

PDW: Corporate Venturing

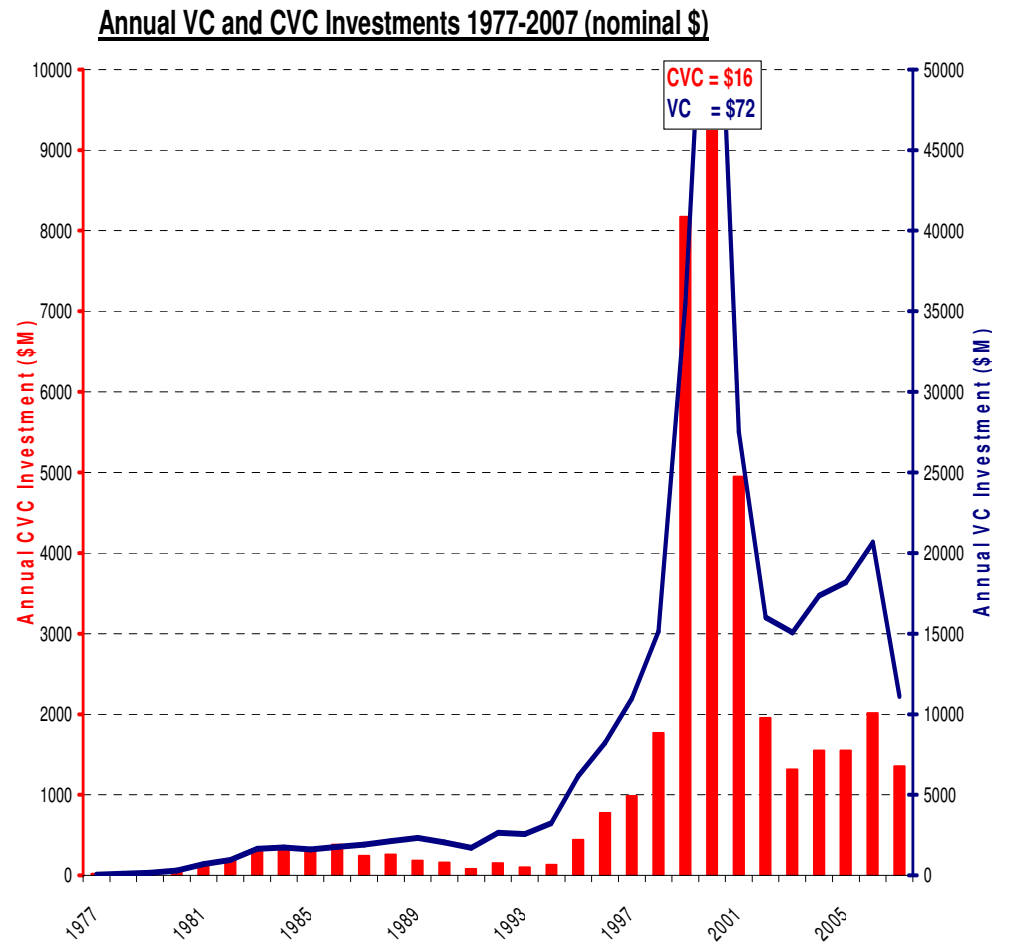
Academy of Management 2008

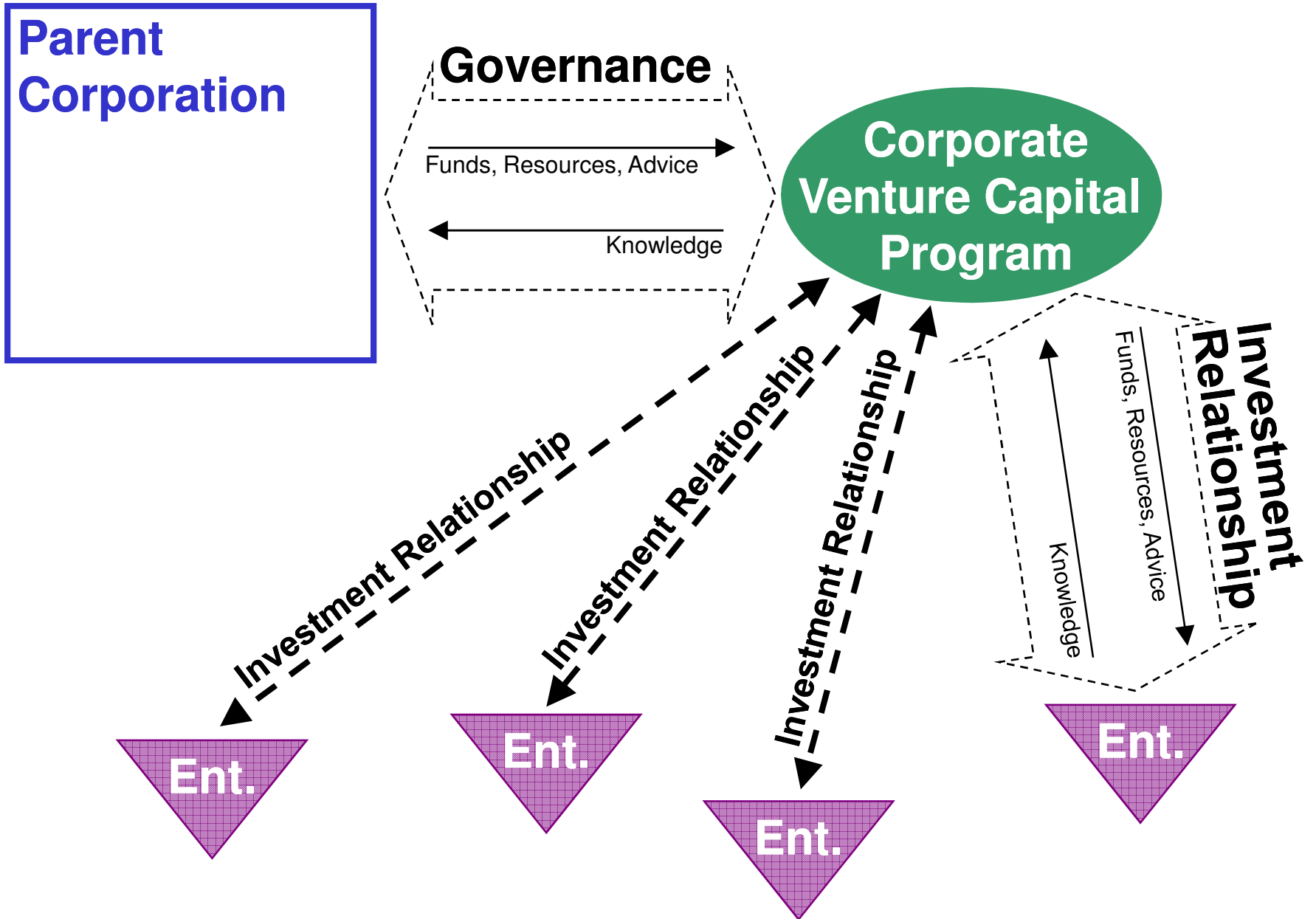
