**HOW DO CORPORATE VENTURE CAPITALISTS DO DEALS?**

**AN EXPLORATION OF CORPORATE INVESTMENT-PRACTICES.**

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**How do corporate venture capitalists do deals? An exploration of corporate investment-practices.**

**ABSTRACT**

How do Corporate Venture Capitalists do deals? Conversations with CVCs suggested that the putative view of venture capital investing is incomplete. We draw on 13 cases of CVC programs to document eight ‘corporate investment practices’ that are unique to CVCs. These practices reflect pressure on the CVC units for strategic fit and engagement with the corporation, and also an opportunity to utilize parental resources. We then show that CVCs vary their emphasis on corporate investment practices, diverging into two distinct investment logics, ‘integrated’ versus ‘arms-length’. Focus of isomorphism on internal versus external stakeholders explains the emergence of the two logics.

“We have one limited partner in our fund and we’ve got to make sure we keep them happy, and that is very different to an independent VC” (K1, Kappa).

**INTRODUCTION**

Corporate venture capital (CVC) is defined as minority equity investments by established corporations in privately held entrepreneurial ventures (Dushnitsky, 2012). CVC represents an important and growing source of capital for entrepreneurs. Whereas independent VC funds declined during the 2000-2010 decade (Ghalbouni and Rouzies, 2010), corporate venture capital has shown an upswing. As CVC activity has grown since 2005, so has the academic interest on the phenomenon (Dushnitsky 2012; Hill et al., 2009; Keil, Autio and George, 2008; Maula, 2007). This study documents and explains aspects of the CVC investment process that diverge from standard practices of independent VCs.

The venture capital literature identified a series of stages within a VC deal, such as deal origination, screening and structuring (Wright and Robbie, 1998; Gompers and Lerner, 2004; Fried and Hisrich, 1994; Tyebjee and Bruno, 1984), and then described and explained specific practices within each stage, such as syndication and staging (e.g., Gompers and Lerner, 2004). We argue that the current theory, framed around independent VCs, is not well suited to fully explain the investment practices of CVCs, for two reasons: First, CVC units typically have a single, dominant, limited partner, who owns the unit and provides all the funds (the parent corporation). Instead independent VCs typically raise a fund from multiple, non-dominant, limited partners. Second, the limited partner of CVC units (a corporation) typically seeks both financial and strategic benefits. In contrast, the limited partners of independent VCs are investors typically interested only in financial returns. More broadly, since corporate ventures differ in their practices from independent ventures (Narayanan, Yang and Zahra, 2009; Shrader and Simon, 1997), we expect CVC investment practices to differ from the documented practices of independent VCs.

The recently emerged CVC literature has investigated the applicability of broad structural features of the ‘VC model’ (e.g. staging and compensation) to CVCs (Dushnitsky and Shapira, 2010; Hill et al., 2009; Maula, Autio and Murray, 2005). Yet, we still do not know if there are fine-grained practice-differences between VCs and CVCs in the way they generate, screen, evaluate, approve and monitor deals (Hill et al., 2009).

Using a multiple case-study design, we empirically derive and explain eight ‘corporate investment practices’ that are unique to CVCs. Our intensive data-collection effort took place over a decade and included two sets of data. We conducted six case studies in 2002 and seven in 2011–12 in order to ensure that our results were broadly replicable across two temporal ‘waves’ of CVC. The dataset includes 45 interviews with 23 senior CVC executives, complemented by archival data and independent expert validation.

Our results point out that corporate investment practices reflect parental pressure on CVC units to secure strategic fit for their investments and to engage with the other divisions of the corporation. Corporate investment practices also reflect an opportunity to utilize valuable corporate resources and capabilities. Moreover, we observed varying degrees of emphasis on corporate investment practices among CVCs, suggesting the emergence of two distinct investment logics: ‘integrated’ versus ‘arms-length’ towards the corporate parent. Programs that aligned with the norms of the parent (internal focus of isomorphism) followed an integrated investment-logic. In contrast, programs that aligned with the norms of the VC industry (external focus of isomorphism) followed an arms-length logic.

Our paper makes three contributions. First, we extend the venture capital literature by documenting and explaining investment practices that are unique to CVCs. Second, we contribute to the CVC literature by advancing a new typology of corporate investors (integrated versus arms-length towards the parent)*.* We elaborate on the concepts of CVC autonomy and integration by specifying a bundle of associated investment practices. For instance, ‘integrated’ CVC programs utilise, to a higher extent, investment practices, such as corporate referrals, screening deals for strategic potential and linking the venture with the parent. Third, we contribute to institutional theory by demonstrating an alternative mechanism of how multiple logics emerge[[1]](#footnote-1). We show that focus of isomorphism to different stakeholders (Souitaris, Zerbinati and Liu, 2012) can lead to the emergence of multiple logics in a field and to variation of practice.

**THEORETICAL OVERVIEW**

This is an inductive study to explore the investment practices of CVCs. We developed a model using an iterative process between data and pertinent literature. We begin with an overview of the literatures that we consulted either before or during the course of the study, which then informed our emerging findings (Pratt, 2008; Suddaby, 2006).

**Venture capital investing**

The venture capital literature revealed a multi-stage investment process: the stages include deal origination, screening, evaluation and due diligence, approval and structuring, monitoring and value adding, and investment realization (Wright and Robbie, 1998; Gompers and Lerner 2004; Fried and Hisrich, 1994; Tyebjee and Bruno, 1984).

Various authors documented specific VC practices within each deal stage. For example, to generate deals, VCs rely heavily on referrals from other VCs and business associates (Fiet, 1995). Referrals are used because they can reduce information asymmetry and adverse selection; namely, the VC’s inability to predict the manager’s performance prior to deal completion (Amit, Glosten and Muller, 1990). To evaluate deals, VCs rely on criteria, such as market potential, the quality of the team, and the probability of a successful exit (Fried and Hisrich, 1994; Petty and Gruber, 2011). More recently, much attention has been devoted to agency-theory arguments to explain the practices of syndication, staging, and performance-based compensation (Gompers and Lerner, 2004).

This literature, which is biased towards independent VCs, is relevant but it does not fully consider and explain the investment practices of CVCs. CVCs are a distinct class of VCs because they typically have a single and dominant limited partner (the corporation) who seeks a combination of strategic and financial benefits.

**The CVC literature**

Recently, the CVC literature explored the applicability of VC practices to CVCs (Dushnitsky and Shapira, 2010; Hill et al., 2009; Maula, et al., 2005). Scholars examined broad structural elements of the VC model such as autonomy, compensation, syndication and staging for possible relevancy. For example, performance-based compensation, autonomy, syndication, staging and specialization were each associated with CVC performance (Hill et al., 2009). Performance-based compensation was also linked with smaller syndicates, investment in earlier-stage ventures, and more successful exits (Dushnitsky and Shapira, 2010).

However, we still do not know if there are fine-grained differences between CVCs and VCs in the way they generate, screen, evaluate, approve, and monitor deals. Hill et al. (2009) acknowledged that their study focused solely on the applicability of tangible and quantifiable aspects of the VC model to CVCs. Because of their large sample they did not “attempt to address the more intangible behavioral norms and values of VC organization and activity” (p. 23). Our study attempts to address this gap.

The CVC literature concedes that corporate investors are heterogeneous. Scholars advanced various CVC typologies based on investors’ objectives (strategic/financial), set-up structure (internal/subsidiary) (Dushnitsky, 2012), and locus of investment (exploration/exploitation) (Hill and Birkinshaw, 2008). Again, while the current typologies are valuable, they fail to address the implications of such observable differences (e.g., in objectives or set-up structure) in terms of actual investment practices. In general, the fast-growing CVC literature is primarily based on archival data. To counterbalance this trend, scholars have called for more detailed case-studies that would shed light on the specific steps CVC investors take during the investment process (Dushnitsky, 2006: p. 415).

**Institutional complexity, multiple logics and focus of isomorphism**

A rapidly growing literature stream in institutional theory focuses on contested fields with multiple institutional logics (points of view). Institutional logics refer to “broader cultural beliefs and rules that structure cognition and guide decision making in a field” (Lounsbury, 2007). Empirical studies confirmed that the existence of multiple logics in an institutional field (e.g. an industry) leads to practice variation among organizations (Greenwood et al., 2011; Pache and Santos; 2010; Thornton, Ocasio and Lounsbury, 2012). For example, Lounsbury (2007) studied mutual funds and suggested that divergent investment logics in New York and Boston (trustee versus performance logic) led to practice variation, namely conservative versus return-oriented investments.

A core question in institutional theory is how these multiple logics emerge (Thornton, Ocasio and Lounsbury, 2012). The literature has provided some explanations of how extant logics evolve and change and how competing logics appear. These include the effect of critical events (Nigam and Ocasio, 2010), structural changes in the environment (Dunn and Jones, 2010), institutional entrepreneurs who exploit internal contradictions in the dominant logic (Greenwood and Suddaby, 2006) and geographical separation of actors in a field (Lounsbury, 2007). Despite the current body of work, how multiple field-level logics emerge remains a timely and not yet fully-answered question, and a fruitful area for further research (Thornton, Ocasio and Lounsbury, 2012).

Research on CVC funds by Souitaris, Zerbinati and Liu (2012) argued that subsidiaries are often in the middle of two worlds (alternative institutional environments with different norms). Consequently, they can ‘focus their isomorphism’ (i.e., peg themselves) on either the internal norms of their parent (endo-isomorphism) or on external norms of their new industry (exo-isomorphism). In our study, we build on and extend this line of work to contribute to our understanding of how multiple logics emerge. We use the concept of focus of isomorphism to introduce an alternative mechanism of emergence of multiple field-level *logics* and the associated variation in organizational *practices*.

**METHODS**

**Rationale.** We set out to investigate how CVCs invest, and whether they do deals differently from independent VCs. Since little is known about the CVC investment process, we used a multiple case study method (Eisenhardt, 1989). At the outset, our objective was to identify unique elements of the CVC investment process, by comparing data from our CVC cases to the extant literature on venture capital investment.

We collected CVC data at two points in time, with approximately a decade in between. Our first data collection, which involved six cases, took place in 2002 and lasted for about one year. We therefore captured investment activities during the ‘third wave’ of CVC, which started in the mid-1990s (Dushnitsky, 2006). In 2011–12, we collected a second set of data (seven more cases during the current ‘fourth wave’ of CVC) to corroborate our earlier findings (Dushnitsky, 2012).[[2]](#footnote-2) The second dataset included cases different from the first one, so our design comprises two cross-sections rather than a panel. We attempted to return to the same cases 10 years later (five out of the original six programs were still active), but our contacts had moved on, and the new executives hesitated to participate[[3]](#footnote-3).

Based on our data, we extracted a set of investment practices unique to CVCs, which we named ‘corporate investment practices’. We also noticed that there was variation among the 13 case programs, in the extent of emphasis on corporate investment practices. We subsequently aimed to explain this variation.

