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Master's Degree Project in Knowledge-based Entrepreneurship

Mixed Venture Capital Syndicates

How Independent Venture Capital Firms Evaluate Corporate Venture Capital Arms as Syndication Partners

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I. Abstract

Keywords: Venture Capital, Corporate Venture Capital, Independent Venture Capital, Syndicate, Predictability, Value-added Capabilities, Agency Theory, Resource-Based View

Background and Problem Formulation: Since 2012 there has been a steady increase of corporate venture capital (CVC) activity in The Silicon Valley. In 2017 more than 20 % of the total venture capital investment was made by corporate actors. As opposed to their independent venture capital (IVC) counterparts, corporate investors often have strategic incentives for investing, as they try to further their business model and acquire knowledge. Almost all venture capital investments happen through syndication, meaning that independent venture capital firms and corporate venture capital arms end up collaborating despite their differences.

Purpose: This study aims to investigate the relationship between IVCs and CVCs as they invest alongside each other. More specifically it looks at how IVCs evaluate CVCs as syndicate partners.

Limitations and Delimitations: This study has solely focused on the venture capital ecosystem in the San Francisco Bay Area (The Silicon Valley). Furthermore, the study has only approached the problem from the point of view of the independent venture capital firms. Only 10 firms were interviewed, making the study less generalizable than what would have been the case had interviews of a greater number been conducted. Furthermore, while most of the firms that have partaken in this study are within tech, some are investing within health sciences, however, no distinction between these have been made.

Methodology: This is a multiple case study. Ten semi-structured interviews have been conducted with general partners at ten separate IVCs. Before conducting the interviews an interview guide was created to be used as a tool to keep the interviews within the designated topic. Once conducted, the interviews were transcribed and subsequently broken down with the use of thematic analysis.

Results and Conclusion: The study shows that IVCs value predictability with their potential CVC syndicate partners higher than anything else. This entails being certain (to the greatest extent possible) that no strategic shifts within a corporation will lead to swift short term shifts of the corporation's venture arm's investment thesis. However, once predictability is guaranteed any potential value-added capabilities that the CVC might possess can be considered.

II. Foreword

Having begun only as an ambition to research the topic of entrepreneurial finance, this thesis on mixed venture capital syndicates has taken us across The Atlantic and into the offices of some extraordinarily interesting and inspiring people. Sitting across the table from minds that are at the heart of the world's leading innovation hub is an experience we would truly not trade for anything. Of course nothing of it would have been possible without the help of some wonderful people and organizations that have been by our side the whole way.

We would like to thank the Sten A Olsson Foundation for the support they granted us through their generous scholarship program without which our data collection abroad in The Silicon Valley would never have been possible.

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Of course, we also must thank our family, friends and partners. Without their support, these past months would have been a much higher mountain to climb.

And before we sign out, thank you Handels, it has been a hell of a ride.

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V. Terminology

Corporate venture capital / Corporate venture capital arm (CVCs): Type of venture capital investor that makes minority stake investments in private firms on behalf of its parent company.

Independent venture capital (IVC): Type of venture capital investor that makes equity investments in private firms on behalf of its limited partners.

Mixed syndicate: Venture capital syndicates that include both independent venture capital firms and corporate venture capital arms.

Parent company / Parent organization: The corporation to which as corporate venture capital arm is beholden.

Portfolio company: A private firm that receive equity investment from the venture capital syndicates.

Syndicate: The collaborative investment of more than one venture capital firm and/or corporate venture capital arm.

1. Introduction and Problem Formulation

This chapter introduces the venture capital industry, and provides definitions for the main players within said industry, independent venture capital firms (IVCs) and corporate venture capital arms (CVCs). Furthermore, it presents the problem formulation and concludes by providing the study's research question.

1.1. Background

Chances are high that as TV-shows like Silicon Valley have gained popularity around the world, you have heard of the term venture capital. Maybe you even know that venture capital is a type of financing that investors provide to entrepreneurs and their start-ups. However, something that you probably do not know is that in 2017 a whopping 71.9 billion dollars were invested through venture capital in the US alone. (Statista 2018)

Venture capital is a form of financing provided to entrepreneurial start-ups. The majority of all venture capital firms are private, and often referred to as independent venture capital firms, or IVCs. These firms collect money from investors for 10-year funds, invest the collected capital into private companies with the sole purpose of yielding the highest possible returns upon successful liquidation of the investments. Historically these are the types of firms that are referred to when one speaks about venture capital. However, the venture capital industry is at the moment experiencing somewhat of a shift, at least in terms of where a large chunk of the investments are coming from. In 2017 over 20 % of the total venture capital investments in the world (CB Insights 2018), were made by corporate actors. Now, corporations have a long-standing presence in the Silicon Valley, but with Alphabet (the parent company of Google) in the forefront (alone partaking in 103 investments during 2017) (Rowley, 2018), the corporate interest in venture capital is at an all-time high. So, why is this relevant, money is money right? Well, there is a significant difference between independent venture capital (IVC) and corporate venture capital (CVC), namely their incentives. While IVCs solely aim to provide financial gains for their investors, CVCs often invest, in accordance with the corporation strategy, to gain knowledge, get in contact with new technologies, and further their business model. From the entrepreneurs standpoint there are also things to gain from having a corporation investing in your

start-up, on paper CVCs have complementary assets that IVCs cannot provide, such as industry expertise and established ecosystems of successful products.

Almost all venture capital investments happen through syndication, different firms collaborate to mutually invest in a chosen venture. The growth of corporate venture capital has meant that more and more syndicates include both IVCs and CVCs, which with the two different types of actors providing different, but potentially complementary assets, on paper should suggest a fruitful partnership. Historically however, IVCs have been cautious when looking to CVCs for investment collaborations, suggesting that corporate venture capital only acts as a way for big corporations to spend the excess capital that they have on their balance sheet. But what happens now? With so much of the total money invested coming from corporations, what position will IVCs take towards CVCs? How will IVCs evaluate CVCs as investment partners going forward? Providing answers to these questions is crucial for both venture capitalists and entrepreneurs in order to create a better entrepreneurial finance ecosystem where innovations can be brought to markets through the right composition of financing.