Gary Dushnitsky

The Wharton School

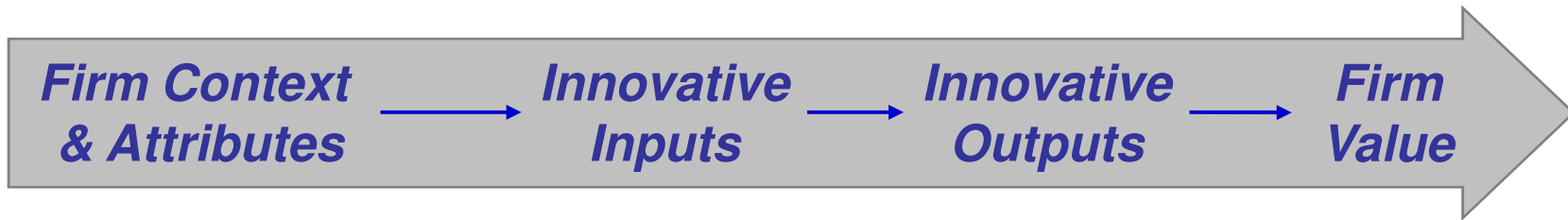
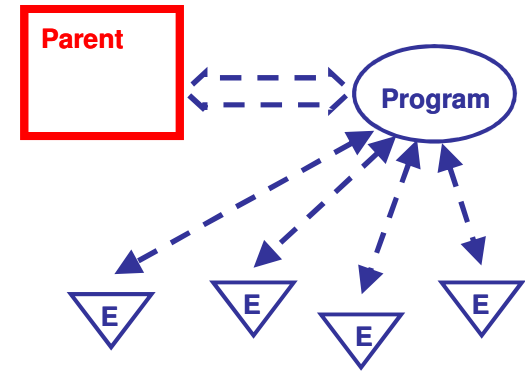
Corporate Venture Capital