**Sample.** Our inductive methodology called for a purposive (theoretical) sample (Eisenhardt and Graebner, 2007; Silverman, 2006). Specifically, we employed maximum variation sampling (Eisenhardt and Graebner, 2007). This type of purposive sampling involves cases covering a spectrum of positions in relation to the phenomenon one is studying (Miles and Huberman, 1994). We employed variation sampling because it matched our research aims which were to document and explain how CVCs invest. Sampling a variety of CVCs could either reveal practice differences across CVC types or, if common patterns were exposed, could eliminate alternative explanations (Yin, 1994).

Based on early discussions with an industry expert, we selected CVC programs which varied in three factual and practically relevant parameters: industry of the parent, fund size, and preferred deal size/ investment stage. We selected six cases in 2002 (a manageable set for comparative cases-analysis), with a good spread across those criteria. Table 1 presents the profiles of the sampled programs. We included CVC programs from various industries such as energy, raw materials, oil and gas, education, banking and consumer electronics. The fund sizes ranged from £6M to $500M. Our cases covered various stages of the investment process, namely seed-, early-, middle- and late-stage. The six programs of the first dataset were all set-up as corporate subsidiaries with a dedicated fund and declared dual objectives (financial and strategic), a combination which represents the majority of CVCs (Ernst, Witt and Brachtendorf, 2005).

For the second dataset (seven more cases in 2011–12), we increased the variation in terms of the set-up structure and objectives. We included different set-up structures (Dushnitsky, 2006) by sampling three cases of direct investment (a business unit invests off the balance sheet) and one case of a dedicated venture program (VCs co-manage the fund). We also included two ‘extreme cases’ of programs with a single declared objective (either financial or strategic, but not both).

We note here the existence of captive government-backed VCs (e.g. Knockaert et al., 2006), which are becoming common in Europe and in Asia, and perhaps resemble captive CVCs. Government-backed VCs represent yet another type of VC (a different ‘species’) which may exhibit practice variations with both independent VC and CVCs. Captive government-backed VCs were therefore out of the scope of this study. Our paper is about “captive investors with commercial objectives” (Manigart and Wright, 2013).

**<Table 1 about here>**

**Sources of Data.** We looked for multiple sources of evidence, with interviews being the primary source, supplemented with company archives, written communication and independent-expert validation to encourage convergent lines of inquiry.

*Interviews with principal CVC respondents.* During the data collection, it became clear that investors’ time was considered a scarce resource, and the participating organizations put restrictions on the number of informants. For most programs, we reached a compromise to interview two principal informants. We also emailed other members of the top management team (TMT) for further verification and clarification. We selected the most senior, available managers as principal informants. All respondents were fully aware of every aspect of their funds’ investment practices.

We interviewed 23 managers within the 13 CVC programs. This represented a good response rate given the small size of the top management teams (Mean=4.5, see table 1) and the well-documented difficulty to research equity investors, due to confidentiality concerns and time restrictions (Birley and Muzyka, 1995). We conducted a total of 45 interviews in which each informant was interviewed on average 1.95 times (we often went back to the interviewees to ask further questions). After each interview, audio recordings were transcribed verbatim. In all, the study entailed 88 hours of interviews, resulting in 1,923 pages of transcribed text.

The interviews were semi-structured and their focus matched the evolving phases of the research. Initially, the questioning was broad, covering the entire range of investment activities. As the inquiry progressed the subsequent interviews increasingly centred on the specific questions at hand, i.e. the drivers of variation in investment practices.

*Archival data*. We also collected documents which included: press releases from VC associations and CVC websites, program brochures and information packs, presentation slides, operating manuals, guidelines, deal log files, investment criteria checklists, investee assessment files, employee profiles and email correspondence. The documents assisted in pre-interview preparation. More importantly, the documents were used to triangulate the interview data and raise awareness of further exploration-worthy avenues.

*Independent expert validation*. We recruited an independent industry expert as a practice-based advisor. The senior corporate venture capitalist was knowledgeable about the cases and the industry in general. He spent many hours (on several occasions over the years) with the research team, commenting on the emerging findings. His involvement increased our confidence in the results, since they ‘rang true’ to an independent experienced practitioner. Collecting data from multiple respondents facilitated data triangulation thereby increasing the validity of the research findings[[4]](#footnote-4).

**Data Management.** We followed the 24-hour rule (Eisenhardt, 1989; Miles and Huberman, 1994), writing up full case notes and document summary sheets within 24 hours of each interview. We then filed the notes alongside the collected documents, interview transcripts and email communication to form individual case files (Yin, 1994).

**Data Analysis.** We conducted within-case analyses by first building detailed descriptions for each CVC fund. We began cross-case analysis after each wave of data-collection was completed. We analyzed the data in three steps based on the techniques explained by Pratt (Pratt, 2008) which has been adopted in recent studies (e.g., Andriopoulos and Lewis, 2009; Souitaris et al., 2012). The data analysis is illustrated in Figure 1.

During the first step, we applied open coding to understand how respondents saw their investment process. Common statements formed first-order concepts. For example, we found several data segments about corporate colleagues offering “introductions,” “requests,” and “contacts,” and about *internal* “sourcing,” “origination,” and “generation” of deals.

In the second step, we moved from open to axial coding (Strauss and Corbin, 1998) by consolidating the categories, which became more abstract and general. For example, we consolidated corporate introductions, requests, and contacts, as well as internal sourcing, origination, and generation of deals into the second-order theme of “corporate referrals.”

In the third step, we identified aggregate dimensions underlying our second-order themes. When the cases were ordered according to the degree of emphasis on each second-order theme (e.g., high versus moderate emphasis on corporate referrals), we observed that the same cases repeatedly clustered together, indicating the existence of a recurrent pattern. We therefore introduced the aggregate dimension of investment logic.

We implemented the same three-step method to understand the antecedents of varying emphasis on corporate investment practices. Such like Souitaris et al., (2012) we started from open codes, we progressed to axial codes and finally to the aggregate dimension of focus of isomorphism (see the process in Figure 1). We developed a conceptual framework to illustrate how the dimensions relate to each other. We observed that focus of isomorphism was related to the type of investment logic. We applied the constant comparative method, going from the data to the emerging model and then back to the data, until we had a model that fit the data.

To assess the reliability of the coding, we recruited an independent coder experienced in qualitative research (a doctoral student). The independent coder was given training and coded again all the collected text (transcripts, emails and archival data). We compared coding, resulting in high intercoder agreement (k=.85; Cohen, 1960). We resolved disagreements through extensive discussions.

**Enfolding the literature**. Research findings were compared with existing literature (venture capital investment process, corporate venture capital, and institutional theory), with the aim to “enhance the internal validity, generalizability, and theoretical level of theory building from case study research” (Eisenhardt, 1989: 545).

**Informant and expert validation.** To increase confidence in our findings, we returned to the primary interviewees of each case, and to our independent industry expert, to corroborate the plausibility and robustness of our findings (Miles & Huberman, 1994).

**FINDINGS**

We start by deriving eight ‘corporate investment practices’ of CVC programs. These are unique CVC practices that are not associated with independent VCs. We present and explain each one of the eight practices as part of the established stages of venture capital investment, namely deal origination, screening, evaluation & due diligence, structure & approval, and monitoring and value adding (Wright and Robbie, 1998). Subsequently, we explain observed variation across the programs in the level of emphasis on corporate investment practices. Following recent suggestions for presenting qualitative results (Pratt, 2008), we illustrate our findings with vivid “power quotes” in the text, and demonstrate prevalence with “proof quotes” in comparative tables.

**Deal origination stage**

**Practice 1: Referrals from business units.** VCs rely on referrals from trusted business associates and entrepreneurs, as well as other VCs (Fiet, 1995; Fried and Hisrich, 1994). For CVCs, it emerged that the parent corporation was an additional source of deals. Referrals were coming from contacts within the business units. A manager in Alpha explained:

“[A current Alpha portfolio company] is our most recent example… Deals like that [referred by a business unit] are always given top priority. For [the portfolio company], strategic links had clearly been identified and there was open endorsement from (the specific business unit) who also invested resources to evaluate the technology, which to us, meant that technical due diligence was already partly completed. There were fewer unknowns for us to work on. From experience, the advisors tend to green light this type of deals very quickly….” (A1, Alpha)

Corporate referrals were present throughout all the programs, but the emphasis on them varied across the cases. For some cases, corporate referrals generated the minority of the deals. We interpreted these cases as exhibiting a ‘moderate emphasis’ on corporate referrals. In contrast, for other cases, corporate referrals were crucial to the deal flow. Hence, these cases exhibited a ‘strong emphasis’ on corporate referrals (we present comparative quotes in Table 2).

**Table 2 about here**

We identified three explanations for the use of corporate referrals by CVCs. First, corporate referrals signal strategic fit of the deals. As one of the respondents put it:

“Corporate business units do deal orientation for us if they are interested in buying that company in the long run, and our preference would be to do those deals of course...” (L1, Lambda)

Second, CVCs face pressure to engage with their parents. They are often perceived within the corporation as an ‘odd’ business unit formed by risk takers (Hill and Birkinshaw, 2013). Following referred leads creates a perception of engagement and good citizenship. The following quote illustrates this:

“Following up on internal referrals makes us look good…” (A1, Alpha)

Third, utilization of unique technical capabilities of the corporate contacts can reduce information asymmetry and increase the chances of success. The following quote illustrates:

“It was more a point that it was the validation of that deal by someone we knew to be very good at what they did…it wasn’t made because the internal recommendation made it more strategic, it simply was due to the fact he was a very good person, he strongly endorsed the strength of the technology, it was more to do with him.” (K1, Kappa)

**Deal screening stage**

**Practice 2: Strategic potential for the parent.** Independent VCs screen deals by looking at the financial potential of prospective investments (i.e., market potential, the quality of the founding team, the potential for returns etc.) (Fried and Hisrich, 1994; Wright and Robbie, 1998).

Our data indicated that an additional deal screening criterion for the CVCs was the strategic potential for the parent. CVCs considered whether their parent could gain anything from the proposed venture apart from financial return. CVCs looked for relevant ventures for their parent across industries (e.g. as a supplier or customer). As indicated by a manager at Theta:

“The main key capability for a team member is his or her ability to understand how an idea or project proposed to him or her would fit into [the parent’s] products. So when a [Theta] team member hears a company story, he or she needs to be creative and think about what part of that story would match what part of [the parent].” (T1 – Theta)

We observed variation across CVC cases on the concern with the strategic potential for the parent. Some cases placed strong emphasis on strategic potential, stressing strategic fit as the primary investment criterion. Other cases perceived the strategic potential as either at par with or secondary to pure financial criteria. We coded the later cases as ‘moderate emphasis’ on strategic potential. Comparative quotes for all cases are presented in table 3.