1.2. IVC-CVC Classification

Prior research has classified venture capital firms into financial investors and strategic investors. Independent venture capital firms belong to the former category since IVCs are financial intermediaries that raise money from private and public investors and invest the raised funds in private companies with the goal of the investments later on, resulting in positive financial returns. (Bertoni et al. 2012) The IVC funds are structured as limited partnerships between the management team (general partners) and investors (limited partners) and they are contracted to have a ten-year lifespan with the option of an extension period.

Corporate venture capital, on the other hand, belongs to the group of strategic investors. CVC is defined as a "minority equity investment by an established corporation in a privately-held entrepreneurial venture" (Dushnitsky 2006) The main rationale behind CVC investments is that large, incumbent firms aim to have a window on new technologies and markets that fit into their parent organizations' line of business.

Prior research has mainly focused on the characteristics and differences of these two types of venture capital investors. It has been established in literature that venture capital firms, besides providing capital, increase their portfolio firms' chances of success by also providing different value added services, such as support in strategic and operational management, senior personnel recruitment and additional financing arrangements. (Macmillan et al. 1989; Sapienza 1992; Hellmann and Puri 2002, Alperovych and Hübner 2012) However, previous literature also points out that IVCs and CVCs tend to provide different value-added to their investee firms. According to Maula, Autio and Murray. (2005) the value-added forms of IVCs can be termed 'enterprise nurturing' which includes arranging finance, recruiting key employees, advising on competition and developing the organizational resources of the growing enterprise. (Maula, Autio and Murray, 2005) On the other hand CVCs are more effective in attracting foreign customers and they can provide better advice on the technologies employed by the portfolio firms, which is termed 'commerce building' (Maula, Autio and Murray 2005)

Also, prior literature has investigated how the unique structure of CVCs compared to IVCs impact their ability to nurture innovation in their portfolio firms. As it was pointed out by Chemmanur et al. (2014) "CVCs may be superior to IVCs in nurturing innovation, because the unique organizational and compensation structure of CVC may allow them to be more supportive of risky innovative activity".They argue that there are three main differences that can account for this difference in the ability to nurture innovation. Firstly, since CVCs are structured as subsidiaries of corporations, instead of contractually enforced 10-year limited partnerships, they have longer investment periods than IVCs. Secondly, CVCs have both strategic and financial incentives to invest while IVCs only have the latter, therefore corporate venture capital arms can justify their investments in riskier and less profitable portfolio firms by the potential strategic benefits. Thirdly, CVC fund managers are most often compensated by a fixed salary and corporate bonuses instead of the performance-based compensation of IVC fund managers. (Chemmanur et al 2014) These three differences enable CVCs to be more patient investors and take on riskier projects that potentially provide lower financial returns but have higher innovation output.

The different compensation structure of the two different types of venture capital firms also has an effect on the actions and the performance of the investment managers. A study by Dushnitsky

and Shapira (2010) revealed that CVCs tend to target ventures at later stages of development compared to IVCs, although this gap shrinks when CVC personnel is incentivized on a performance basis. Also, corporate investors on average perform at least as well as independent ones, and interestingly CVC investment managers who are compensated with a fixed salary showed higher performance. (Dushnitsky and Shapira 2010)

In summary, even though IVCs and CVCs are part of the same entrepreneurial finance ecosystem, they differ in several dimensions. Firstly, independent venture capital firms have only financial incentives to invest and their performance is measured on their investments' ROI (return on investment). On the other hand, while CVCs want to make positive returns on their investments too, they also invest to support the strategy of their parent organization, hence they have a strategic incentive that IVCs do not have. Secondly, the structure of independent venture capital firms is a limited partnership, contracted to last 10 years, where the general partners invest the raised capital on behalf of their investors, and they are compensated based on their performance. When it comes to the structure of CVCs, they are generally structured as a subsidiary of the parent organization, where the investment managers make investments from the company's balance sheet. Lastly, as it was described above, the two types of investors provide different value-added to their portfolio companies, IVCs being better at 'enterprise nurturing' while CVCs at 'commerce building'. (Maula et al 2005)

1.3. Syndication

"A common feature of venture capital finance is that investments are often syndicated, that is, two or more venture capitalists participate in the financing of a project." (Cestone, Lerner and White 2007). According to the study that Sharifzadeh and Walz (Sharifzadeh and Walz, 2012) conducted on the European venture capital market 86 % of the investments are syndicated.

VC firms' motives for syndication can be classified into two main categories. Firstly, venture capital firms can use syndication as a means to improve the management of their overall portfolio. (Manigart et al 2006) Motives belonging to this category are risk-spreading (Lockett and Wright 2001), "window-dressing" (Lerner 1994) and getting access to better deal flow (Sorenson and Stuart 2001; Seppä and Jääskeläinen 2002). These motives for syndication lie outside of the scope of this study. According to the other main category of motives, "syndication

may address different activities in the VC investment cycle that deal with specific investments in the portfolio of the VC fund." (Manigart et al. 2006) The two main motives of this category are the deal selection motive and the value-adding motive (Manigart et al. 2006). According to the deal selection motive, syndication serves as a tool for VCs to get a second opinion on potential portfolio firms by other venture capital firms, which improves their ability to pick better projects to invest in and therefore decreases the potential for adverse selection (Lerner 1994) The value-adding motive suggests that VCs syndicate in order to get access to specialized resources of their syndicate partners that may be required for the ex-post management (monitoring and value-adding) of the investments (Manigart et al. 2006) In this study syndication between IVCs and CVCs is investigated through the value-adding motive.

1.4. Problem Formulation

Prior literature has mainly investigated syndication between independent venture capital firms, syndication between IVCs and CVCs is a relatively understudied field of research. The reputation of corporate venture capital arms from an IVC point of view is somewhat controversial. Fred Wilson, a highly successful venture capitalist at Union Square Ventures, famously said on stage at the 2016 Future of Fintech Conference: "I hate corporate investing. I think it is dumb. I think corporations should buy companies." He also added that entrepreneurs "are doing business with the devil" when they get money from corporate venture capital. These opinions on CVCs have long been shared among IVCs and entrepreneurs, fearing that including a corporate investor would limit the portfolio company by scaring off potential acquirers down the road or that misalignment between the corporate's and startup's objectives could lead to negative consequences.

