Designing a Corporate Venturing/Open Innovation Program: Factors to Consider

Corporate Venturing (CV), or Open Innovation (OI) as many now call it, are programs used by many firms as an important component in their innovation strategy. Corporate venturing refers to those activities that reach outside of one's own traditional development practices in order to meet the challenges inherent in most innovative initiatives.

When considering setting up such a program there is always a question of how best to organize such efforts. Based on over 40 years of working with CV programs the answer is simple but frustrating: it depends. Every organization is different and what works will depend on your goals, resources, risk tolerance, existing efforts, culture, etc. The good news: it is possible to design a program that reflects best practices, not by copying the structure another firm has used, but addressing 10 areas and designing a program based on your assessment.

In the mid-90s I chaired the Commercialization Roundtable, where 11 senior executives responsible for innovation shared their insights and experiences when pursuing innovation in their organizations. Members were from AT&T, Digital Equipment (DEC), Dow, DuPont, GTE (now Verizon), IBM, MCC, Motorola, and Xerox.

All had a formal venturing office, all were structured slightly differently; all worked. Importantly, these firms did not set up a CV office and task it with being innovative. Rather the organization developed long term growth strategies, identified areas where innovation could be important, and then tasked the VC office with developing skills needed to support external relationships to support their strategy. The planning often was done in the strategy office, but sometimes in R&D, business development, or marketing. The overall innovation strategy provided direction for the entire organization: internal developments in RD&E, M&A by business development, and external relationships managed by the CV team: alliances, licensing, spin-outs, university and government lab collaborations, and so forth.

While each of these companies had a different approach to structuring, funding and pursing external relationships, they also shared much in common. They each, in their own way, and often after going down several blind alleys, arrived at an organization that worked for them.

We concluded that the secret was not having a 'best practice' organization, but one that addressed the following 10 critical dimensions in ways that fit their firm.

1. Legitimacy. A venturing program typically focuses on emerging businesses that will take several years to achieve the desired results. During that time, its value must be continually demonstrated to senior management. How can the corporate venturing activity achieve and sustain legitimacy from its inception and throughout its existence? What is its role in supporting the overall corporate strategy?

2. Structure. Where does the program report and what sort of oversight committees or boards might be set up to provide senior level guidance and direction? How large should it be? Which skills and functions should it have internally, and which will it source outside?

3. Internal and External Relationships. Venturing programs need to leverage internal and external resources to minimize redundancy, avoid turf battles and ensure efficiency. They need to build relationships with key internal management groups by complementing them rather than competing with them. Which relationships are essential and how can they be best cultivated? These relationships could include those with business development, planning, R&D, venture capitalists, universities, consultants, industry analysts, etc.

4. Funding. How will funding be provided? The issue of funding relates both to the program's funding as well as the financial needs of the emerging activities being financed – neither of which is generally predictable. Without sufficient independence and autonomy, programs find it difficult to exploit unexpected opportunities. Conversely, without sufficient controls, the programs can deviate from their strategic objectives and lose company support.

5. Deal Flow. Is there currently a flow of opportunities being generated internally or externally? What is the quality of these? How can the deal flow best be developed to meet the program's objectives? Where should the deal flow come from? What is the strategy for building up the flow of opportunities?

6. Screening and Selection. Investments are selected based on the goals of the program. How can the opportunities best be evaluated in view of these goals and those of the overall corporation? Who will make the decisions? What is the investment strategy? What are the investment criteria? What skills sets are needed?

7. Investment and Development Process. What processes and guidelines will be established to promote successful development of the ventures? What working relationship will be established with each enterprise? Which resources will be offered to the venture and on what basis? Will a business be funded only for financial return or does it need to demonstrate a strategic return? What alternatives will be available for continuation of non-strategic efforts? When is the role of the venture group complete and responsibility for the activity transferred to an operating group?

8. Measures for Success. How will the overall success of the program and of each venture be measured? How will these change over time? How will the program staff be assessed and rewarded? Will there be opportunities for special compensation for either venture managers or program managers? If so, how will potential resentment from traditional development groups be managed?

9. Information Sources. Investment selection and monitoring requires a flow of current and reliable information to the program managers. What are the best sources of information on competitors, technologies, markets, regulatory affairs, etc.? How will the intelligence be managed to ensure its timely acquisition, assessment, storage, and use?

10. Program Personnel. What specific talents will be required by the program personnel? Should these be insiders or are the skills found externally? When managers are external how will transition and/or coordination be handled? Which personnel from within the corporation will be involved and what will be their role? How will the members of the venture team be selected and trained?

There is no one best way to organize a Corporate Venturing or Open Innovation program; what worked for others may not work for you. However, knowing the questions to ask can help firms avoid mistakes when designing their program. Once these ten critical dimensions have been addressed, the program will have a much higher likelihood of success. Even if some questions remain unanswered, the awareness raised will enable stronger decision-making and cohesiveness as the team moves forward.

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