- Google to Extend Reach With Venture-Capital Arm (WSJ, July 31)





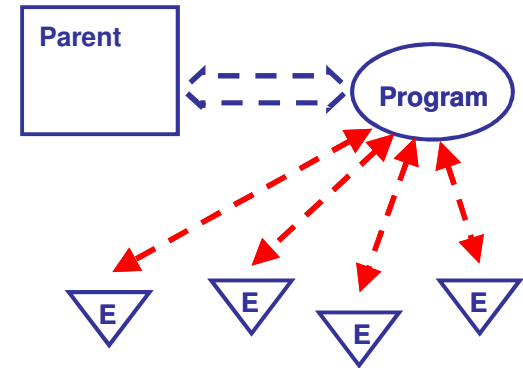
Parent's Perspective (with M. Lenox, D. Lavie)



- 1. Industry Properties
Firm Attributes → CVC Investment (vs. Internal R&D) (SMJ)
- 2. CVC Investment ↔ Alliance Activity (wp)
- 3. CVC Investment → Patents (RP)
- 4. CVC Investment → Tobin's q (JBV)

CVC-Ent Consideration

(with J.M. Shaver)



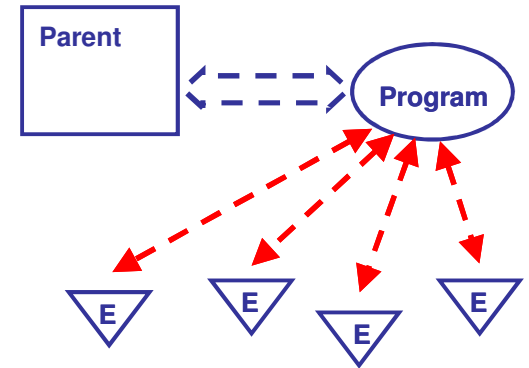
"Our investment strategy of the last few years is an explicit acknowledgment that Microsoft has no great lock on innovative ideas"

Mr. Maffei, Microsoft CFO
(RedHerring, Oct. 1998)

"Microsoft was the one large company in the world I really feared. I did not like the idea of giving them early warning of what we were up to"

Mr. Ferguson, Founder
Vermeer Technologies Inc.
(Ferguson, High Stakes, No Prisoners. Random House, 1999)

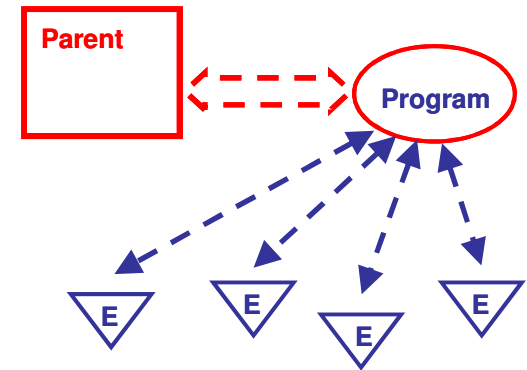
CVC-Ent Consideration (with J.M. Shaver)