After Fred Wilson's comment on corporate venture capital a lot of practitioners, both IVC and CVC investors, argued that CVCs have indeed value to offer to portfolio companies and syndicate partners as well. Later on Wilson also acknowledged in one of his blog posts (Wilson 2013) that there are well-established CVCs (Google Ventures, Intel Ventures, SAP Ventures, Comcast Ventures are mentioned) who actually do things right, and that at his firm they like to work with corporate investors in the right situations. The fact that syndication between IVCs and CVCs can be a fruitful partnership is supported by numbers. There are more and more

independent venture capital firms who look at CVCs as suitable investment partners. For instance Kleiner, Perkins, Caufield and Byers, a widely respected independent venture capital firm from Menlo Park, California syndicated 29 % of their overall deals with CVCs in the period of 2010-2015. (CB Insights 2015) They are not the only ones whose choices of investment partners contradict Fred Wilson's strong opinion on corporate investors (see the list in Appendix A). Understanding what can cause such a difference in opinions about CVCs will become more important in the future due to the fact that in the last few years CVC activity has been on the rise. According to CB Insights global CVC investments have been increasing both in terms of total capital invested and number of deals made since 2013 (with only a small decrease in 2016). Also, CVC deal activity has been steadily rising as a percentage of overall VC deals, standing at 20 % in 2017. (CB Insights 2018)

Based on the above outlined situation, syndication between independent venture capital firms and corporate venture capital arms is ultimately an empirical question. In this study the motivation of syndication is investigated from an independent venture capitalist point of view. When it comes to venture capital syndicates the lead investor of the syndicate has a crucial role. The lead investor or lead investors are in charge of setting the terms of the financing round and, in cooperation with the portfolio company, they invite other venture capitalists to join the syndicate. (Keil, Maula and Wilson 2010) Therefore their decision and motivation on whom they want to have as an investment partner influences the composition of the syndicate greatly. As will be discussed later, a large majority of venture capital syndicates have independent venture capitalists as their lead investors, therefore investigating how the conflicting views on IVC-CVC syndication affect their decision to have corporate venture capital arms as syndicate partners.

1.5. Research Question

As was detailed above, independent venture capital firms and corporate venture capital arms are different and these differences can lead to strong negative opinions on CVCs coming from independent venture capitalists. On the other hand, even the most avid critics of corporate investors, like Fred Wilson, acknowledge that there are some CVCs who are good investors and can be valuable syndicate partners. Therefore the real question is: what separates CVCs with

whom IVCs prefer to co-invest with from the ones that they try to avoid? In order to gain insight into this research problem, the following research question will be addressed:

> *How do independent venture capital firms evaluate corporate venture capital arms as syndicate partners?*

2. Theory

2.1. Theoretical Background

This chapter focuses on the literature and theories that the authors have looked at when establishing how to approach the topic of mixed venture capital syndicates. As the title suggests the chapter summarizes the theoretical background that provided insight into the syndication between IVCs and CVCs. At the end of this chapter a theoretical framework will be displayed, providing the starting approach to the data collection process.

In order to understand how IVCs evaluate CVCs as syndicate partners the authors looked at the different theoretical perspectives established in the literature that aim to explain the syndication between these two types of investors. Two separate theoretical lenses are provided, namely resource-based view and agency theory. These lenses will be the theoretical cornerstones used to interpret the study's empirical data.

The resource-based perspective provides a theoretical explanation for venture capital syndication stemming from the value-adding motive described above. According to the resource-based view firms build sustainable competitive advantage on the different resources and capabilities that they possess. (Penrose 1959) Even though VC firms are financial intermediaries, they can also be viewed as a collection of different resources and capabilities (Manigart et al. 2006) VC firms possess different types of knowledge, resources and social capital that they can provide to their portfolio companies in order to increase their chances of success. Therefore syndication explained from a resource-based perspective suggests that venture capital firms syndicate in order to get access to specific resources of other venture capital firms. "Resources are required for reducing the various dimensions of company specific risk at both ex-ante and ex-post decision making stages in the venture capital process. Ex-ante decision making relates to the

selection of investments, whereas ex-post decision making relates to the subsequent management of the investment." (Manigart et al., 2006) Unique resources enable venture capital firms to move into central positions in syndication networks, meaning that they become sought after syndicate partners by others because of their resources. (Keil, Maula and Wilson 2010)

Previous literature has mainly established the benefits of syndication between venture capital firms. However, as Nanda and Rhodes-Kropf point out in their working paper (2018) there has been little focus on the potential costs of syndication. They propose that the frictions between the syndicate partners who have different incentives and objectives can have negative implications on the performance on the portfolio firms and as a result on the performance on the venture capital firms as well. (Nanda and Rhodes-Kropf 2017)

These potential frictions between investment partners happen mainly in asymmetric information situations where venture capital firms do not have the same objectives and goals with the investments. According to agency theory these situations can result in agency costs for the investment partners. (Jensen and Meckling 1976) Agency costs can incur in inter-organizational collaborations where partners pursue self-interest on the expense of others (Eisenhardt, 1989). There is extensive literature on the principal-agent problem between venture capitalists and the entrepreneurs they invest in (see for example Gompers and Lerner 2004; Lerner 1995; Hellman and Puri 2002). However, when syndicating, venture capital firms have goals and objectives with the investments that might differ from their syndicate partners'. Therefore additionally to the potential principal-agent (VC-entrepreneur) problem syndication might result in a situation where principal-principal (VC-VC) conflicts can arise.

The fact that syndication also results in costs due to the uncertainty about the syndicate partners' expertise or principal-principal conflicts from misaligned objectives has been identified by several researchers. (Hahn and Kang, 2017; Casamatta and Haritchabalet 2007; Meuleman et al., 2010; Wright and Lockett 2003) Syndication between IVCs and CVCs can be particularly affected by these agency costs stemming from the investing partners different objectives and investment practices. (Hahn and Kang 2017)

According to the resource-based view the different value-added contributions of IVCs and CVCs make them suitable syndicate partners because they can provide complementary resources to

their portfolio companies and therefore increase their chances of success, also resulting in higher returns for the syndicate partners. (Maula, Autio and Wilson 2005) "On the other hand, the agency theory perspective suggests that syndicate investment among IVCs and CVCs, who have different objectives and time horizon, may face conflicts of interest". (Hahn and Kang 2017)

These two conflicting hypotheses provide an interesting theoretical background to investigate the motivation to syndicate of the two different types of investors. On the one hand IVCs and CVCs have an incentive to syndicate in order to gain access to complementary resources, knowledge and capabilities, while on the other hand they may be hesitant to enter into a partnership with one another due to the agency cost that stems from their different objectives and goals. This controversial situation is portrayed in the problem formulation.

