Corporate Venturing: An Overview

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Today's companies need ways to invest in longer term, more entrepreneurial projects without subjecting themselves to undue risk. One step they can take is to include corporate venturing in their development planning. This requires they consider new investment options and change the way they manage their development programs.

Corporate venturing refers to any product, technology, market, or business development effort that takes place outside of a firm's traditional structure, using management techniques that are often different from those used to manage established business activities. These usually include different control, compensation, and evaluation strategies, and often involve different planning, funding, decision making, and communications practices.

When compared to more traditional development assignments, ventures are characterized as having higher risk and uncertainty, more limited resources (human and material), greater operating flexibility, faster and more innovative results, and more frequent attacks from more varied constituencies.

Venturing is often pursued when a promising project is threatened by one of the three "R's": the ***risk*** is too high, the ***resources*** are inadequate or not appropriate, or there is significant internal ***resistance***.

Internal Ventures

These take place within the firm and are often motivated by the desire to ***protect the venture from the organization***, a response to resistance or a "not invented here" attitude. They can also be used to emulate smaller entrepreneurial firms, since an internal venture provides a more flexible and open culture in which to create and develop innovation.

Examples of internal ventures include:

- special ad hoc venture teams
- formal skunk works
- ongoing intrapraneurship programs
- venture incubators

External Ventures

These take place outside the firm and are often motivated by a desire to ***protect the organization from the venture***, a way to share in the potential downside of risky projects and postpone investing in resources that may not be required if the venture idea fails. External ventures can also hasten development, provide intelligence on new markets and technology, and introduce innovative thinking into the organization.

Examples of external ventures include:

- Strategic alliances
- Joint ventures
- Venture capital fund investments
- Minority investments in small firms
- Venture spin-offs
- University relationships
- Federal lab partnerships
- Industry consortia
- Regional or industry incubators

Venturing and Risk

Unfortunately many firms are reluctant to use ventures in the mistaken belief that by doing so they can avoid the risk usually associated with them. They fail to recognize that ***venturing is not a source of risk, it is a response to it.***

The pressures to quickly develop a new business, product or technology in today's increasingly competitive global arena create risks. The risk of going broke if you invest in all the options. The risk of being left out if you wait until it is clear which options are really worth an investment.

Corporate venturing provides firms a low risk way to invest in inherently risky development efforts. It helps reduce costs and speed development by leveraging the skills of others. It also provides ways to insulate longer term entrepreneurial efforts from the frequent emphasis on short term needs.

New Management Skills Required

Managing corporate venturing can pose a problem for many firms. The skills needed to successfully oversee venturing initiatives are often different than the skills acquired while advancing in today's large corporations. As a result, many executives lack the personal experience necessary to effectively manage corporate ventures, and need to look outside the firm for guidance.

Program Management Skills

The firm first needs the ability to manage and coordinate the overall corporate venturing effort. The way professional venture capitalists approach venturing provides important lessons for the managers of corporate programs. The sole business of venture capital is finding, screening, structuring, financing, developing, and realizing value from new business concepts. Based on their strong track record of converting business ideas into commercial successes, their approach is worth studying.

The following are some of the key characteristics of the ***venture capital approach*** to venturing:

- Clarity of purpose among key players
- Careful and rapid screening of ideas
- Creative financing schemes
- Senior level value-added involvement
- Portfolio approach to investments
- Entrepreneurial incentives
- Early weeding of problem ventures
- Long time horizon for promising ventures
- Early identification of an exit strategy

Entrepreneurial Management Skills

Once a venture activity has been launched – whether an alliance or an advanced project team – the managers of the venture need to learn how to operate under a new set of rules and constraints. Many of the skills needed to manage individual ventures can be found by looking at how small entrepreneurial firms manage themselves.

The following are often cited as characteristics of the ***entrepreneurial environment***:

- Focused effort
- Team orientation
- Flat, informal organization
- Enhanced personal commitment
- Proximity to markets and technology
- Milestone based planning
- Sensitivity to cash management
- Willingness to learn and innovate

Implications

While venture capital partnerships and entrepreneurial firms are different in many ways from large companies, the implications of their approach to corporate venturing should not be overlooked. The techniques used by venture managers in the entrepreneurial community have proven effective at commercializing new developments. They can be used as guidelines by corporate executives to improve the success of venturing in the corporate environment.

Corporate venturing is not the answer to all of a firm's development challenges, it is but one tool in their development arsenal. But it is a tool that can help them manage risk, leverage scarce resources and overcome resistance to change – three keys to success in the nineties.

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