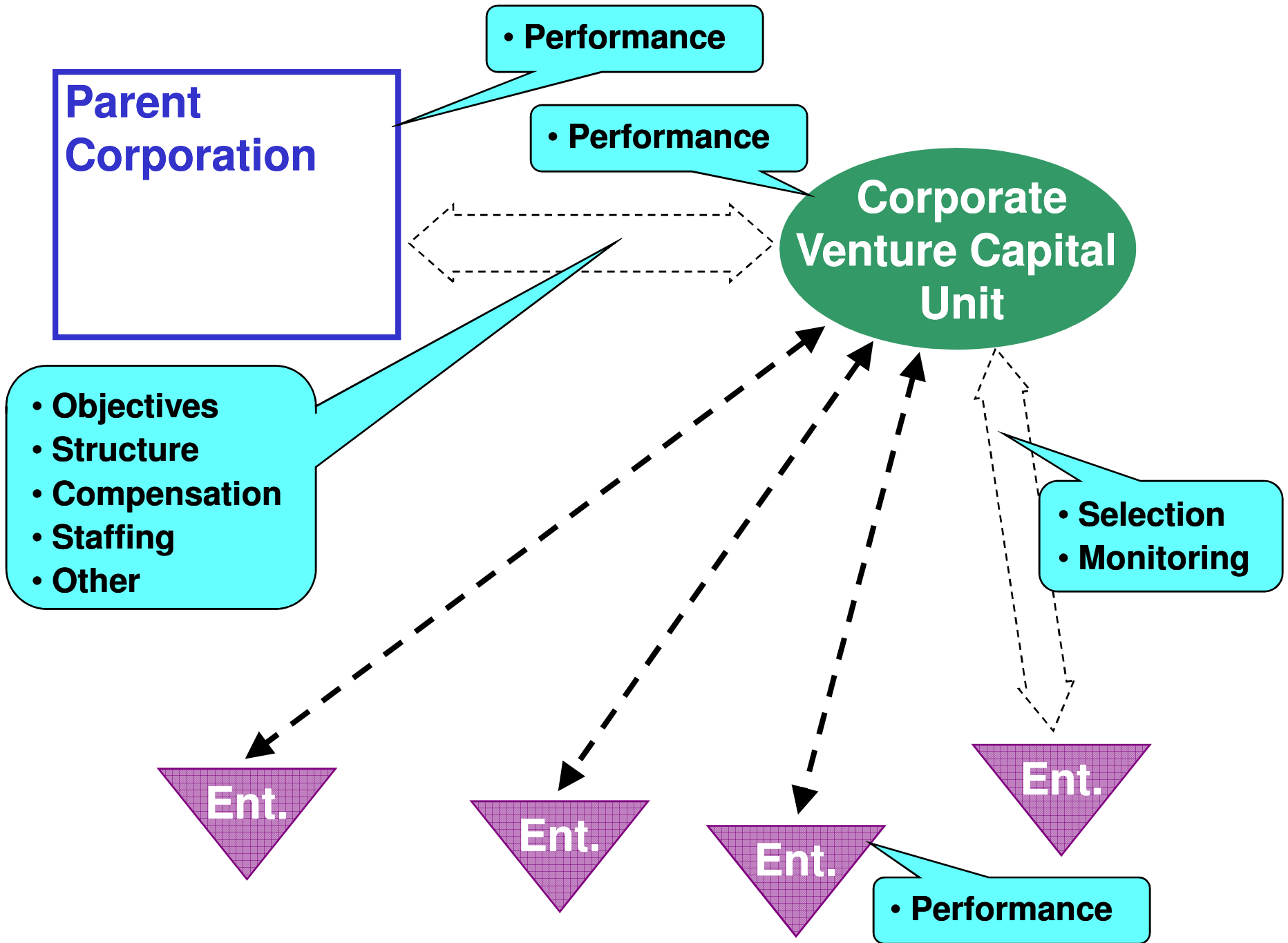
- CVC as an early alert system
 - Window on potentially substituting entrepreneurial inventions
 - Yet, an entrepreneur with such an invention is least likely to seek CVC, under weak IP regime
- Tight CVC structure
 - Facilitates learning from entrepreneurs
 - Yet, deter quality entrepreneurs in the first place, under weak IP regime