In summary, the two main theoretical lenses that are used in this study are the resource-based view and agency theory. If we take a closer look at the debate sparked by Fred Wilson's comment on CVCs, we can find elements of both the resource-based view and agency theory in the arguments of the two opposing sides. People who argue that CVCs can be suitable syndicate partners for IVCs point at the fact that CVCs can provide different, complementary value to portfolio companies that IVCs cannot. These arguments are supported by the resource-based view. The other side argues that the objectives of the entrepreneur and IVCs are not aligned with CVC's therefore having them on the investors list could cause more harm than good. These arguments are supported by the agency theory. This study aims to investigate how these two different theoretical perspectives contrast each other in reality and what makes a sought after CVC syndicate partner from an IVC point of view. As detailed above, the two theoretical lenses will serve as the cornerstones used to interpret the study's empirical data.

2.2. Theoretical Framework

Syndication between IVCs and CVCs is an empirical problem. In order to be able to investigate how independent venture capital firms evaluate corporate venture capital arms as syndicate partners a theoretical framework was created based on the theoretical background. The areas included in the theoretical framework were deemed important either from a resource-based or agency theory perspective. This framework is used to show the preconceived notions that the

authors had before conducting the empirical groundwork and collecting data. This is also to be viewed as the basis for the initial interview guide, which will be discussed thoroughly in the methodology chapter.

2.2.1. Resource-Based View and Agency Theory

As mentioned in the theoretical background the literature presents two separate lenses through which to view what corporate venture capital can bring to the venture capital industry. These theoretical perspectives serve as the lenses through which to view and subsequently analyze how the differences between IVCs and CVCs affect syndication between these two actors. The resource-based view strictly focuses on how the value-added capabilities of CVCs should complement the existing capabilities of the independent venture capital firms, and how in theory these capabilities should be combined to maximize the portfolio companies' chances of success. The other theoretical lense used in this study is agency theory, which suggests that syndication between IVCs and CVCs should result in higher agency costs due to the different nature of the investment partners.

According to the empirical problem formulated above there are some CVCs that do things the right way and there are some that are avoided by IVCs. What differentiates the former group from the latter? The following areas highlight differences between IVCs and CVCs that are important from either a resource-based or agency theory perspective.

2.2.2. Incentives

Why do firms choose to invest? As the theoretical background states this is one of the things that truly set IVCs and CVCs apart, so much in fact that they often are called names in accordance with their incentives, with IVCs being referred to as financials and CVCs as strategics. This should also have a large impact in regards to how they are viewed by their potential syndicate partners. In theory, if some of the partners in a syndicate have purely financial incentives whilst others have strategic, there is a risk of the different actors pulling in different directions and thereby that creating conflicts. Simplified IVCs are in it for the money, while CVCs invest to strengthen their current business, expand their technological know-how and learn how technological shifts can affect the industry they are currently active within. It is not farfetched to

assume that these differentiating investor motives could create potential conflicts when IVCs and CVCs are part of the same syndicate.

2.2.3. Complementary Assets

The strongest theoretical reason for why the presences of CVCs should benefit the venture capital industry is the complementary assets that CVCs theoretically should be able to provide. The ability to help a newly started venture to establish their innovation through providing knowledge about the industry, certain highly important resources that the parent company of the CVC has, connections to people within said industry and help in regards to developing the venture further in order to make it ready to go to market. All of these things point towards there being great reason to want to include CVCs in a syndicate, and yet IVCs are reportedly very hesitant to do so.

2.2.4. Structure

One major difference between independent venture capital firms and their corporate counterparts is how they are structured. While IVCs are private firms that function around a fund that has a ten year long fund life, corporate venture capital arms are in general not using a fund as the basis for their investments. Instead CVCs are closely connected to their parent company, with many taking orders directly from the corporations CFO and also investing directly from the corporations balance sheet. The IVCs raise money from limited partners that lays as the basis for their fund and is meant to last the whole ten years, which also means that whatever happens to external factors such as the economy, the ten year fund will remain during its set life, no matter what. In part the abovementioned scepsis IVCs show towards CVCs can be attributed to the fact that their structure is so different, this in turn greatly affects their behavior. The CVCs are not tied to funds, and shifts of different sorts therefore affect them much stronger. A change in the corporations overall strategy, new technology strongly impacting the industry in which the corporation is active, or simply just a strong downturn in the economy, are all things that can affect the investment strategy of the CVC, sometimes meaning that it leaves VC industry completely. Notably there are also substantial differences between the people working at IVCs and those working at CVC.s The IVC has general partners who themselves are invested in, and

dependent on, the success of the fund (although they do earn management fees). The CVC on the other hand is generally run by corporate employees who are not professional investors, working to maintain their jobs and advance within the corporation, potentially beyond the CVC arm.

The four areas presented above form the theoretical framework of the study. In order to be able to give an answer to the research problem the questions formulated at the end of each section above must be answered. In accordance with this an interview guide (displayed in Appendix B.) was formulated based on these areas. Furthermore, as the following chapter will show, a methodology was chosen to best be able to answer the study's proposed research question.

3. Methodology

This chapter aims to describe the way the authors have chosen to conduct their research. The methodological choices are discussed, such as research strategy, research both in terms of type of research design, but also in terms of how the data has been collected and analyzed.

3.1. Research Strategy

In order to gain a deeper understanding of the syndication between independent venture capital firms and corporate venture capital arms, this study is using a qualitative research strategy. This decision was based on several factors. Firstly, syndication between venture capital firms is a highly complex phenomenon where entering into a partnership is influenced by many different factors. However, the effects of these different factors might not be fully captured by the main theoretical explanation of syndication, namely the resource-based view. Therefore a qualitative research strategy enables the researchers to investigate further underlying incentives and drawbacks, the hows and whys, behind the decisions of the venture capital firms which would not be possible if a quantitative research strategy had been chosen.