**Table 3 about here.**

Two distinct motivations appeared to underlie the utilization of strategic potential for the parent as a deal screening criterion. First, CVCs are constrained by their parent’s strategy. The following quote illustrates this:

“Well, of course, the investment process is there to provide some structure to our day-to-day operations but one must then ask the question: To what purpose? Well the answer is simple. All our efforts and processes are geared toward one thing, which is to fulfill our mandate as the strategic investment arm of [the parent].” (G1, Gamma)

Second, the strategic fit of deals signals engagement with the corporation, which resonates with the parent’s senior executives. As illustrated by a Kappa manager:

“You’ve only got one LP when you are a corporate... We have to keep our funders happy” (K2, Kappa)

**Practice 3: Feedback to the parent**. In addition to screening deals for the sole purpose of making investments (as an independent VC would), CVCs also feed back to the business units on emerging technologies and markets. In this regard a Gamma manager illustrates:

“Most certainly we incorporate their [BUs] strategic aims into our daily ops. But I feel that a good venturing unit carries the search broader and further. I firmly believe that it is my team's responsibility to help senior management expand their strategic horizon by advising them on how we foresee the industry evolving, and the types of spaces they need to be in to sustain their market advantage. In short, [Gamma] needs to be an instrumental agent in their strategic blueprint, for me to consider this whole VC initiative a success.” (G1, Gamma)

The CVCs varied on the scope of feedback to the corporation. In some cases, the CVC unit fed back information within a *focused scope* of technologies and industries clearly defined by the business units. In other cases, the CVC unit carried a *broad search* to expand the strategic horizon of the corporation (comparative quotes for all cases are presented on table 3).

**Table 3 about here**

CVCs provide feedback to the corporate business units in order to maintain their strategic connection with the parent. Feedback is important since it helps to redefine the corporate strategy. As expressed by one of the managers:

“We are the eyes and ears. We see technology before technology actually happens, so we feed it to the business unit...As a by-product of the deal-screening, CVCs tend to feedback the business units on newly emerging technology.” (L1, Lambda)

Current CVC literature supports this explanation, suggesting that a major benefit of CVC investment is organizational learning (Schidt, Maula and Keil, 2005; Dushnitsky and Lenox, 2005; Narayanan et al., 2009). CVC investments give incumbents a window into emerging technologies (Benson and Ziedonis, 2009; Ernst et. al., 2005; Keil, Autio and George, 2008; Maula, Keil and Zahra, 2013; Smith and Shah, 2013).

**Deal Evaluation and due diligence**

**Practice 4: Internal technical due diligence**. Unlike VCs who outsource technical due-diligence to external consultants (Fried and Hisrich, 1994), CVCs often rely on corporate business units as expert advisors on the technology’s potential and fit with the parent’s technology. The following quote illustrates:

“For due diligence, the parent will be used whenever we can. In general, the quality of due diligence that you can do is better than a consultant because usually the question you're really wanting to know is: can I create from this? Can I create a revenue and profit generating product?” (Mi1, Mi)

The emphasis on internal technical due diligence varied across the cases. Some cases relied on a mix of internal and external experts. We coded those cases as having *moderate emphasis* on the practice. Other cases relied primarily on corporate business units for technical advice and due diligence, demonstrating *strong emphasis* on the practice. Comparative quotes for all cases are presented in table 4.

**Table 4 about here**

Two reasons accounted for CVC reliance on internal due diligence. First, internal due diligence signals engagement of the CVC program with the rest of the corporation. The following quote illustrates:

“Yes, we prefer internal due diligence for the simple reason that we are trying to win over the hearts and minds and get support... We could be questioned ‘why are you using outside?’, so by preference we use in-house. It helps us in terms of building and making sure that what we are doing is what the LP wants...” (K2, Kappa)

Second, CVCs have access to unique resources (Narayanan et al., 2009); the technical expertise of the business units can reduce information asymmetry and adverse selection (Wright and Robbie, 1998). Corporate experts can provide quick and reliable information regarding the viability and potential of the technology. The following quotes illustrate:

“The reason for contacting the business units is access immediately to technical experts who understand the commercial potential. I used to say that with the access we’ve got to due diligence resources at [the parent], I could literally get to things within hours that would sometimes take a week to get to in an independent VC.” (K1, Kappa)

“The advantage of internal due diligence versus sub-contracting it to consultants is that you get a real user’s perspective as opposed to an advisor’s perspective.” (Mi2, Mi)

**Practice 5: Securing a sponsor.** At times, CVCs secure a deal-specific sponsor within their limited partner (the parent corporation). As indicated by an Alpha manager:

“Securing sponsor support is a pre-requisite for further discussion with the company. Given that we operate a policy of using the technology supplied by our strategic partners, sponsor endorsement means that the sponsor, usually a business unit head, approves of the technology and is able to derive strategic value in collaborating. This is the strongest and most fundamental strategic linkage we seek.” (A1, Alpha)

Yet, the presence of a sponsor appeared to vary among the cases in our sample. Sometimes securing a sponsor was not a formal requirement, but was preferred, or considered as good practice. We interpreted such programs as having moderate emphasis on the practice. Other cases imposed the presence of a sponsor as a requirement for proceeding with the deal (strong emphasis on the practice). Comparative quotes for all cases are presented in table 4.

**Table 4 about here**

Securing a sponsor was a stringent test of strategic fit and resource commitment. The following quote from the data illustrates this:

“It is unethical to state in our vision statement that our portfolio companies will benefit from the know-how and research of (the parent) if we cannot convince the gatekeeper to even open the gate, so to speak.” (D2, Delta)

**Deal structuring and approval**

**Practice 6: Syndication with complementary funds.** Unlike VCs, CVCs do not focus their networking efforts on similar funds (i.e., other CVCs), but instead prefer to syndicate with independent VCs. All six programs of our ‘early’ dataset indicated that collaboration with VCs was crucial. In the second wave of data collection we made the inquiry more explicit by probing whether the programs preferred to syndicate with VCs or peer CVCs. Comparative quotes from all cases are presented in Table 5.

**Table 5 about here**

CVCs do not appear to be complementary with other CVCs because of their strategic constraints. Instead, independent VCs offer complementary benefits and resources. The following two quotes illustrate this:

“Certainly, working with other CVCs is not much fun. So we tend to syndicate with independent VCs… Because CVCs have to cope with their own strategic rationale so you have two people coping with their own strategic rationale and trying to help a little company trying to steer its way through the market is a nightmare…Where we bring in VCs we would like to bring in a VC that is bringing complementary capabilities that are usually about getting exits in a particular sector space.” (Mi1, Mi)

“We would prefer independents because as they come to us they have less strings attached and that is the big issue… they [other CVCs] will push for is some sort of pre-emptive right, or they will want attached rights to some sort of licensing on the business…” (K2, Kappa).

Our findings are in accordance with the earlier observation that unique CVC resources allow them to get central positions in VC syndication networks (Keil, Maula and Wilson, 2010).

**Practice 7: Corporate involvement in deal approval.** According to the VC literature, VC funds have the autonomy and discretion to make the final decisions on investment deals, without approval from the fund providers. Instead, we found that CVCs tend to involve their single limited partner (the parent) in deal approval. As illustrated by a manager at Eta:

“We have a very long list of people through the value chain that needs to approve the investments, all the way up to the CEO. It’s a white paper approval process and generally 10–12 signatories, the relevant business unit president and below them there are least three business unit people that need to buy in to the project… However, we are just in the process of making this pitch to top management of the company to have an investment panel because the corporate process uses so much political capital from the presidents…” (Et1, Eta)

The emphasis on corporate involvement in the approval process varies across the cases (see table 5). In some cases, the CVC executives had to get formal sign-off by a series of senior managers, or by a corporate investment panel. This practice indicated a strong emphasis on corporate involvement in deal approval. In other cases, the CVC managers were empowered to approve deals on their own, but voluntarily sought advice from the corporation formally or informally. We interpreted such cases as placing a moderate emphasis on the practice of corporate involvement in deal-approval.

We identified three explanations for corporate involvement in CVC deal approval. First, the practice safeguards the strategic fit of the investments. The following quote exemplifies:

“If we were not governed and we were a complete VC we would have just taken a chance. An example would be a very early stage consumer internet deal we just won’t do…we would say yes it will make money but it’s a bet, do we want to take bets? No, not with [the parent’s] money…” (L1, Lambda)

Second, involving the parent in the approval process creates a sense of engagement with, and belonging to the corporation. A manager explains:

“By this stage, a lot of people have been involved and the technology and the company have been thoroughly evaluated. The panel's just there for formality's sake… For the sake of the other departments, I think they don't want to make us look too independent.” (D1, Delta)

Finally, CVCs have access to and can utilize corporate knowledge and expertise. The following quote is illustrative of this:

“The deal was textbook on paper. We were really psyched up about it. So it was strange that we couldn’t get buy-in from the chiefs. Turns out they had reservations on (the specific technology's) capability for sustainable value. Well, I found out a few months ago that their predictions were right… If we had taken it on without running it by them, we would have a dude on our books now…” (D2, Delta)

**Post-investment deal monitoring and value adding**

**Practice 8. Link the venture to the parent.** Apart from providing post-investment advice (as independent VCs do), CVCs also act as resource-intermediaries between the parent and the portfolio company. They facilitate the company’s access to the parent’s technical and marketing capabilities and help the company to leverage the corporate reputation. As expressed by a Theta manager:

“The value add from [Theta] to the founder/entrepreneur is that [Theta] can bring in the specialist division at a very early stage, giving constant input to the entrepreneur on his product so that he can tweak it and correct things much earlier than he would otherwise be able to—he gets the ‘market’ feedback much earlier…The biggest advantage [of Theta] is opening the channel to the parent—the reseller—this is the key component for the start-up. The start-up gets information in detail on markets, customers, know-how for big scale growth.” (T1- Theta)

We observed variation in the emphasis on linking the venture with the parent. Some CVC funds focused on delivering access to tangible resources such as labs and market information and adopted the practice across the board (strong emphasis on the practice). Other funds adopted the practice selectively (for some portfolio companies but not for others) and/or concentrated on delivering intangible reputational benefits rather than tangible support with the technology and the market. We interpreted this as moderate emphasis on the practice. Comparative quotes across cases are presented in table 6.

**Table 6 about here.**

The CVC practice of linking the venture with the corporate parent can be explained as follows: First, CVCs are interested in shaping the venture’s trajectory towards a direction that is strategically meaningful for their parent. The following quote illustrates this:

“Nearly every investment we see, we want to shape what it does to fit the peculiarities of a strategic partner so that their strategic benefit can be gained further down the line… For that you have to behave in an entrepreneurial fashion, it might be, we have this brand in [the parent], if we took this brand and worked with your business to create a new model is that more valuable than your business model? Then we need to convince the entrepreneur of that, arrange the licenses, etc.” (Mi1, Mi)

Second, linking the venture with the corporation signals engagement of the CVC unit with the rest of the firm. The following quote illustrates this:

“We link the venture and the parent mostly because that will help the company be financially successful but also because there’s a few brownie points for us showing that we are truly strategic…” (K1, Kappa)

Finally, CVCs have access to available corporate resources, knowledge and reputation which the young company needs (Maula, Autio and Murray, 2005 & 2009). Weber and Weber (2011) mentioned the idea of CVC as a triad (the parent, the CVC unit and the venture), with the CVC investors serving as a ‘matchmaker’ that enables direct contact between the two other parties in the triad. Our data corroborated that framing. As one manager put it:

“In the industry, we joke that the entrepreneur-VC relationship is like marriage. …Here, we have three parties that are going to be involved in that marriage!” (G1, Gamma)

Incidentally, we also explored exit behavior starting with a hunch that CVCs (as opposed to independent VCs) would tend to buy their investee companies. Interestingly, this intuition did not fit the data. CVC programs did not actively consider acquisition by the parent corporation as a desirable exit route. A frequently expressed reason was the avoidance of adverse reputational effects.

