

## Project Summary

Corporate equity investing in start-up ventures is the focus of this research. Corporate venture investing (CVI) has significant implications for organizational change, technological innovation, and organizational learning. Many corporations are externalizing their research and development efforts by cutting back on in-house R&D activities and substituting direct investment in start-up companies. Corporations pursue venturing in search of both financial and strategic returns. Most companies, however, cite strategic objectives as the main reason for setting up venturing programs. These programs open a window on emerging technologies and new business models.

In recent years, the venture capital industry has been highly successful in identifying promising new business opportunities, accelerating the progress of new ventures through the early developmental stages, and helping start-ups achieve liquidity. Consequently, leading technology companies have sought to stimulate corporate innovation and growth through the creation of internal venturing units modeled on the practices of venture capitalists. In 1999, over 400 US corporations made direct investments in small entrepreneurial start-ups, and over 200 corporations reported having established formal CVI programs.

Early experience in these undertakings reveals considerable difficulty in replicating the practices and achieving the successes of independent VCs. Much of the knowledge that VCs possess is tacit, and some of their key practices clash with the compensation systems and organizational cultures of the corporations within which the internal venturing units are embedded.

Existing management theory and research offer little guidance to managers engaged in establishing and operating CVI units. The proposed study has two fundamental objectives: (1) to contribute to the academic literatures on organizational innovation, design, and adaptation, and (2) to generate findings with direct practical applicability in firms grappling with technological and strategic change. Accordingly, the project has been planned and will be executed in collaboration with research partners in six prominent Fortune 500 technology corporations, four venture capital firms, and one firm that organizes corporate venturing conferences and provides databases.

The proposed research conceptualizes CVI programs as an adaptive response to changes in the corporations' technological and financial environments. It has these specific objectives: (1) conducting an historical analysis of CVI programs; (2) developing of a typology of organizational structures for housing and pursuing CVI; (3) delineating the strengths, weaknesses, and effectiveness of the alternative CVI structures; and (4) conducting longitudinal analyses of corporate adaptation of CVI programs and practices in response to changes in macroeconomic conditions.

The proposed study is exploratory. It will build theory by using multiple methods to triangulate among data obtained from naturalistic observations, structured and open-ended interviews, documents provided by corporate collaborators, and archives. Observations will be recorded in field notes, and interviews will be tape recorded and transcribed. Notes, transcripts, and documents will be content analyzed and presented as tabular displays. Secondary data will be subjected to time-series analyses.

The research has the potential to impact theory and practice. Theoretical contributions will arise from a better understanding of organizational innovation and adaptation to technological change. Practical contributions will arise from identifying viable organizational structures and effective practices for corporate venture investing.