Secondly, syndication between IVCs and CVCs is a relatively understudied field of research, compared to syndication between only IVC firms, therefore the number of existing theoretical and empirical findings are limited. The aim of this study is to help fill this gap in the literature by providing an insight into how the formation of mixed syndicates might differ from syndication

between only independent venture capital firms. Due to this, a qualitative research strategy is more suitable in order to generate a deeper and richer description of the syndication dynamics between these two types of actors.

Lastly, to the best of our knowledge, there has been no studies that investigated the formation of mixed syndicates with a qualitative research strategy. Due to this our research can provide a unique perspective on syndication between IVCs and CVCs and our findings can uncover different underlying factors of the phenomenon that have been overlooked by previous research.

Since the aim of the research is to form new understanding of mixed syndicates where previous research is lacking and a more nuanced explanation is needed the inductive research approach is used by the authors. Inductive reasoning moves from single observations toward generalizing the findings to the population. (Bryman and Bell, 2011) Inductive reasoning is more suitable for a qualitative research strategy due to the limited number observations.

3.2. Research Design

In order to be able to gain deeper insight into the investigated research topic the authors have chosen a multiple-case study design as the research design for this thesis. The qualitative research strategy demands a research design that enables the researchers to collect rich data about the investigated phenomenon. Also, according to Yin (2014) case study designs are preferable when 'how' and 'why' research questions are addressed. Due to these two reasons a multiple-case study design was deemed to be most suitable for this study.

Syndication between IVCs and CVCs is a highly complex phenomenon. Single-case studies have the ability to capture a more detailed description of a complex situation. However, in order to be able to answer the formulated research question the data collected from one single case would not have been sufficient since, as was detailed in the problem formulation, IVCs' opinion on syndication with CVCs shows great variation, therefore one case would not have been able to reveal all intricacies of the topic. In other words, previous positive or negative syndication experience would greatly influence the IVC's opinion on CVCs and therefore results from a single case would be highly biased and dependent on the selected interview subject. A multiple-case study design, on the other hand, enables the researcher to compare and contrast the findings

deriving from each of the cases. (Bryman and Bell, 2011) Therefore a multiple case-study design was deemed suitable to find more generalizable themes that can better answer the formulated research question.

In order to be able to answer the research question of the study, the case companies selected were solely independent venture capital firms. In accordance with Eisenhardt (Eisenhardt, 1989) the cases have been selected to adhere to the context of the study, in this case meaning all have been selected from the same area (the Silicon Valley/San Francisco Bay area). Since all of the interviewees had extensive experience in investing alongside CVCs they were able to provide valuable input during the data collection process.

3.3. Research Method

To collect the empirical data semi-structured interviews have been used as the research method of the study. As is customary an interview guide has been used as a tool to keep the interviews within the chosen topics, however the interviews have not been rigid in any way and the interviewees have been allowed to answer with a great amount of freedom, without being too steered by the interviewers. The interview guide has been used in a way that has allowed questions to be asked in different orders depending on how the interviews have progressed, while at the same time making sure that the interviews stayed on topic and remained relevant for the research. The aim with the interviews was to get an inside perspective of Silicon Valley based independent venture capital firms views on corporate venture capital arms as syndicate partners in mixed venture capital syndicates. The ten interviews that were conducted all took place while the two authors were situated in the San Francisco bay area. Seven of the interviews were conducted at the offices of the IVCs, one of the interviews was conducted at a café and two of the interviews were conducted by phone. Eight of the interviews were conducted by both of the authors. However, interview six and seven were conducted individually due to them taking place simultaneously. All of the ten interviewees were at the time of the interviews general partners at their respective firms. All of the interviewees were promised complete anonymity and agreed to being recorded during the interviews.

Interviewee	Time, Date and Place	Duration
1	13.00, 6/3/18, Café	0 h 27 min
2	9.15, 12/3/18, Office	0 h 36 min
3	10.00, 13/3/18, Office	1 h 0 min
4	12.45, 13/3/18, Office	0 h 21 min
5	14.45, 14/3/18, Phone	0 h 16 min
6	14.00, 19/3/18, Office	0 h 34 min
7	14.15, 19/3/18, Office	0 h 34 min
8	08.30, 22/3/18, Office	0 h 24 min
9	13.00, 22/3/18, Office	0 h 38 min
10	16.00, 22/3/18, Phone	0 h 21 min

Table 1. This table shows when each of the interviews were conducted and how long each interview was.

3.4. Data Analysis

The semi-structured interviews were all based on a theoretical framework that had been created before the authors travelled to the United States. The data collected through the interviews was thereafter transcribed. The transcriptions have served as basis for a thematic analysis were the

aim is to find patterns within the collected data. By stepwise coding all of the ten transcripts thematic patterns were found, laying ground for the themes and subsequent analysis.

3.5. Quality of the Study

The quality of a qualitative study is differently evaluated compared to a quantitative one. While the traditional measures of validity and reliability create a great framework to test the credibility of the results of quantitative studies, these measures cannot be directly applied to qualitative research. This is due to the fact that "while the credibility in quantitative research depends on the instrument construction, in qualitative research, the researcher is the instrument". (Golafshani, 2003) Several different stances have been taken by qualitative researchers to alter the meaning of the terms. As Bryman and Bell (2011) puts it "there is a recognition that a simple application of the quantitative researcher's criteria of reliability and validity to qualitative research is not desirable, but writers vary in the degree to which they propose a complete overhaul of those criteria." The different degrees of complete overhaul ranges from very little adaptation to completely different, alternative criteria.

In order to produce a high quality qualitative study, the authors aimed to conduct the research in a manner that maximizes the validity and reliability of the study. First of all, the interviews were recorded and fully transcribed by the authors. Secondly, apart for two meetings what were conducted individually due to them happening at the same time, both authors were present at all of the interviews. Thirdly, an interview guide was created and used during all interviews in order to make sure that the semi-structured interviews touched upon the research topics in focus in order to gather comparable data. Lastly, the collected data was coded by both authors separately and the interpretations were compared. By taking all these measure the reliability and validity of the study were guaranteed.