“You can't claim legitimacy as a private equity investor if you start acquiring your portfolio. First - that's just bad investment strategy since (acquisitions) are a different ball-game altogether. Besides, that's not the kind of thing you want for your reputation as an investor. - (E2, Epsilon)”

**Explaining the collective existence of corporate investment practices**

Looking at the findings as a whole, we derived three reasons for the collective existence of corporate investment practices. CVCs attempt to a) secure strategic fit with their parent, b) signal engagement with the rest of the corporation, and c) utilize available corporate resources and capabilities. The above explanations are consistent with the theoretical concept of ‘institutional pressure’ (DiMaggio and Powell, 1983). Since CVCs are fully owned and receive all their funding by their parent, they face pressure to conform to the parent’s mandates in order for their program to survive. Parents expect from their CVC units to generate strategic benefits, be to ‘engaged’ with the rest of the corporation and to utilize available corporate resources (rather than buy them from the outside). Hence, corporate investment strategies as a whole represent a response to parental pressure.

Utilization of available corporate resources and capabilities could also have a different explanation, rooted in the resource-based view of the firm (Barney, Wright and Ketchen, 2001). Apart from being driven by corporate pressure, utilization of corporate resources can also happen voluntarily. This is because such resources are valuable, rare, inimitable and non-substitutable, especially technical expertise and market knowledge (Keil et al., 2010). They can therefore lead to a competitive advantage for the CVC unit (Barney et al., 2001).

**Varying emphasis on Corporate Investment Practices and multiple institutional logics.**

From cross-case comparisons, a clear pattern becomes discernible. CVC programs classified in two groups: Programs Alpha, Beta, Eta, Theta and Mi placed strong emphasis on six corporate investment practices, and provided focused feedback to their parent. By contrast, programs Gamma, Delta, Epsilon, Zeta, Kappa, Lambda, Ni and Xi placed moderate emphasis on the same six corporate investment practices and provided broad feedback to their parent. Table 7 presents a cross-case comparison and illustrates the observation. We note that one corporate investment practice, namely preferring to syndicate with other VCs, for which we did not find variation across the cases in the sample.

**Table 7 about here.**

Based on the above observation, we distinguish between two distinct field-level ‘logics’ for CVC investment. A CVC program follows an ‘integrated’ logic when it places strong emphasis on corporate investment practices and provides focused feedback to the parent. Instead a CVC program follows an ‘arms-length’ logic when it places moderate emphasis on corporate investment practices and provides broad feedback to the parent[[5]](#footnote-5). Interestingly, our typology is congruent with early exploratory work on the CVC phenomenon by Siegel, Siegel and McMillan (1988).

**Focus of isomorphism and the emergence of the two Corporate Investment Logics**

We also noticed that a subset of the CVC programs aligned with corporate norms to design their operations. In theoretical terms these programs ‘focused their isomorphism’ internally (Souitaris et al. 2012). The following quote illustrates this:

“I think our corporate model is better. At first I hated it, I thought this thing is going to drive me crazy and I’d never be able to do this. But so many things I’ve seen over the years have been uncovered, that nobody else saw or was aware of… I mean I’ve come to value the process…Well you know, I have been doing this since 2003 and I am a chartered member of the [corporate] group… It is definitely something I have stuck with, I have found it a perfect fit for me and I really enjoy the job, so they will have to take me out of here kicking and screaming! (laughs)” (Et1, Eta).

The rest of the CVC programs shifted their focus to the VC world, aligning with VC norms. In theoretical terms they ‘focused their isomorphism’ externally. A manager explained:

“Occasionally they [the parent] will try and advise, but we feel completely independent, therefore we have spent a lot of time making it clear to the outside world. We are trying not to use the words corporate venture fund, we are a VC fund backed by a corporate. The reason we do that is because corporate venture funds had historically had a negative perception in the industry which is that they are slow, they will ask for special conditions, they will make investment decisions that are ultimately aimed at securing control of the intellectual property for the parent and you know, any entrepreneur doesn’t want to sell that early and other VC’s don’t want you in the deal. Why would they want you?” (K1, Kappa)

Table 8 presents comparative quotes of the focus of isomorphism across all 13 cases. A cross-case comparison (see Table 7) showed that CVCs that were isomorphic to the corporate parent, followed an integrated investment logic, with strong emphasis on corporate investment practices. Instead, CVCs that were isomorphic to the VC world followed an arms-length investment logic with moderate emphasis on corporate investment practices. The data indicated specifically that focus of isomorphism affected the emergence of two distinct investment logics and the associated practices. For example, a manager explained how aligning with corporate norms (internal focus) led to strong emphasis on linking the venture with the parent, post-investment:

“Everyone seems to think that [independent] venture capital is close to entrepreneurial, in my view they are a million miles apart. They happen to work with entrepreneurs but they themselves are as un-entrepreneurial as you can get… That doesn’t work for us because shaping of activity is a very important part of what we do here. We’ve noticed that if we go and recruit pure venture capitalist investors who have the BBCA guide to investing they can’t do it, they don’t understand. [They think] that’s not my job, that’s the entrepreneurs job, in that case you get a business has a separate trajectory from the one that [the parent] needs.” (Mi1, Mi)

In a counterexample, a manager indicated how pegging on VC norms (feeling like an independent VC) made sponsorship a preference rather than a requirement.

“We feel like an independent VC, we can do whatever we want to do from a deal perspective. If it is a technology deal we would prefer to have a business unit agreement but it is not a requirement, and the reason it is not a requirement is that sometimes we have invested in technologies that have been very successful that a business unit never bought in-to.” (L1, Lambda)

In short, we observed that CVC programs aligned with one of their two environments (the parent corporation or the VC world), and this choice affected their investment logic and the associated emphasis on corporate investment practices. Table 8 presents manager’s quotes across cases to illustrate the above finding.

**Table 8 about here.**

**DISCUSSION**

**Towards a model of corporate investment practices**

Our aim was to identify and explain investment practices that are unique to the CVC context, by comparing our CVC data with the literature on VC investment. Based on our findings, we present an inductively-derived model of corporate investment practices in Figure 2.

**Figure 2 about here**

Our findings can be grouped into two sections. First, we identified eight corporate investment practices that differentiate CVCs from independent VCs, such as accepting corporate referrals, securing a sponsor, involving the parent in due diligence and deal approval, and linking the portfolio company with the parent. We also identified three reasons for the collective existence of the corporate investment practices, namely to secure strategic fit and to signal engagement with the corporation (indicating institutional pressure), and to utilize corporate resources and capabilities (which can be an effect of parental pressure or voluntary choice).

Second, we observed that not all programs perceived the parental pressure and the opportunity to utilize parental resources to the same extent. Some programs perceived high parental pressure and a greater opportunity to utilize corporate resources and aligned with the norms of their parent (internal focus of isomorphism). This led to an ‘integrated’ investment-logic, placing strong emphasis on corporate investment practices. Other programs perceived lower pressure from the parent and lower opportunity to utilize parental resources, and aligned with the norms of the VC world (external focus of isomorphism). This led to an ‘arms-length’ investment-logic placing moderate emphasis on corporate investment practices [[6]](#footnote-6).

Despite the fact that the data pointed towards a discreet choice between two competing logics (integrated versus arms-length) it could be that these are the two extremes of a continuum. It is possible that CVC programs pick and choose different corporate investment practices. The clear distinction in our model could be because of the choice of cases (our data was polarised but it is possible that there are also hybrids), or because of the participants’ interpretation. Categories are often socially constructed to ease meaning, and they are created by unintentionally exaggerating the partitions between observations (Zerubavel, 1993). To put it simply, what the participants interpreted and labelled as an “integrated” (or “arms-length) CVC program could really be a program towards the integrated (or arms-length) end of the spectrum regarding its investment practices.

We collected two sets of CVC data over a decade (six cases in 2002 and seven cases in 2011–12). While practices of individual companies might have shifted over time (see future research directions), we reported results that are broadly replicable across the two sets of data. The eight corporate investment practices, the reasons behind these practices and the reasons for variation in the emphasis on them were observed in both CVC waves (third wave in the beginning of 2000s and fourth wave in the current decade). Studies over longer time periods are valuable but rare because of their difficulty of execution (Hill et al, 2009).

**Possible alternative explanations**

We considered two observable attributes of the programs as potential alternative explanations for the choice of emphasis on corporate investment practices. First, the different objectives of the funds (strategic versus financial) might have caused the difference in their investment practices. This argument did not fit the data (see Table 7). We noticed that most CVC programs declared dual objectives (both strategic and financial) and therefore constituted the majority in our sample (11 cases). Despite their common dual objectives, the actual investment logics among them varied. We therefore concluded that the declared objectives cannot fully explain practice variation. Second, practice variation could be explained by the programs’ set-up structure. This explanation also did not fit the data, for two reasons: a) practice variation existed among the fully-owned subsidiaries, which was the most common type of structure and b) a tight structure (direct investment from the balance-sheet) coexisted with low emphasis on corporate investment practices (case Xi). Therefore, we concluded that the set-up structure did not adequately account for the investment logic.

We also considered the possibility that previous career paths of the CVC unit founders might be the driver of the variation in practice. The career path explanation (Dokko and Gaba, 2012) is plausible and not incompatible with our model. Souitaris et al. (2012) found that the career path of the founders is a predictor of a unit’s focus of isomorphism. We argue that the focus of isomorphism affects the choice of practices. Therefore, the career path of the founders could affect practices indirectly, via the focus of isomorphism, which is compatible with our thesis rather than an alternative explanation.

**Theoretical contributions and research implications**

Our paper contributes to three literatures. *First, we extend the VC literature* (e.g. Wright and Robbie, 1998; Gompers and Lerner 2004) *by documenting and explaining ‘corporate investment practices’ that are unique to CVCs.* We extend a recent stream of work that looked at the applicability of the VC model to CVCs (Dushnitsky and Shapira, 2010; Hill et al., 2009; Maula et al., 2005) by looking at fine-grained differences in the way CVCs construct deals. Broadly, we found that CVCs involve their parent corporation in various aspects of the investment process, in order to manage parental pressures for strategic alignment and engagement and to utilize corporate resources and capabilities. Focusing on CVC investment practices is important because CVC is a growing source of capital for entrepreneurs. Moreover, scholars have explicitly called for detailed case-studies to shed light to the specifics of corporate investment practices (Dushnitsky, 2006: 415).

*Second, we contribute to the CVC literature, by advancing a new typology of corporate investors (integrated versus arms-length towards the corporate parent).* Generally, the results are in agreement with the literature’s observation that CVCs are heterogeneous. Our investment-logic typologywas meaningful to practitioners because it reflects actual practice (how they do deals). Our focus on practice complements earlier work that distinguished CVCs based on observable factual differences such as their set-up structure (Dushnitsky, 2012) and locus of investment (Hill and Birkinshaw, 2013).

