurs who are stepping up to these seemingly impossible challenges. This could lead to new sources of capital for syndication, access to new breeds of entrepreneur, new markets and truly long-term returns for the business and its wider ecosystem.

Can corporate venturing funds step up and be explicit about the change they hope to drive over the course of the next 10, 20 or 100 years?

The largest sectors for corporate venturing deals in 2013 continued to be information technology and healthcare, accounting for more than 30% and 16% of deals respectively. In our recent report – Investing in Breakthrough: Corporate Venture Capital – published in partnership with Global Corporate Venturing and with support from Social Investment Business and the MacArthur Foundation, we identified high potential in six key sectors to see scalability of business, hand-in-hand with positive social and environmental outcomes:

Education

Rising education costs and low-quality education in developed and developing markets – adding to already fundamental trade-offs between education and employment in certain geographies – has been ripe for disruptive solutions, and several startups are rising to the challenge.

The Pearson Affordable Learning Fund invests in for-profit companies that provide affordable education services in developing markets, and has made an investment in Omega Schools, while Learn Capital – where it is the biggest limited partner (investor) – has invested in startups including Edmodo, AdvancePath Academy, Accept.ly and Bridge International Academies. Pearson has focused on the metric of efficacy in access to education – are students learning more, for less?

Health

Increasing life expectancy, as well as the growing prevalence of chronic disease, is increasing the net costs of healthcare provision – just one of many concerning trends for our capacity to support a healthy, growing population.

Responses include collaborative models emerging between public healthcare providers and corporates, such as the partnership between Hitachi and the UK's National Health Service in Manchester. Corporate venturing units like GE Ventures also support the wider ecosystem play. GE Healthymagination was launched in 2009 to improve quality, access and affordability in healthcare globally.

In addition to strategic investment areas around energy, software and advanced manufacturing – now entirely grouped under GE Ventures – in healthcare, GE Ventures aligns its investment strategy with core business priorities of improving quality, access and affordability in global health – focusing on mid to late-stage investments, with 30% allocated to early-stage deals, across the US, Israel, China, Australia and India. The wider Healthymagination team identifies long-term strategic alignment with partners and entrepreneurs, and invests in them through equity and access to other resources.

Clean-tech

Patagonia launched a fund in 2013 that "helps entrepreneurs and innovators succeed in working with nature, rather than using it up", as it relates to its apparel supply chain.

The fund – $20 Million and Change – has explicit terms of investment to ensure the companies in which they invest share the core values that are integral to overall Patagonia strategy, for example, a preference that they are B (benefit) corporations and utilise the Higg Index, as developed by the Sustainable Apparel Coalition. In addition to financial capital, entrepreneurs are offered access to shared corporate services.

Patagonia invested in Denver-based CO2Nexus, a textile processing company that has developed a sustainable method of cleaning and disinfecting garments using liquid carbon dioxide, lowering the energy required for a process that can use up to 100 gallons of water or more for every pound of textile processed.

Urban infrastructure and transportation

Innovation in urban infrastructure has centred on community-sourced information and big data, while recognising that has to go hand-in-hand with a change in physical space. Zilok Auto received investment from Ecomobilité Ventures – a fund created by French national railway operator SNCF, mobile telephone operator Orange and energy company Total, backed by €25m in capital. This cross-sector venture partnership highlights the complex nature of these urban challenges, and the need for new investment theses that address more than one aspect.

As an example of a deal outside the corporate venturing ecosystem that took on an urban infrastructure challenge, Bridges Ventures, a UK specialist fund manager dedicated to using an impact-driven investment approach, invested in The Gym, which provides low-cost health and fitness facilities – 50% of which are located in underserved areas. Bridges exited their majority shareholding in The Gym in June 2013 with a 50% internal rate of return (a measure of performance) and 3.7-times multiple for investors in Bridges funds, of which a minority was rolled over to retain a 25% stake in the company.

Financial inclusion

Foundations such as Acción and the Aga Khan Foundation have historically focused on helping low and middle-income families around the world access financial services such as credit, savings, insurance and payment technology. Corporates are increasingly looking to build these services in new markets.

Vodafone's mPesa is perhaps the most well-known platform, enabling transactions via mobile phones. Mumbai-based Financial Inclusion Network and Operations provides financial and non-financial products and services in areas that remain unbanked. The company has received funding from HSBC, Intel Capital, the International Finance Corporation (IFC) and ICICI Bank. IFC also invested with Morgan Stanley in Eleni, which designs, builds and supports the commodity exchange ecosystems in frontier markets, enhancing functionality and transparency.

Agriculture and food

There has been an influx of efforts to improve supply chain sustainability through rural community projects in developing countries, and manufacturing and farming projects in developed regions. Danone Communities invested in La Laiterie due Berger, a Senegal-based family business focused on sustainably improving the situation of a network of milk producers. Unilever Pakistan partnered Acumen and Thardeep Rural Development Programme to incubate MicroDrop, providing affordable irrigation systems for small farmers.