3.6. Limitations and Delimitations

The first and perhaps most obvious limitation of this study is the amount of interviewees that have partaken. While ten certainly can be enough for a legitimate qualitative research, the

average time of the interviews being around 20-25 minutes further builds on the fact that more interviewees would have been needed to make this study more generalizable.

Secondly, the study took place solely in the San Francisco bay area, meaning that it is potentially generalizable for Silicon Valley but not for the venture capital industry worldwide.

Thirdly, all the venture capital firms that have been interviewed are independent venture capitalists, leaving the CVC perspective “undiscovered”. Furthermore, while most of the firms that have partaken are specialized in the tech industry, some are investing within the healthcare industry, however, no distinction between these has been made.

This chapter has provided a description on how this study has been conducted. Furthermore, the chapter has explained why a qualitative research strategy and a multiple case study research design were chosen, and also what steps have been taken by the authors to ensure the strongest possible validity and reliability. The study’s limitations and delimitations have also been presented. The chapter serves as the bridge between the theoretical background and framework and the study’s empirical finding and analysis.

4. Analysis and Discussion

This chapter focuses on the analyses and discusses the data collected through the ten semi-structured interviews. The chapter consists of the patterns found through the thematic analysis; and how those patterns create themes that are subsequently discussed throughout the chapter.

4.1. Thematic Analysis

Central to understanding and being able to draw conclusions from the collected data is the thematic analysis. When the data was collected and transcribed the thematic analysis was conducted in steps. The authors familiarized themselves with the data, subsequently creating a mind-map with broader coding signifying themes. Thereafter the authors dove back into the collected data to confirm the themes presented in the mind-map, and to make sure that excerpts that had laid ground for the initial coding correctly represented the data in the interview transcriptions. The last step was to establish the result of the thematic analysis, through defining and naming the themes.

The process of the thematic analysis will be shown in four separate parts, all depicting certain vital areas of the conducted interviews. The categories follow the structure of the interview guide (see Appendix B), and thus the structure of the interviews. The categories show patterns of what previous experience the interviewees have of CVCs; what qualities as well as issues they believe that CVCs possess; and finally what factors they deem most important when they evaluate CVCs as potential investment partners. These patterns lay the ground for the themes that are displayed in part 4.2.

4.1.1. Previous History Investing Alongside CVCs

Interview 1	Not preferred
Interview 2	Will avoid if possible; More attractive if acts like something in between an IVC and a CVC
Interview 3	Invests alongside only in late stage
Interview 4	Invests alongside to benefit from established industry presence and know-how; Better investment partners now than during last "cycle"
Interview 5	Welcome CVCs as investment partners but not as leaders
Interview 6	Only wants CVC partners that are primarily financially motivated
Interview 7	Dual edged sword with potential downsides as well as benefits; hesitant to invest alongside
Interview 8	Useful when predictable
Interview 9	Not predictable as they are not dependent on VC
Interview 10	Views them mainly as investing to acquire

Table 1. This table shows the pattern of answers from interviews regarding the previous history of investing alongside CVCs.

The first part of each conducted interview focused on establishing what previous experience the interviewees had investing alongside CVCs. This part of the interviews often provided the interviewees' general views on corporate investors as a presence in the industry, but also how they view them as a venture capital investor type. Furthermore, it was established whether the IVCs generally chose to invest alongside CVCs and their reasoning for said decisions.

4.1.2. Sources of Potential Benefits (Resource Based-View)

Interview 1	Investing due to strategy, Signifying value; Complementary resources
Interview 2	Validation; Knowledge transfer through collaborations; Second opinion; Resources useful if acts more like IVC (middle-ground)
Interview 3	Strong alignment leading to acquisition; Reach; Patents
Interview 4	Potential acquirer; Strategic Value; Knows how to build marketplace
Interview 5	Help make bigger deal; Access to their customers and needs
Interview 6	Already in market for solution provided by investee; Technological know-how; Validation
Interview 7	Validation; Potential acquirer; Distribution Channel
Interview 8	Validation
Interview 9	Validation
Interview 10	Second opinion (Technical valuation); Access to network;

Table 2. This table shows the pattern of answers from interviews regarding the sources of potential benefits when investing alongside CVCs.

The second part of the interviews focused on what complementary assets (if any) the interviewees' believed that CVCs could bring to the syndicates and investee companies. Here the interviewees were allowed to provide any and all reasons why they would actively seek to include CVCs in their syndicates.

4.1.3. Sources of Potential Issues and Conflicts (Agency Theory)

Interview 1	Not functioning as IVC; Corporate timelines; Too disconnected from corporation (meaning no complementary assets); Strategy not aligned; Unpredictable (disappears during recession); Type of employees; Not risk-takers
Interview 2	Distraction for entrepreneurs; Demands (first refusal); Different structure than VC; Not main focus; Type of employees
Interview 3	Strategic not aligned; Distraction for entrepreneurs; Potential future acquisition makes entrepreneurs "lax"
Interview 4	Scare away other potential acquirers
Interview 5	Scare away other potential acquirers
Interview 6	Hesitant to sell to other corporation; Size of corporation; Lack of continuity; Not risk-takers
Interview 7	Lack of continuity; Not risk-takers; Differences in structure
Interview 8	Strategic shift; Lack of continuity
Interview 9	Structure; Type of employees; Distraction for entrepreneurs; Strategy not aligned; Lack of continuity
Interview 10	Scare away other potential acquirers; Type of employees; Size of corporation

Table 3. This table shows the pattern of answers from interviews regarding the sources of potential conflicts when investing alongside CVCs

The third part of the interviews focused on the potential downsides of including CVCs in syndicates. The interviewed IVC partners explained why they would choose not to include CVCs and what issues they saw with corporate venture arms. Much focus was put on the different structure, lack of investment continuity and the complications of having syndicate partners that are purely investing for strategic reasons.