*Moreover, we elaborate on the concepts of CVC autonomy and integration, by specifying a bundle of associated investment practices*. While earlier literature talked about CVC autonomy and integration (Hill and Birkinshaw, 2008, 2013; Siegel et al., 1988), the exact implications of these concepts in terms of how CVC do deals is not well specified. Our investment-logic typology (integrated versus arms-length) can inform future CVC research as it associates autonomy and integration with a set of investment practices. For instance, ‘integrated’ CVC programs not only need their parent to approve the deals, but also tend to use more corporate referrals, screen deals for strategic potential, offer feedback to the parent, use internal due diligence, secure a sponsor and link the investee with the parent.

The performance implications of the different investment logics is an interesting avenue for CVC research. Performance, especially in terms of strategic value added, is difficult to measure (Bassen, Blasel, Faisst and Hagenmuller, 2006) and the practitioners were struggling with the issue. A respondent put it like this:

If you put a few of us CVCs around a table, the typical points of discussion are two: how much strategy and how to measure strategic performance…(Mi1).

We looked at the 2012-performance of the six programs in the first data-wave. We did not find direct data on the financial returns of the funds, so we relied on archival data, namely survival (Hill et al., 2009, 2013) and exit rates (Dushnitsky and Shapira, 2010). The results did not indicate a clear trend. Five out of the six programs survived and the sample size was too small to draw robust statistical conclusions. We recommend large sample research to establish links between CVC investment logics (integrated versus arms-length) and outcome variables such as survival, return on investment, deal completion rates and exit rates. Since it is hard to observe fine-grained investment practices, we can either rely on proxies from archival data, such as the set-up structure (Dushnitsky, 2012), and/or develop a scale that could capture integrated and arms-length CVCs in survey-based studies.

*Third, our study contributes to the literature on how multiple logics emerge*. In general, this is a core and timely question for institutional theory that requires further empirical research (Thornton, Ocasio and Lounsbury, 2012). The extant literature has provided some explanations of how dominant logics evolve and change, and therefore how multiple logics emerge. These include the effect of critical events (Nigam and Ocasio, 2010), structural changes in the environment (Dunn and Jones, 2010), institutional entrepreneurs who exploit internal contradictions in the dominant logic (Greenwood and Suddaby, 2006) and geographical separation of actors in the field (Lounsbury, 2007).

Our work demonstrates an alternative mechanism of how multiple logics emerge, which involves selective alignment with different stakeholders. New organisational subunits, such as corporate ventures and international subsidiaries, often find themselves in the middle of two “worlds” (alternative institutional environment with different norms); the world they came from and the one that they are moving to. In our context, CVC programs can choose between the distinctly different norms of their corporate parents and of the VC industry. Aligning with parental versus industry norms leads to differences in the CVC investment practices and ultimately to a distinction between two investment logics, integrated versus arms-length. Hence, in broader theoretical-terms, *we illustrate that* *focus of isomorphism to different stakeholders (Souitaris et al., 2012) can create practice variation and the emergence of competing field-level logics.*

Incidentally, our study complements the related study by Souitaris et al. (2012) both empirically and conceptually. Empirically, Souitaris et al. (2012) focused on organizational structure of CVC funds. Instead, our paper documents and explains CVC investment practices. Conceptually, Souitaris et al. (2012) introduced the theoretical concepts of focus of isomorphism, differentiating between endo- and exo-isomorphism. Our work applies the concept of focus of isomorphism to explain the emergence of multiple field-level logics, an important open question in institutional theory (Thornton, Ocasio and Lounsbury, 2012).

Interestingly, we challenge the literature’s implicit assumption that multiple field-level logics are associated with different practices (e.g., Lounsbury, 2007). We illustrate empirically a more subtle reality. Multiple logics can be associated with a similar set of practices used to a different degree. From a methodological point of view, our study derives the logics from the data (practices and vocabulary) rather than assumes their existence as is typical in much of the prior literature (e.g. Thornton and Ocasio, 1999).

**Limitations**

There are two main limitations in the present study. First, despite our best efforts, we could not access corporate executives involved in decisions about the CVC programs, mainly because they are usually at the very top of the corporate hierarchy. The actual weakness that this entails is that we were not able to capture first-hand the parents’ perspective about what drives CVC investment practices. Where we could, we used archival data (mainly newspaper interviews, annual reports, and internal documents) to confirm that corporate executives concurred with the CVC respondents. In the face of this data limitation, we framed our study at the CVC-program level (document and explain CVC practices), which makes program executives appropriate key informants.

Second, our qualitative study only claims analytic rather than statistical generalizability. We recommend larger sample survey-designs to test our main conjectures, namely a) the existence of two different CVC investment logics associated with variation in corporate investment practices, and b) more broadly, the relationship between different foci of isomorphism and the emergence of multiple logics in an institutional field.

**Temporal aspects of CVC investing. A future research direction.**

The CVC literature issued a recent call for identifying differences between periodic waves of CVC (Dushnitsky, 2012). Therefore, it is interesting here to discuss some of the temporal aspects of the phenomenon that emerged from the data. The main difference between the current, fourth wave of CVC and the previous third wave (end of 1990s/beginning of 2000s), is that contemporary CVCs enjoy more legitimacy. A manager explained:

“Well, literature says that this is the golden age of CVC. We (CVCs) have a lot of money on our balance sheet, where VCs have fewer funds available, and we have the additional aspect of the value adding to the start-ups.” (Et1, Eta)

Another reason for the increased CVC legitimacy is the learning curve of the fund managers. The following quote is illustrative:

“I think CVCs are more sophisticated now, the people running them are more experienced, more people have come through the venture capital period and have taken on board these issues and refined them so corporate venture capital funds are far more accepted now than they were 10 years ago.” (K1, Kappa)

Another interesting temporal aspect of the phenomenon was the bidirectional change of individual CVC programs from internal to external, and from external to internal focus of isomorphism. The following quotes illustrate this:

*From external to internal focus of isomorphism:* In the last 10 years we have been free to invest where we want…and [the parent] has done analysis and said all of our commitment to corporate venture capital, none of it is working strategically enough for us… And so we are going to move in our third fund and a structure that we would like sign off on each investment; sign off to say it’s strategic… I personally don’t mind; the reason I don’t mind is that there are always too many deals to be done, and I want to have a happy investor to get my third and fourth fund... (Mi1- Mi).

*From internal to external focus of isomorphism:* [Ni] has been a growing experiment for [the parent] and for the teams that ran [Ni] over time. The current team, the six partners, we all came on board from outside the parent with the exception of one of my partners… Our set up is very similar to a typical VC, fairly unusual for a corporate VC… when we joined [Ni] the decision process was more linked to the finance operation at the parent…you needed to get approval from the CFO and that changed when we came on board... (Ni2, Ni).

We believe that studying the temporal change from internal to external, and from external to internal focus of isomorphism, is a fruitful future direction for institutional theory. This was out of the scope of this study, as it would require following the same funds longitudinally.

**Practical implications**

We noticed that often CVC managers did not recognize the fine-grained differences in investment practices between CVC and VC funds. On other occasions CVC managers chose to downplay their difference with VCs, because they believe that association with independent VCs attracts deals. For example, a manager pointed out:

Some of the people in my team that you are going to meet are ex-VCs. They are going to say that our fund is exactly like a VC fund. This is our marketing front, because that is what entrepreneurs want to hear… (N1, Ni).

We believe that accepting and understanding the different practices between CVCs and independent VC funds is important for both CVC and VC practitioners. It helps them to empathize with each other’s incentives and conditions and to better collaborate.

Moreover, we specified the distinction between ‘integrated’ and ‘arms-length’ CVCs. While this distinction was implicitly recognized by many CVC practitioners, they were often unable to articulate exactly what it meant in terms of practices.

**Conclusions**

We identified eight corporate investment practices that differentiate CVCs from independent VCs. These practices reflect parental institutional-pressure to the CVC units for strategic fit and engagement with the corporation and also an opportunity for CVCs to utilize valuable parental resources. Moreover, we observed variation among CVC programs on the emphasis placed on the corporate investment practices. Programs that aligned with the norms of the corporate parent (internal focus of isomorphism) placed more emphasis on corporate investment practices than programs that aligned with the norms of VC world (external focus of isomorphism). The study extends the VC literature by documenting and explaining corporate investment practices, and by elaborating on the concepts of CVC autonomy and integration. It also contributes to institutional theory by showing that focus of isomorphism to different stakeholders can lead to the emergence of multiple logics in a field, and to variation of practice.

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**Table 1: CVC programs characteristics**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Parent’s industry** | **Fund size at time of interview** | **Since** | **Set-up structure of the program** | **Declared objectives of the program** | **Stage & size of investments** | **Geo graphy** | **Principal informants (code) - number of interviews)** | **Size of the team (size of TMT)** |
| **Alpha** | Investment Banking | £80M | 2000 | Wholly owned subsidiary | Financial & Strategic | Middle-late  £3-15M | Global | 1. Global Head (A1) – four interviews | 25 (2) |
| **Beta** | Higher education | £6M | 2000 | Wholly owned subsidiary | Financial & Strategic | Preseed and seed  <£250K | UK | 1. Fund Manager (B1) – two interviews  2. Director (B2) – three interviews  3. Technology executive (B3) – one interview | 26 (2) |
| **Gamma** | Energy | £200M | 2000 | Wholly owned subsidiary | Financial & Strategic | Early-middle 1-5M | US and Europe | 1. Senior vice president (G1) – three interviews  2. Vice-president (G2) – two interviews | 10 (4) |
| **Delta** | Oil and gas | $500M | 2000 | Wholly owned subsidiary | Financial & Strategic | Seed-early  $300K-$2M | US and Europe | 1. Senior investment manager (D1) – three interviews  2. Investment partner (D2) – two interviews | 9 (6) |
| **Epsilon** | Raw materials | € 40M | 1999 | Wholly owned subsidiary | Financial & Strategic | Early-middle €0.5M-€5M | Europe | 1. Senior investment manager (E1) – two interviews  2. Managing partner (E2) – three interviews | 8 (5) |
| **Zeta** | Consumer electronics | € 200M | 1999 | Wholly owned subsidiary | Financial & Strategic | Early-middle €0.5M-€5M | US, Europe and Israel | 1. CEO (Z1) – three interviews  2. Investment manager (Z2) – three interviews | 8 (5) |
| **Eta** | Materials, agricultural products | Unlimited M&A funds | 2003 | Direct investment | Financial & Strategic | Middle $3-8M | Global | 1. Managing director (Et1) - two interviews | 4(4) |
| **Theta** | Consumer electronics | Off the balance-sheet | 1999 | Direct investment | Strategic only | Seed <$1M | Global | 1. Director (Th1) – two interviews | 8 (1) |
| **Kappa** | Food ingredients | £25M | 2006 | Dedicated VC fund | Financial & Strategic | Early-middle £1-2M | US and Europe | 1. Managing Partner (K1) one interview  2. Managing Partner (K2) one interview | 2 (2) |
| **Lambda** | Semi-conductors | 10 separate funds totalling $2.15B | 1991 | Wholly owned subsidiary | Financial & Strategic | Early to late $0.5-15M | Global/ Separate regional funds | 1. Investment director (L1) – one interview  2.Managing director (L2) – two interviews | 88 (15) |
| **Mi** | Fast moving consumer goods | €90M | 2002 | Wholly owned subsidiary | Financial & Strategic | Seed to late $0.3-10M | Europe | 1. Managing partner (Mi1) – one interview  2. Investment director (Mi2) – one interview | 10 (3) |
| **Ni** | IT and Software | $353M | 1997 | Wholly owned subsidiary | Financial & Strategic | Late $5-10M | Global | 1. Managing partner (Ni1) – one interview  2. Managing partner (Ni2) – one interview | 8(6) |
| **Xi** | Healthcare | Off the balance-sheet – CHF 500M invested until now | 2002 | Direct investment | Financial only | Early to late CHF 3-8M | Global | 1. Head of the fund (Xi1) – two interviews | 6(4) |

**FIGURE 1: Data Structure**

**First-Order Second-Order Aggregate Concepts Themes (practices) Dimensions**

Statements about “introductions”, “requests”, “referrals”, “contacts” by corporate colleagues; internal “sourcing”, “origination”, “generation” of deals.