These examples of deals and investment theses across six sectors are only scratching the surface of what is possible, when the strategic and financial objectives of corporate venturing meet the inherently less cyclical expressions of macro-economic trends around equality, urbanisation and climate change. These trends are finding their way into the core business agenda through evolving consumer demand, a push for market-based public services where public budgets are shrinking, pressure on natural resources and a continuing need for business model innovation.

Robert Wells of GE Healthymagination put it succinctly when he said corporate venturing was "the tip of the strategy spear" – so in 2015 and beyond, get ready to invest in radically new business models that drive scale while ensuring positive outcomes for communities around the world.

In 2015 and beyond, get ready to invest in radically new business models that drive scale while ensuring positive outcomes for communities around the world

ENDNOTES

CONCLUDING REMARKS

Toby Lewis, editor

We hope you have benefited from the World of Corporate Venturing. It is one of the most comprehensive editorial projects we have undertaken. Thoughts on how we can make it better in future, or any interest in partnering or sponsoring this report or others we publish, are welcome. Keep up to date with the latest news in the asset class at *www.globalcorporateventuring.com* and contact us for information about what is happening in corporate venturing if you are a subscriber or are considering a subscription.

Acknowledgements

This document was conceived as the definitive guide to the industry and has been planned since May last year. Thanks must go to Dominique Mégret, of Swisscom Ventures, who made a strong case at the time of our annual symposium that the industry needed a document like this to explain to chief executives and entrepreneurs what corporate venturing was about and who the main players were. This report is, in many ways, Mégret's brainchild, and, as a member of our advisory board, he has given great counsel on how we should understand the industry.

The corporate venturing industry itself has been marvellous to work with, and many executives have provided data, often to tight deadlines, making it possible for us to provide as strong a data set as possible.

We are grateful to our sponsors Megan Muir and the team at DLA Piper including Mark Radcliffe, who has also been a persistent supporter of our company, and to Tracy Isacke and the team at Silicon Valley Bank for their backing, both in their practical support of our company and in their provision of expert advice.

See page 5 for our extended thanks to Jeff Carlson and Tim York of Qbix, as well Ray Haarstick and Jonathan Marohn of Relevant Equity Systems. Their help was fundamental in helping make our data sing.

Claudia Fan Munce, of IBM Venture Capital, has been a brilliant first chairman of our advisory board. We are thrilled to have her write the preface to this report.

Our partners at Clareo secured an interview with Castrol chief executive Michael Johnson, reflecting on the experience they had setting up a programme together.

Jody Thelander, of J Thelander Consulting, deserves our thanks for providing an extract of her industry-leading compensation survey. Andrew Gaule, Heidi Mason, Paul Morris, Martin Haemmig and Boris Battistini must be singled out for their excellent articles. Gaule, Mason, Morris and Haemmig are also appreciated for the time they have spent over the years as some of our most active advisory board members – their input has enriched the knowledge needed to produce what is written here.

Rob Trice, of the Corporate Innovators' Huddle, provided the group's crowd-sourced analysis of the four types of corporate venturing. Debby Hopkins, of Citi Ventures, took part in an interview on her corporate venturing programme. She and the many industry figures who contributed to our annual review deserve gratitude.

Thanks must also go to the team of Charmian Love and Amanda Feldman, at Volans, who have offered their thoughts on how corporate venturing can tap more into social investing – an issue we support strongly.

Brad McManus, of Capbridge, has written an informative article on strategic investing, which is used regularly by Gaule in his GCV Academy teachings. Chirag Patel, of Highnote Foundry, contributed an article on setting up a unit, which was well read in Global Corporate Venturing last year, and Georgina Worden, of Intramezzo, has written about the rich composition of a corporate venturing team.

Those who offered to peruse a draft of this supplement as part of our advisory board taskforce included Vanessa Colella, Citi Ventures, Dominique Mégret, Swisscom Ventures, Lee Sessions, Intel Capital, Paul Asel, Nokia Growth Partners, Eileen Tanghal, Dominique Megret, Swisscom Ventures, Paul Morris, UK Trade & Investment, Joseph Vaillancourt, formerly of Waste Management, and Heidi Mason and Liz Arrington, Bell Mason Group.

Others who were instrumental in helping us form our thinking to move the project forward were Mark Muth, PwC, and Bruce Niven, Saudi Aramco Energy Ventures.

Among the Global Corporate Venturing staff instrumental in putting this report together are Keith Baldock, who, as production manager, does much of the heavy lifting, making what we do look good here and across our magazines, head of business development David Jenkins, who was instrumental in taking this project forward, as well as Hannah Bayes-Brown, Robert Lavine and Thierry Heles, whose hard work gathering data and news provides our raw material, while Global University Venturing editor Gregg Bayes-Brown designed the infographics on the pages following the introduction. Our editor-in-chief, James Mawson, has been an inspiration on this project as in all we do, while our managing director, Tim Lafferty has been the man behind the scenes building the company structure that facilitates a project such as this.

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2015

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