4.1.4. Key Factors When Evaluating CVCs as Investment Partners

Interview 1	Alignment/Strategy; Predictability; Previous track record; Network
Interview 2	Structure; Connected/disconnected; Strategy; Validation/Second Opinion
Interview 3	Alignment/Strategy; Can the CVC speak for the corporation?; Structure; Potential demands; Predictability; Reputation
Interview 4	Structure; Alignment/Strategy; Predictability
Interview 5	Alignment/Strategy; Predictability
Interview 6	Trustworthiness; Predictability; Does the CVC need to be an investor or could it be a customer?; Reputation
Interview 7	Connected/disconnected; Structure; Predictability; Reputation
Interview 8	Alignment/Strategy; Predictability
Interview 9	Predictability; Reputation;
Interview 10	Alignment/Strategy; Predictability

Table 4. This table shows the pattern of answers from interviews regarding key factors when evaluating CVCs as investment partners.

The final part of each interview asked the interviewees to provide the key factors they looked at when evaluating CVCs as investment partners. Once more a lot of the focus was on attributes that risked making a corporate investor less predictable than its independent counterpart, such as strategic incentives, structure behaviour in governance and previous track record. However, benefits, such as complementary assets and potential added value of the corporations' strong reputation, were also mentioned.

4.2. Themes

The thematic analysis and the resulting patterns displayed above have been boiled down to six different themes. These themes (displayed below) represent the major focus conveyed by the interviewees.

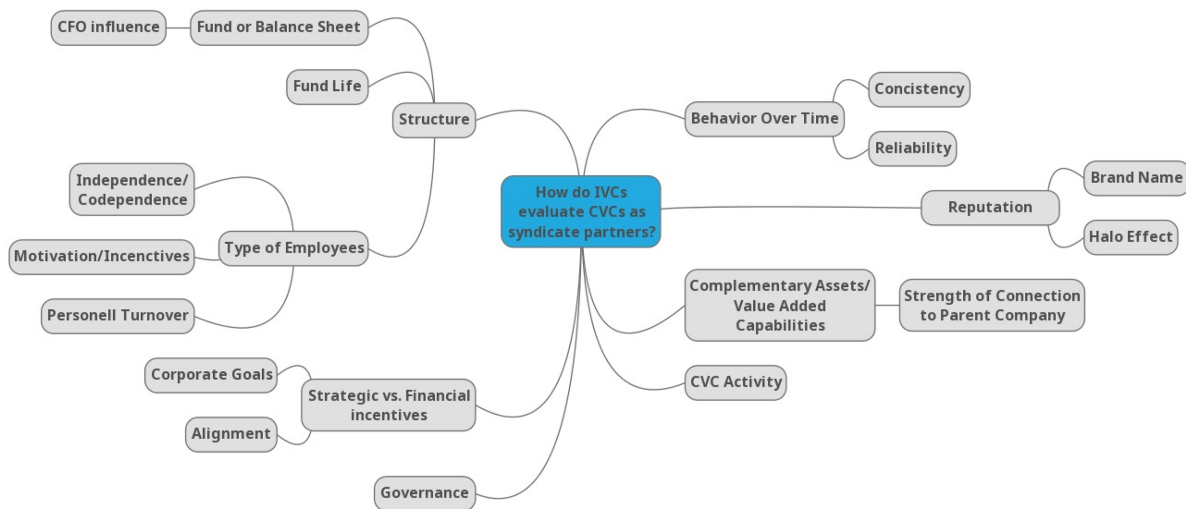

Figure 1. This figure displays the 6 main themes and sub-themes found during the thematic analysis

Strategic versus Financial Incentives: This theme includes how IVCs evaluate the potential benefits and drawbacks of the CVCs' strategic incentive.

Structure: This theme includes the CVCs' source of investment capital, the level of financial and organizational independence from their parent organization as well as the compensation structure of their employees.

Complementary Assets: This theme includes how the IVCs evaluate the CVCs ability to bring complementary assets into the syndicate and therefore improve the portfolio firms' chances of success.

Reputation: This theme focuses on the potential value of including a CVC in a syndicate that has a well-established brand name that can validate the investment.

Governance: This theme concerns the inner workings of the syndicate; which party leads the syndicate and why; and how CVCs behave if they have a representative in the board of the portfolio company.

CVC activity: This theme focuses on the shifts that are happening in the industry, and more specifically how the increase in CVCs is received by the IVC actors. Also the track record and previous performance of CVCs is discussed.

These themes will serve as the body within which to discuss the collected data, and provide the knowledge with which the conclusive theoretical framework and model will be built.

4.3. Strategic vs. Financial Incentives

Independent venture capital firms and corporate venture capital arms have different incentives when they invest in their portfolio firms. While IVCs have only financial incentives corporate venture capital arms have both strategic and financial motivation when they invest. When it comes to syndication the strategic dimension of CVCs incentives can be a source of misalignment of goals of the co-investing actors which can result in increased agency costs in the syndicates.

4.3.1. The Motivation Behind Corporate Venture Capital

> *"If I evaluate another independent venture firm I know why they invest so that is sort of clear. When I evaluate a CVC I don't know why they invest, so I have to understand what drives them before I can sort of think about what makes sense." (Interviewee 10)*

Understanding an established corporation's motivation to have a corporate venture arm is a really important factor since it deeply influences the CVC's strategic incentive to invest and therefore has an effect on syndication. Corporate venture capital is an answer to the innovation challenge that established organizations face in today's open innovation era. Some of our interviewees worked within corporate venture capital arms before they became independent venture capitalists, therefore they could provide valuable insight into the motivation of

corporations to set up their CVC arms and how it affects the corporate venture capital arm's investment goals.

"A corporate VC investment is defined by two characteristics: its objective and the degree to which the operations of the investing company and the startup are linked". (Chesbrough, 2002) The objective characteristic of the investment ranges from purely strategic to purely financial. Investments made based on strategic objectives aim to increase the sales and profits of the corporation's own business through identifying and exploiting synergies between the company and the investee firm. On the other hand investments made based on financial objectives aim to earn financial returns on the invested capital. The second defining characteristic is the degree to which the portfolio firm is linked to the investor corporate's current operational capabilities. Based on this, an investment can have a tight link between the corporate and the investee firm, where the startup might have access to the investing company's manufacturing plans, distribution channels, technology or other resources. In case of investments with loose links the investee firm does not fit into the core business activities of the investor corporate. (Chesbrough, 2002)

In his framework Chesbrough (2002) identifies four types of CVC investments. These types of CVC investments according to the framework are (1) driving investments, (2) enabling investments, (3) emergent investments and (4) passive investments.