Statements about “strategy”, “strategic objectives”, “strategic relationships”, “strategic benefits”, “strategic investments”, “strategic relevance”, “potential for collaboration with the parent”.

Referrals from business units (strong vs. moderate emphasis)

Strategic potential for the parent as a deal screening criterion (strong vs. moderate emphasis)

Statements about the business units being “advisors”, “domain & technical experts”, “doing technical due-diligence”.

Statements about “feeding back information”, “sharing information and intelligence”, “alerting”, “discussing” “showing everything”, “being the eyes and the ears of the company”.

Statements about the importance of independent VCs for the success of CVCs, and about comparing syndication with VCs and CVCs.

Secure a sponsor (strong vs. moderate emphasis)

Syndicate more with independent VCs than other CVCs

Feedback to business units (focused vs. broad scope)

Involve business units for technical due diligence (strong vs. moderate emphasis)

Statements about a “sponsor”, a “champion”, “someone from the business side”, a “partner” to do the deal, an “ambassador”, a “lead contact”.

Statements about corporate approval, formally by an “investment panel”, “board” or “committee”, the CEO, the CFO, a “number of signatures”, or informally by “having a chat about the deal”, having a corporate “observer”.

Statements about “linking them to the promised resources”, “delivering the strategic linkages”, “coordinating access to resources”, “opening the channel to the parent”, “acting as an intermediary”.

Link the portfolio company with the parent’s resources (strong vs. moderate emphasis)

Involve the parent for deal approval (strong vs. moderate emphasis)

**Investment ‘logic’ (integrated versus arms-length)**

**First-order Second-Order Aggregate Concepts Themes Dimensions**

Statements about adopting similar organizational elements with parents such as “structure”, “protocol”, “culture”, “office layout”, “processes”, “a corporate model”, “not like a VC”.

Statements about adopting similar organizational elements with VCs (“creating a VC-fund operation” and conform to “VC style of play”, “VC way of working”, “VC decision-making”, “VC processes”, “VC structure”).

Aligning with parent’s norms (endo-isomorphism)

Aligning with VC norms (exo-isomorphism)

**Isomorphism to a particular environment (Focus of isomorphism)**

**(focus of isomorphism)**

**Figure2: A conceptual model of corporate investment practices**

**Focus of isomorphism**

**Integrated** investment logic

**Arms-length** investment logic

**Degree of emphasis on corporate investment practices:**

* Corporate referrals
* Strategic potential as a screening criterion
* Feedback to the parent
* Internal due diligence
* Securing sponsor
* Syndicate with VCs rather than CVCs
* Involve parent in deal approval
* Link the portfolio company with parent

**External** (Aligning with the norms of the VC world)

**Internal** (Aligning with the norms of the parent)

strong

moderate

**Opportunity for utilization of corporate resources/ capabilities**

**Pressure from the parent for**

a) Strategic fit

b) Engagement

Table 2: Deal Generation Stage: Corporate referrals

|  |  |
| --- | --- |
| **Evidence from first round interviews** | |
| Alfa | *Strong emphasis on the practice:* Deals like that (referred by a Business Unit) are always given top priority. (A1) |
| Beta | *Strong emphasis on the practice:* Beta appointed a team to actively scout within the parent organization for commercially viable technology projects worthy of investment consideration. (B1) |
| Gamma | *Moderate emphasis on the practice:* Referrals from business units play a role but it is not the most important source of deals. (G1) |
| Delta | *Moderate emphasis on the practice:* We take referrals from the corporate divisions very seriously. However, most deals come from the outside. (D2) |
| Epsilon | *Moderate emphasis on the practice:* Referred leads from both the Business Units and VCs have the highest conversion rate of opportunity to deals. (Ep1) |
| Zeta | *Moderate emphasis on the practice:* My best deal flow come from such introductions from Business Units as well as VCs. (Z1) |
| **Evidence from second round interviews** | |
| Eta | *Strong emphasis on the practice:* Business units are important. Generally, I find that about half of my deals come from the business units. (Et1) |
| Theta | *Strong emphasis on the practice:* Theta is able to extract knowledge from the corporate. Theta team members’ travel, meet and talk with people in the various divisions to get ideas. (T1) |
| Kappa | *Moderate emphasis on the practice:* The majority of deals we are sourcing came from our historic contacts with the industry that we knew. But here is a deal we got introduced to by a director... and it’s really good. (K1) |
| Lambda | *Moderate emphasis on the practice:* We source deals internally to some degree, but not to a hundred percent… that’s the minority of our deals, the majority of our deals are independently sourced, independently sold and exited (L1). |
| Mi | *Strong emphasis on the practice:* We don’t get everything from the business units but we get a lot. The technology businesses that we have spun out have all come from corporate R&D so by definition we’re referred from there. From the non-technology spin outs, my guess is half were identified in some way from people in the business units. (Mi1) |
| Ni | *Moderate emphasis on the practice:* We often use referrals from the corporate business units… However, the minority of our deals are referred by the parent. The majority of them are sourced externally. (Ni1) |
| Xi | *Moderate emphasis on the practice:* The deal flow can come from the business units, but it comes from other places as well, other venture capitalists, from conferences, from our network essentially. (Xi1) |

Table 3. Deal Screening Stage: Strategic Potential and Feedback to the Business units

|  |  |  |
| --- | --- | --- |
| **Evidence from first round interviews** | | |
|  | **Strategic Potential as a screening criterion** | **Feedback to Business units** |
| Alpha | *Strong emphasis on the practice:* No matter how successful the deal turns out to be financially, it will still be considered a failure if it is strategically meaningless. (A1) | *Focused feedback:* We always feedback market information and offer our opinions to the Business Units; we mainly concentrate on things that they told us they are interested in. (A1) |
| Beta | *Strong emphasis on the practice:* Even at our initial meeting, I expressed my belief that with this strategic blueprint [Beta] can be a successful fund and a success story for [the parent]. (B2) | *Focused feedback:* We have to review and report to [the parent] on various issues including, at the top of every agenda, how this money is being spent. (B2) |
| Gamma | *Moderate emphasis on practice:* We invest for financial return but we also look for the kinds of proven technology that can strategically complement and offer strategic growth options for [the parent's] core business… (G1) | *Broad feedback:*  we incorporate their [BUs] strategic aims into our daily ops. But I feel that a good venturing unit carries the search broader and further… (G1) |
| Delta | *Moderate emphasis on practice:* Companies that can demonstrate the potential for critical partnerships [with the parent] advance the screen queue the quickest… Along with the right mix of value-generating success metrics, we also look for a reasonable time to profit. (D1) | *Broad feedback:* Sometimes we'll use these meetings to discuss applications that fall outside the usual search field…such as certain upcoming inter-disciplinary technologies. (D1) |
| Epsilon | *Moderate emphasis on the practice*: In addition to the standard means of assessing return potential, we have also incorporated procedures that will help us ensure the deal's strategic relevance and potential for partnership with [the parent]. (E1) | *Broad feedback:*  We alert them on white spaces they'll probably want to capitalize on, and share some insight on the newest technologies out there that they may be interested to feed into their pipelines. (E2) |
| Zeta | *Moderate emphasis on the practice:* We use the typical VC financial criteria… a relatively large proportion of our evaluation is focused on addressing strategic priorities and establishing strategic context. (Z1) | *Broad feedback:* What we do takes on a new meaning when the intelligence is fed-back to the business side… gives them a more informed picture of how the traditional sectors may look like in the future, where the emerging opportunities are, and where we foresee gaps will start to show in their current strategy. (Z2) |
| **Evidence from second round interviews** | | |
| Eta | *Strong emphasis on the practice:* What I try to do is target where would this fit in terms of all the business units, where can I likely get some traction. That can be a challenge... So nanotechnology can be applied to our electronics group, it can be applied to our bio group…and part of our job would be who has the greatest need and where would the best fit be. (Et1) | *Focused feedback*: When you have a deep science and a knowledgeable scientist in a company, they can be very specific about what their gaps are... I can grab hold of those and check is there anything like that out there or can I co opt technologies that are being used in other areas and bring them in and apply them to this new area? (Et1) |
| Theta | *Strong emphasis on practice*: Initial quick screening of a deal would be to look for uniqueness and valuable potential of the product in relation to [the parent’s] products… There is no demand for financial return. The only financial return would be through re-selling rights of the portfolio company’s product. It is pure strategic goals for Theta. (T1) | *Focused feedback:* We meet and talk about specific sectors and deals. [Theta] is considered successful if they bring in the outside ideas and these eventually become [the parent’s] products. (T1) |
| Kappa | *Moderate emphasis on the practice*: the screen as to whether it is strategically relevant was encapsulated in the document outlining how the fund was run… And as long as we are within that scope that is defined legally, off we go. Then we apply purely financial venture capital metrics after that. (K1) | *Broad feedback:*  They leave us to decide which deals but we have an obligation to show them everything that comes through the deal flow with bounds of confidentiality so they get non-confidential summaries, they have access to the deal flow. (K1) |
| Lambda | *Moderate emphasis on the practice*: In our case, we look at both [strategy and return], it is not before and after, it’s all at the same time. (L1) | *Broad feedback:* We go to the business unit and say hey guys have you looked at this, have you looked at that? So it’s a two way street. (L1) |
| Mi | *Strong emphasis on the practice:* If we cannot deliver access to [the parent] then we probably won’t do the investment, because there are so many other VCs around that might do a better job than us, but we need to see the [parent’s] angle. (Mi2) | *Focused feedback:* We like to find sector spaces, but within the spaces we find deals. [The parent] might say, yes that is an interesting sector, but then we like to talk about specific deals. (Mi1) |
| Ni | *Moderate emphasis on the practice:* We look at the financial potential of the company, as any investor would. Their market potential, top management team etc. At the same time we look for a strategic benefit for the parent. We want to be smart investors. For example, we do not invest in competing software, that would not be very smart. (Ni1) | *Broad feedback:* We discuss with the business units about new ideas and markets. Those ideas come from observing our deal flow. Of course, we cannot talk with the parent about confidential discussions with companies. We do not get out there to spy. But if we see a hot new market, we will alert them. (Ni2) |
| Xi | *Moderate emphasis on the practice:* We’re concerned with financial investments. Fit with strategy is good, but we don’t invest for strategic reasons, we find that strategic reasons are harder to quantify plus strategies come and go (Xi1) | *Broad feedback:* We are free to go around and consider a variety of ideas and ventures. We always feedback our broad market knowledge to the parent. I am not sure how much they listen… but we try. (Xi1) |

