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CORPORATE VENTURE CAPITAL EXPERIENCING ROBUST GROWTH BUT FACING HURDLES, BELL MASON GROUP REPORT FINDS

Challenges Include Difficulty in Retention of Top Corporate VC Professionals

Possible Solutions: 'Upside' performance incentives and corporate VC spin-outs

(May 22, 2017) Palo Alto, Calif. -- Despite a huge renaissance in corporate venture capital (CVC) that has swept through almost every industry, CVC programs are bumping up against historical problems that could eventually impact their survival if unaddressed, Bell Mason Group (BMG) says in a report released today.

BMG, which analyzes corporate venture capital, collaborated with James Mawson, head of leading CVC publisher and data provider Global Corporate Venturing in interviewing 30 CVC programs that invested actively between 2012 and 2016 across industry sectors.

Corporate venture capital participated in a record of nearly $84 billion in investments in 1,952 deals in 2016, according to GCV Analytics. Nonetheless, BMG found that corporate 'antibodies' spring up as CVC programs and teams were poised to expand and become more visible. In medicine, antibodies are blood proteins released to combat negative bodily invasions, such as bacteria and viruses. But in the corporate world, BMG said, "antibodies" work to wipe out positive trends.

"Reaching critical mass and demonstrating success is clearly not enough in the CVC world," said Heidi Mason and Liz Arrington, partners at BMG and co-authors of the report. "Even the most successful CVC groups face the continuing challenge of recruiting and retaining key individuals while finding ongoing synergy with the parent company."

The Problems

The BMG report points out a number of critical challenges impacting the survival of CVC programs, including:

- The huge amount of time spent in managing interactions with their parent company. BMG found that some CVC leaders spent up to 75% of their time in meetings with corporate management and in making corporate presentations.

- The stress of corporate management rotations or strategy changes. BMG found these occur, on average, roughly every three years.
- Recruitment and retention of high performance talent in an increasingly competitive external talent pool made up of CVCs, VCs and private companies. BMG found retention to be a particular issue with senior professionals who report to CVC unit heads and are common targets for recruiters.

These problems and others compound the routine wear and tear of corporate processes and governance structures, BMG found, adding that they typically crop up as major issues beginning in the third year of a corporate VC program.

Historically, corporate venture programs have had a spotty track record, starting and stopping multiple the times, the BMG report pointed out. Programs have fallen victim to the loss of champions and funding during management turnovers and reorganizations. With each cycle comes the scattering of specialized investment teams, legacies of orphaned investments, and institutional “amnesia” in how to develop a corporate VC program, the report says.

The starting block for a replay of this scenario has reappeared amid a record number of corporate VC programs. It is also coming to the surface despite the heightened quality of new programs, increased corporate openness to greater agility, and the widespread development of corporate investment tools to spark more transformational growth initiatives.

Possible Solutions

According to the report, one solution to these challenges may be sweetening CVC compensation with more VC-like ‘upside’ vehicles to help keep high performance teams intact. Another solution may be ‘spinning out’ CVC programs – i.e., offering CVC teams more direct investment autonomy. In addition, spin-outs probably would include supplemental rewards in the form of carried interest.

The first option could be “hybrid models” -- CVC programs that remain fully under the wings of their corporate parent but adopt VC-like “synthetic carry” to incentivize high performing CVC teams. Examples of these include Comcast Ventures and Telstra Ventures.

Another option is spinning out the CVC program from the parent company to give it greater freedom to operate. Recent CVC spin-outs include Sapphire (from SAP); Propel (from Spanish banking group BBVA), Deutsche Telekom Capital Partners; BMW i Ventures, and Echo Health Ventures.

The authors said that while 'pay for performance' CVC concepts seem appealing, such practices have previously been implemented with very mixed results. "Current spinouts are clearly pioneering next-generation approaches, but don't yet have long histories and are operating in new environments with different conditions than in the past," Mason and Arrington wrote. "This is harder than it looks. New types of friction have to be managed."

Surge in Corporate Venture Capital Despite Friction

According to Global Corporate Venturing, more than 1,600 corporations globally were active venture investors between 2012 and 2016. Last year alone, 965 programs were active, up from 472 in 2012.

The report said that top friction points between corporations and their venture capital units within the first two years of their formation included "defining and aligning" executive management and operational support for corporate VC programs and forging agreement on performance criteria. Another prime area of friction, it said, was inability to competitively recruit external 'professional investing' talent without undermining the CVC unit's fit within the corporate culture.

After three to five years, the BMG report said yet other friction points crop up as corporate VC teams "lose the luxury of operating 'under the radar." These include expansion of the CVC team, retention of high-performance individuals, and program continuity amid multiple executive rotations and corporate strategy shifts. These developments can easily undermine CVC programs or kill them outright.

Still more challenges include competing corporate agendas and the blurring of reporting lines in tandem with merger and acquisition activity.

About Bell Mason Group

Bell Mason Group (BMG), based in Palo Alto, Calif., provides corporate venturing strategy and operational advisory services throughout the lifecycles of corporate venture capital, commercial piloting and innovation partnering initiatives. It helps global 1000 corporations operationalize the CV&I approach for each unique organization and culture at any stage of program development. For more information, visit http://www.bellmasongroup.com/

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