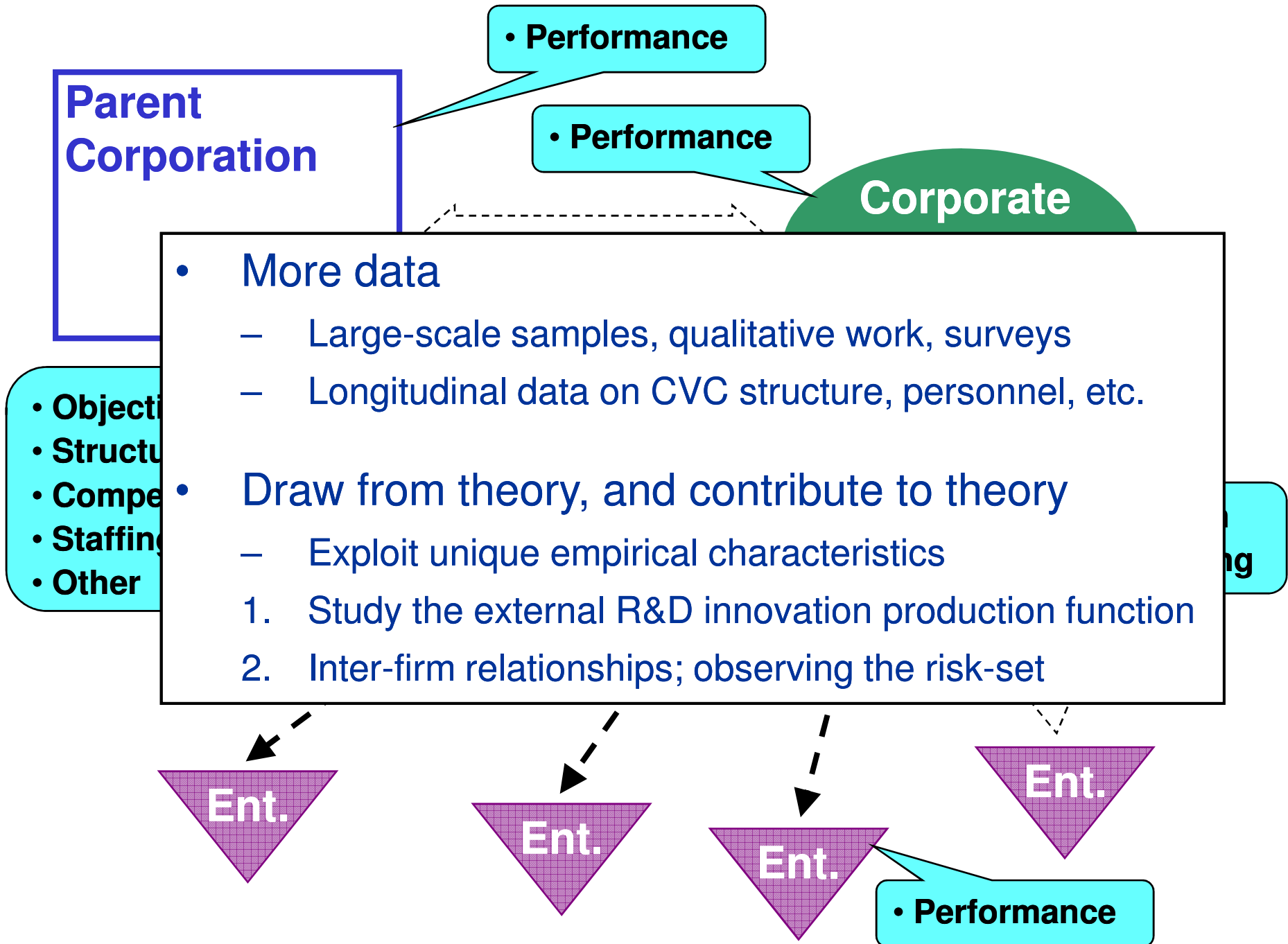
➔ The Paradox of Corporate Venture Capital

Parent-CVC Consideration (with Z. Shapira)



- Compensation to VC personnel
 - Venture capitalists participate in 20% of profits (*'carried interest'*)
 - Many CVC programs do not award carried interest
- Compensation → Investment Practices → Performance
 - CVCs' investment practices and ultimate performance differ from those of independent VCs
 - The differences dissipate if corporate personnel are awarded *'carried interest'*





Recent Reviews

- Past and Present PDWs on Corporate Venturing (<http://www-management.wharton.upenn.edu/dushnitsky/>)
- Dushnitsky, G. (2006). **Corporate Venture Capital: Past Evidence and Future Directions**, in Casson, Yeung, Basu & Wadeson (eds.) Oxford Handbook of Entrepreneurship, Oxford University Press.
- Maula, M.V.J. (2007). **Corporate Venture Capital as a Strategic Tool for Corporations**. In Landström, H. (Ed.) Handbook of Research on Venture Capital. Cheltenham, UK: Edward Elgar Publishing Ltd.