Table 4. Deal evaluation and due diligence stage: technical due diligence and securing a sponsor

|  |  |  |  |
| --- | --- | --- | --- |
| **Evidence from first round interviews** | | | |
|  | | Technical due diligence | Securing a sponsor |
| Alpha | *Strong emphasis on the practice:* It doesn't matter that the advisors belong to the business side and have little or no investment experience…they are vital to the investment process by virtue of the depth of their industry knowledge. (A1) | | *Strong emphasis on practice - a sponsor is a requirement*: Securing sponsor support is a pre-requisite for further discussion with the company. (A1) |
| Beta | *Strong emphasis on the practice:* These recommendations are given by people who are experts in their field…with considerable commercial experience. (B1) | | The practice does not apply to this case. There is no need for a sponsor because the parent is a university. |
| Gamma | *Moderate emphasis on the practice*: As a team, we don't all have the requisite skill sets to conduct all the due diligence in house. It is far more efficient to contract those areas we can't do well ourselves to the Business Units or to outside experts. (G1) | | *Moderate emphasis on the practice - a sponsor is not required, but preferred:* We first ascertain that the business unit is agreeable to the partnership, and also very importantly, we need to know if they are committed to investing resources. (G1) |
| Delta | *Moderate emphasis on the practice:* As the investment professionals, we identified a strategically relevant technology. But in reality, regarding domain expertise such as infrastructure deployment, reliability and licensing issues, we can't speak authoritatively on that! This is why we bring in the technical experts both internal and external. (D1) | | *Moderate emphasis on the practice - a sponsor is not required, but preferred:* It is unethical to state in our vision statement that our portfolio companies will benefit from the know-how and research of [the parent] if we cannot convince the gatekeeper to even open the gate, so to speak. (D2) |
| Epsilon | *Moderate emphasis on practice:* Take the case of [a portfolio company], the experts from Electronics felt that the solution could greatly benefit their department since it helps reduce defect rates. [The Epsilon team] or any outside consultant without such first-hand knowledge would not have been able to assess the extent of the impact the solution can offer… However, in many other occasions we have relied on external consultants. (E1) | | *Moderate emphasis on the practice - a sponsor is not required, but preferred:* One of the first things we do is to arrange for an internal meeting with the business side. Firstly, the meeting lays the groundwork for the sorts of value added the venture needs in order to perform to expectations. Secondly, the meeting will concretely map out the short, medium and long-term targets on how the venture will start to contribute value to [Epsilon]. (E2) |
| Zeta | *Moderate emphasis on practice:* A good investor is aware that subjectivity invariably creeps into the evaluation process, especially if the technology is exciting and business unit interest is high. In this sense, technical due diligence by the business units or external experts represents the critical objectivity in decision-making… (Z1) | | *Moderate emphasis on the practice - a sponsor is not required, but preferred*: Having someone from the appropriate business side helps to ensure that the commercial proposition is strategically meaningful. Once that individual’s support is secured, it paves the way for future value-add to effectively maximize mutual success. (Z1). |
| **Evidence from second round interviews** | | | |
| Eta | *Strong emphasis on the practice:* We could not be successful in doing our deals if we didn’t engage the parent as a whole especially regarding the intellectual property and the validation of the technology so I reach into our central research organisation and the business technology groups. (Et1) | | *Strong emphasis on the practice* *- a sponsor is required:* There is one key person that I need as a partner to do a deal and that is a respected business development champion. So I look, for that person who will handle all the thinking about integrating the new venture into the business unit. (Et1) |
| Theta | *Strong emphasis on the practice*: These are technical experts and their comments are taken back to the start-ups to challenge their work and to get them focused. If this advisory Board has serious concerns about a project this could get [Theta] to cancel a project. (T1) | | *Strong emphasis on the practice – a sponsor is required after the investment:* After investment, [Theta] spends one year, trying to secure someone, a sponsor or ambassador, within the [parent’s] divisions... It is not possible to get full commitment from a division prior to an investment… This is due to the very early stage of the project/idea. (T1) |
| Kappa | *Moderate emphasis on practice:* With some portfolio companies, we kept it all in house – we would involve them [R&D] and we would get their advice... we wanted to win them over and get their input, and in some respects they were probably the best due diligence source we could use, but we weren’t held up.. But in other cases we tried to take as little time as possible from them and a lot of the due diligence work we got done outside...(K2) | | *Moderate emphasis on the practice* - *A sponsor is not required, but preferred:*  Securing a sponsor is not the case for us, as I said, we established the scope in the document then off we went, we touch base, we talk a bit, we never had such a requirement for a champion. But I know that other corporate VCs do have that kind of process, they need to find a business unit that basically says yes, we agree. (K1) |
| Lambda | *Moderate emphasis on practice:* They [the business units] would have the due diligence, they will have the know-how, they will do a first class review and tell us whether this thing works or doesn’t work… Of course, I don’t hesitate to call external experts if we have to. (L1) | | *Moderate emphasis on the practice - a sponsor is not required, but preferred*: We tend to prefer sponsorship and business unit agreements but it is not a necessity. If we are passionate about the technology and we think that it can provide us with future growth then we go with it regardless. (L1) |
| Mi | *Strong emphasis on practice*: For due diligence, the parent will be used whenever we can. In general, the quality of due diligence that you can do is better than a consultant. (Mi1) | | *Strong emphasis on the practice* – *A sponsor is a requirement:* [The parent] has always needed that lead contact, that champion…I want access to what the parent does and to gain access I need a sponsor, therefore I should do deals that a sponsor says should be done. (Mi1) |
| Ni | *Moderate emphasis on practice*: We utilize the business units for technical due-diligence. Since we are working on areas that they have knowledge of, they are the most capable technical experts. We often use external experts too, when the company is in an area that the parent does not have enough expertise, for example social media. (Ni1) | | *Moderate emphasis on the practice – a sponsor is not a required but preferred:* Of course, if we find a sponsor, it would be good, but we do not need one. Our philosophy is that within the five to seven years time-frame of an investment, the corporate strategy changes two to three times. So we cannot base the investment decision on whether one person in the corporation declares that the venture is strategically relevant to them. (Ni1) |
| Xi | *Moderate emphasis on the practice*: We use the parent for technical due diligence only with the consent of the company we were looking at. So it’s not automatic, occasionally we will do it. (Xi1) | | *Moderate emphasis on the practice: A sponsor is not required:* We do not need a sponsor. Sometimes it happens, but it is not required. (Xi1) |

Table 5. Deal Structure and deal approval stage: Syndication and parent involvement

|  |  |  |  |
| --- | --- | --- | --- |
| **Evidence from first round interviews** | | | |
|  | Syndication | | Parent involvement in deal approval |
| Alpha | You can view networking with VCs as one of our business development initiatives to improve deal flow. (A1) | | *Strong emphasis on the practice – requirement for approval of each deal by a corporate investment panel:* We need key individuals to be on board. (A1, referring to the approval of deals). |
| Beta | We monitor closely the VC community for opportunities of deal syndication. (B2) | | *Strong emphasis on the practice – requirement for approval of each deal by a corporate investment panel:* The committee is important to us for a variety of reasons. They validate or mitigate the case executive’s initial judgement… make important recommendations on conditions of funding, raise concerns and so forth. We can’t afford not to have their involvement. (B1) |
| Gamma | After the first few deals, word has spread that [Gamma] is one of the most professional corporate VCs and delivers one of the best value added in the investment industry …which means we now get invited to co-invest more than ever before! (G1) | | *Moderate emphasis on the practice – corporate approval is not required but is preferred:* Unlike other corporate funds, [the parent] gave us complete autonomy over the fund. So, we are not actually obliged to meet with the advisors and following this logic, we are not obliged to comply with their mandate but we always do. It’s part of our efforts to manage internal politics. (G1) |
| Delta | We select our external partners very carefully since a lot of decisions are based on their recommendations. That's why we only partner with top-tier VCs. (D1) | | *Moderate emphasis on the practice – corporate approval is not required but is preferred:*  The panel's just there for formality's sake… For the sake of the other departments, I think they don't want to make us look too independent. (D1) |
| Epsilon | We decided that we would co-invest considerably with VCs, and thought that a key element to sustaining good relationships and mutual respect is to have similar processes and emphasise similar issues like teamwork, efficiency and consensus. (Ep2) | | *Moderate emphasis on the practice – corporate approval is not required but is preferred:*  What happens when the advisory board gives the green light for investment is that a very clear signal is being sent to the company and the wider marketplace that [the parent] is 100% behind the deal, and is committed to providing the resources necessary to foster a mutually beneficial and successful partnership. (Ep1) |
| Zeta | As new players, we are more compelled to cultivate an extensive origination network with top-tier VCs whose reputations alone attract the best types of deals. (Z2) | | *Moderate emphasis on the practice–corporate approval is not required but is preferred:* Deals have to be approved by an investment panel, but the process is a formality. We designed the process as a strategy to ensure quality, efficiency, consistency and accountability to all parties we are answerable to. (Z2) |
| **Evidence from second round interviews** | | | |
| Eta | | About 20% of our total invested dollars we have used to become LPs in premier or relevant VC funds. Collaborating with other CVCs is much more difficult… (Et1) | *Strong emphasis on the practice - Formal sign off of each deal:* We have a very long list of people through the value chain that needs to approve the investments, all the way up to the CEO. (Et1) |
| Theta | | What really matters and the most trusted sources of a project/idea comes from a VC. (T1) | *Strong emphasis on the practice:* The investment MEMO is a requirement…The investment board is the audience of the investment memo and when it has been signed off, information on the particular investment also goes to a functional controlling/financial division within [the parent] that handles investments… (T1) |
| Kappa | | CVCs network more with the independent venture capital world because there is less of a conflict. (K1) | *Moderate emphasis on the practice – Corporate executives advise:* There was an advisory board which met every four months, and that was made up of [the CEO], the head of business development, the head of R&D, and us [the two CVC executives]. And they were there principally to advise. Not them saying, ‘I wouldn’t do that’. (K2) |
| Lambda | | We much prefer VCs because two CVCs dealing with each other would be a problem because each of them has strategic concerns that are overlapping. (L1) | *Moderate emphasis on the practice – Formal approval only for large deals:* If it is above 50 million dollars we have to go to our board for approval… using [the parent’s] corporate money we want to make sure we do that. If not [for smaller deals] we can just do it ourselves. (L1) |
| Mi | | Certainly, working with other CVCs is not much fun. So we tend to syndicate with independent VCs… (Mi1) | *Strong emphasis on the practice - Formal sign off of each deal:* For any deal it is a committee of two people. It could be, say, the head of corporate strategy and then the divisional president of the global personal care division. We will go to them having previously got buy-in at a junior level. We would then go with a, ‘we are interested in this, does it get your strategic sign off, yes or no?’ (Mi1) |
| Ni | | We tend to syndicate more with independent VCs. It gets tricky if there are many CVCs in the deal. We would not syndicate with the VC arm of [a major competitor]. (Ni1) | *Moderate emphasis the practice – Corporate executives involved informally:* Approval takes place within the VC unit. The six directors put the deal to a vote, and we need four yes-votes to approve a deal. However, we consult with the CEO and the CFO informally to get their go-ahead. (Ni1) |
| Xi | | We syndicate with VCs because they have financial and not strategic objectives. (Xi1) | *Moderate emphasis on the practice – Corporate executives involved informally:* Xi does not need corporate approval for doing a deal. We just show it to them, have a chat about it, and get their opinion before making the final decision… The highest it goes to is the CFO. (Xi1) |

