AGENDA

Opinion

Why Corporate Venture Is No Longer a Fad

March 25, 2019

Jeff Grabow is the Silicon Valley-based venture capital leader for **Ernst & Young**.

Corporate venture capital gives companies a chance to plunge into the world of innovation and start-ups. It also gives them an edge, allowing business leaders to see where technology is going and how it can impact their businesses. Deals with corporate venture capital represented more than 50% of the total U.S. VC investments in 2018, marking the first time they've crossed that milestone in this decade, according to the **National Venture Capital Association**'s Venture Monitor. The value of corporate VC deals has swollen from just over $6 billion in 2009 to $66.8 billion last year.

While it all seems very simple and sounds very cool, it's not easy to set up a successful corporate venture capital business. After all, most corporations have experience buying companies, not investing in them. To successfully add a corporate investing program, a mind shift is needed. I've helped corporations do this for a number of years and have learned what works and what doesn't.

To start, any corporate venture initiative needs C-suite backing and commitment. Deals like this have a 10-year horizon. They need to be able to withstand down quarters, strategy refreshes and executive changes. Consider M12, the venture capital arm of **Microsoft**. It has invested in more than 70 start-ups, most recently a health care data firm in India in January. M12 is based in San Francisco, rather than at Microsoft HQ in Seattle, to be close to the Silicon Valley action. It's entirely integrated into Microsoft, however, encouraging those companies it invests in to benefit from Microsoft's myriad products and services. In an interview, M12 global head **Nagraj Kashyap**, a veteran of **Qualcomm**'s VC ventures, stresses the "importance of a long-term orientation" and a streamlined process so that investment decisions happen quickly. Kashyap only needs the sign-off of one executive at Microsoft HQ to make an investment decision.

What's more, any corporate VC business has to be really integrated into the company so that business units, not just the CEO, understand its importance. The "not invented here" mentality can't take hold on any floor at headquarters.

However, to really make a corporate venture arm sing, an outsider's perspective, ideally someone who knows venture markets and has the relationships to help cut deals, is necessary. At **EY**, we often suggest that a corporate fund hire people who can bring this perspective and pair them with others who have great internal relationships at the company. Indeed, at M12, Kashyap says sticking entirely to insiders is only a good idea "if you want a disaster." He adds that familiarity with VC investing is "a very specific skill set you don't get inside a company." One prominent academic study out of **Insead** and the **University of California, Davis**'s Graduate School of Management showed that corporate VC units that bring in an outsider from the VC world do better. This mix of outside and inside talent can be a very effective way to build a "story" for the corporate fund, something that's essential to show internal stakeholders, as well as old-school VCs in the marketplace.

The biggest lesson for any company thinking about diving into venture capital is to remember that it's risky — that's why it's called venture. Over and over, companies say it takes more time and money than was expected. While VCs are 10-year funds, many corporations measure results quarterly, so patience is very important. The investments need the gift of time to realize their potential to provide value. Unfortunately, that's not always the case. **MIT** research found that more often than not, companies were using short-term financial metrics to evaluate the performance of their VC units and to allocate compensation — exactly the wrong approach.

A corporate venture program can be great, but unless it's properly supported, structured and executed, it can be a great way to waste time and money. In fact, M12's Kashyap says when he's asked by executives whether their firms should go into venture capital, he often advises against it. "You've got a great company," he cautions. "You're doing great things — you don't have to be in this." But for those who do, the right steps can set the corporate venture unit up for success from the start.