Table 6. Deal Monitoring stage: Resource intermediaries.

|  |  |
| --- | --- |
| **Evidence from first round interviews** | |
| Alfa | *Strong emphasis on the practice:* That's why our role is vital…Our judgement is critical since we represent the interface between [the parent corporation] and its external strategic partners which when you think about it, is whichever company we put forward for investment. (A1) |
| Beta | *Strong emphasis on the practice:* This post-investment work, linking them to the promised resources, is the final key toward achieving that and we certainly aren’t going to let them down now. (B2) |
| Gamma | *Moderate emphasis on the practice – reputational benefits:* [The parent] is a big name in the industry…it is a household name. From its reputation alone, our portfolio companies generate great pulling power. (G1) |
| Delta | *Moderate emphasis on the practice – reputational benefits:* Because [the parent] is such a major global player, our equity participation acts as a validation of the company's value proposition which effectively gives them an added advantage. (D1) |
| Epsilon | *Moderate emphasis on the practice* - *Selectively link ventures to the parent’s resources*: It depends on the company…We really try to strike a feasible yet fair balance between the ventures' needs and concerns and our own responsibilities to our investment mandate. (Ep1) |
| Zeta | *Moderate emphasis on the practice* - *Selectively link ventures to the parent’s resources*: Depending on the company, we will try to link them to the parent. We view the value-adding activity as a crucial element in securing a decent return. We are lucky because [the parent’s] global presence and significant resources means that we have more to offer in terms of nurturing these companies… (Z1) |
| **Evidence from second round interviews** | |
| Eta | *Strong emphasis on the practice:* that person [who sits or observes the board] acts as the link between the [parent] company and the start up company… So we would help them if they needed the connections to an industry, we open our doors to some customers…And also the brand. You can never underestimate the name – the validation that it gives to the technology (Et1) |
| Theta | *Strong emphasis on the practice:* The biggest advantage [of Theta] is opening the channel to the parent – the reseller – this is the key component for the start-up. The start-up gets information in detail on markets, customers, know-how at big scale growth. (T1) |
| Kappa | *Moderate emphasis on the practice* - *Selectively link ventures to the parent’s resources*: We have linked them to manufacturing units for help with manufacturing, we’ve linked them to technology, always in the hope there will be some kind of deal, between the company and [the parent]. Of course it always depends on the needs of the portfolio company. - (K1). / I don’t think that this [link with the parent] has been as successful as it should have been… I think we’re always conscious… (K2) |
| Lambda | *Moderate emphasis on the practice* - *Selectively link ventures to the parent’s resources*: If there is a business unit agreement I want to make sure that the business unit adheres to this agreement, otherwise the portfolio company comes and complains to me saying what happened to this agreement, so yes we want to manage and mentor both parties to meet each other’s expectations. (L1) |
| Mi | *Strong emphasis on the practice* - Yes, we do a lot of that [resource intermediation] – because a big part of our portfolio is R&D spinout, we have very normal portfolio management. We are actually on the board and we have a management team in-between the board… (Mi2) |
| Ni | *Moderate emphasis on the practice* - *Selectively link ventures to the parent’s resources*: It depends on the business. Some businesses in our portfolio are very ‘strategic’ and for those we are putting a lot of effort to link them to the parent. Others are less so, and we leave them more on their own. (N2) |
| Xi | *Moderate emphasis on the practice* - We act as an intermediary between the parent and the company if someone asks for it. Upon request, yes. (Xi1, Xi) |

Table 7. Cross-case summary of findings.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cases** | **Internal referrals** | **Strategic potential** | **Feedback** | **Due diligence** | **Secure sponsor** | **Approval** | **Link with parent** | **Focus of isomorphism** |
| **Alfa** | Strong | Strong | Focused | Strong | Strong | Strong | Strong | Internal |
| **Beta** | Strong | Strong | Focused | Strong | No need | Strong | Strong | Internal |
| **Gamma** | Moderate | Moderate | Broad | Moderate | Moderate | Moderate | Moderate | External |
| **Delta** | Moderate | Moderate | Broad | Moderate | Moderate | Moderate | Moderate | External |
| **Epsilon** | Moderate | Moderate | Broad | Moderate | Moderate | Moderate | Moderate | External |
| **Zeta** | Moderate | Moderate | Broad | Moderate | Moderate | Moderate | Moderate | External |
| **Eta** | Strong | Strong | Focused | Strong | Strong | Strong | Strong | Internal |
| **Theta** | Strong | Strong | Focused | Strong | Strong | Strong | Strong | Internal |
| **Kappa** | Moderate | Moderate | Broad | Moderate | Moderate | Moderate | Moderate | External |
| **Lambda** | Moderate | Moderate | Broad | Moderate | Moderate | Moderate | Moderate | External |
| **Mi** | Strong | Strong | Focused | Strong | Strong | Strong | Strong | Internal |
| **Ni** | Moderate | Moderate | Broad | Moderate | Moderate | Moderate | Moderate | External |
| **Xi** | Moderate | Moderate | Broad | Moderate | Moderate | Moderate | Moderate | External |

Table 8. Focus of isomorphism and corporate investment practices

|  |  |
| --- | --- |
| **Evidence from first round interviews** | |
| Alfa | *Internal focus:* We were careful to adopt as much of [the parent's] culture as possible. (A1) |
| Beta | *Internal focus:* We have similar protocol and structures with our parent. I think it reassures them that we have control measures in place and that we are careful with their money. (B1) |
| Gamma | *External focus:* My job from the very beginning was to create a VC fund operations within the parent company. So that means, aside from strategic relevance, everything else conforms with the VC style of play, from the investment decision-making process right down to the simple things like how team meetings ought to be organized. (G1) |
| Delta | *External focus*: I think we decided from the start that we need a firm foundation to build our reputation on. We believed we could arrive there quicker if we transplant the VC model, and make it transparent that we are doing so. (D2) |
| Epsilon | *External focus:* So our strategy from the beginning was to go out to these companies and state very clearly that we operate exactly like a regular VC, employ the same principles, use the same valuation techniques, and the same decision process. (Ep1) |
| Zeta | *External focus:* They have been around for a long time, the VCs, and companies are more or less familiar with how they operate. So we decided that by modelling exactly the VC model with some minor additions, we would increase their confidence in our capabilities. (Z1) |
| **Evidence from second round interviews** | |
| Eta | *Internal focus:* Our process is very deep. Most companies say they’ve never experienced anything like it after we’re done. Because we go very deeply into the IP, we go very deep into the company and the potential environmental liability... When you have a very large company you’re such a target for litigation that no matter what level of involvement you have with something, if your name is on the list you’re going to get sued. So we’re really careful about it. (Et1) |
| Theta | *Internal focus:* We are a corporate division and we feel very closely linked to the parent. (T1) |
| Kappa | *External focus:* So we spend a lot of time convincing other VCs that we act just like they do and that is reflected in the structure of our fund so we are structured exactly like an independent venture capital firm. (K1) |
| Lambda | *External focus:* We have to remain an independent VC to be able to get the most value for that company…We are measured as a VC, so we want to have a financial return too. (L1) |
| Mi | *Internal focus:* This is the important question at the moment, in the last 10 years we have been free to invest where we want…and [the parent] has done analysis and said all of our commitment to corporate venture capital, none of it is working strategically enough for us… And so we are going to move in our third fund and a structure that we would like sign off on each investment, sign off to say it’s strategic. So I suppose what you can take from that is....[the parent] would say we probably had too much freedom, and some of that freedom has been taken away. I personally don’t mind. (Mi1) |
| Ni | *External focus:* We are an independent VC fund affiliated with [the parent], the leading global enterprise software company… Our goal is to generate superior financial returns, and our corporate partner also benefits from the exposure to innovative and disruptive technologies (From the web-site of Ni). / We are primarily a VC fund and not a corporate business unit. We have set up this way in order to compete effectively. (Ni1) |
| Xi | *External focus:* We consider ourselves almost like an independent VC fund, using the parent’s brand… and this is despite the fact that we draw money off the balance sheet when we need it, and we return the money to the balance sheet when we’ve finished the investment… Because of our approach, we’re concerned with strictly financial investments. So we don’t invest for strategic reasons, we find that strategic reasons are harder to quantify plus strategies come and go… I think if you’re focused on financial return you are aligned with the other venture capitalists which are investing in there. (Xi1). |

1. We complement existing recognized mechanisms, such as critical events (Nigam and Ocasio, 2010), structural changes (Dunn and Jones, 2010) and institutional entrepreneurship (Greenwood and Suddaby, 2006). [↑](#footnote-ref-1)
2. Since the paper was about investment practices, we became concerned that with our early data collection, we might have captured practices that characterized only one period of CVC development; the ‘third wave’. Therefore, we decided to launch a new data collection (2011–2012) in order to update and upgrade the effort by capturing the recent ‘fourth CVC wave’. We report elements of the CVC investment process that apply across the two data sets. We thank the editor and the reviewers who encouraged us to collect the new data. [↑](#footnote-ref-2)
3. We felt that knowing about their past impeded our entry into the same programs, run by different people. [↑](#footnote-ref-3)
4. We note that we attempted to interview corporate-managers, but we did not manage because of lack of access. The parent executives who are involved in decisions about the CVCs are very high in the corporate hierarchy (often the CEO or CFO) and were not available. We will return to this issue in the limitations section. [↑](#footnote-ref-4)
5. The terms for the logics were inspired by the practitioners’ language. Practitioners flagged the distinction between “integrated” versus “arms-length” investing, which is associated with the extent of use of corporate investment practices. [↑](#footnote-ref-5)
6. We note that while parental pressure for strategic fit and engagement reflects a ‘coercive mechanism of isomorphism’ (CVCs are forced to align with parental norms), the opportunity to utilize resources reflects a ‘mimetic mechanism of isomorphism’ (CVCs voluntarily align with parental norms because they perceive that access to corporate resources can give them a competitive advantage). [↑](#footnote-ref-6)