(1) Driving investments are characterized by a strategic rationale and tight links between the investor company and the investee. Driving investments can advance the corporate's current strategy but they are unlikely to help to deal with disruptive change in the corporation's business area or identify new business opportunities.

(2) The second type is enabling investments. These investments are characterised by strategic objectives but contrary to driving investments the investee firms are loosely linked with the investor company. Enabling CVC investments are made by companies that try to stimulate the development of the ecosystem around their products. The best example is Intel Capital, whose main strategic mission is to create demand for the parent company's semiconductor products.

(3) When a CVC investment has financial objectives and tight links to operational capability of the parent company it belongs to the category of emergent investments. This type of investment

gives "an optionlike strategic upside beyond whatever financial returns it generates". (Chesbrough, 2002) Emergent investments enable large companies to explore new potential business opportunities and be more flexible in dealing with disruptive changes in their industry.

(4) Lastly, CVC investments that are financially driven and loosely connected to the investor company's operational capabilities are called passive investments. These types of investments are made for financial returns only, the corporation does not have any strategic benefit to gain from them. Corporate venture capital programs with only financial objectives raise the question whether it is the best use of the shareholders money to operate such programs. Large corporations have to decide what to do with their abundant capital, their shareholders' money, to stimulate the company's growth which they can do in multiple ways. For instance they can invest in the public markets, issue stock buyback for their investors or put the money back into the operation of the company. Starting a corporate venture capital program is one of these options they have where they can achieve financial and strategic gains on their invested capital. Therefore CVCs "compete" against other departments of the parent company for the corporate's resources. Looking at corporate venture capital as just an investment asset class might not justify its existence since the corporation could invest its capital in other higher performing investment vehicles based on only financial metrics instead, for instance the best IVC performers. Therefore corporate venture capital programs most of the time have both strategic and financial objectives.

> *"If you like that asset class and the top venture firms return 30% IRR then why are you keeping a CVC group within yourself if you can rather invest in those IVCs? So you have to have something more, something more that you can get. And what is that? You are getting access to new markets, new deals. So that is why these two, strategic and financial, become crucially important." (Interviewee 3)*

The framework outlined above gives a contrasted picture about the strategic motivation that corporate venture capital arms have when they invest. From a syndication point of view it is important for the syndicate partners to know each other's motivation. Since independent venture capital firms have only financial incentives, their performance is judged on the IRR (internal rate of return) of their investments, their goals, namely reaching the highest possible returns, are

aligned when they syndicate with each other. CVC firms, on the other hand, have strategic incentives which are dictated by the parent organization. This additional dimension of interest can cause misalignment of goals when both CVCs and IVCs are in a syndicate.

4.3.2. Effect of Corporate Strategy Changes on Syndication

The parent organization's motivation to have a corporate venture program will have a large effect on the investment practices and behavior of the CVC arm. The strategies of large established firms are often subject to change which affects the CVC arms' strategic objectives too.

The fact that independent venture capital funds have a fund life of ten years with an optional extension period allows them to have a consistent investment strategy, an investment thesis, in which they specify what industry and which stage of company growth they invest in. This investment thesis is not often subject to change during the life of the fund which makes independent venture capitalists predictable investors from an investment strategy point of view. On the other hand, as described above, the investment strategy of corporate venture capital arms depends on their parent organizations' core business strategy, which tends to be much more short term and change every few years.

> *"The corporate priorities shift and they shift much faster than a ten year or fourteen year fund life cycle, right? And you know, if it is public corporation then they have quarter to quarter priorities or quarter to quarter goals and so they might have much more short term changes." (Interviewee 9)*

This discrepancy in investment strategy span can create situations in mixed syndicates where the corporate venture capital arm's investment strategy has shifted after it has invested with IVCs in a portfolio company and the investee firm is no longer in the strategic focus of the parent organization of the CVC. Many of our interviewees mentioned that they take into account the fact when it comes to evaluating their CVC syndicate partner that the parent organization's strategic success is of primary importance, the investments of the corporate venture capital arm can be disregarded and abandoned if they do not fit with the strategic shifts of the corporation.

> *"So with any corporate investor, I think the key lesson learned is that the corporate investor is a corporation first and investor second. The investing business doesn't do anything for them… So if the corporate winds shift then you can be left out in the cold." (Interviewee 9)*

Also, IVCs are aware of the fact that the amount of capital that large companies devote to their corporate venture program will not affect the corporations' strategic agenda.

> *"But it doesn't matter if a large corporation invests 100 million dollars into your business. Who cares about the 100 million dollars? Like Apple, that is not going to change their agenda, right?" (Interviewee 9)*

> *"And let's pretend that the fund is very successful, it generates 3x return. I mean it doesn't move the needle at all. It really is not important to a corporation." (Interviewee 10)*

Therefore the strategic fit between the parent organization of the CVC and the portfolio firms has a really important indirect effect on syndication because it affects how supportive the corporate venture capital arm will be during the investee firm's growth.

> *"You have to realize that whether or not they [the CVC arm] have an investment, if the strategic agendas are aligned you are going to be working very closely together and very well together. And if they are not, doesn't matter how much money they have invested, nothing is going to happen or even bad things will happen." (Interviewee 9)*

The tendency of the corporate venture capital arms to change their investment thesis was mentioned as one of the most important evaluation factors by IVCs. Independent venture capitalists want their investment partners to be predictable when they syndicate with them and it was mentioned several times during the interviews that CVCs have often proved to be unreliable because their investment thesis had changed due to their parent organization's strategy shift.

> *"Corporates can do it and will do it [dropping off] more often than traditional venture capital firms because their strategies will change." (Interviewee 8)*

This can be problematic from a syndication point of view due to several reasons. Firstly, if a portfolio company does not fit the strategic focus of the parent organization anymore the CVC arm might not provide the investee firm complementary resources and support as it might have done before. Secondly, change in the investment focus of a CVC can result in it dropping off in subsequent investment rounds of the syndicate. When an inside investor of a syndicate drops off in a financing round it can have consequences affecting the future of the investment. A direct effect is that dropping off can lead to hardships in the financing of the investee firm.

The second, more indirect effect is that it can send false signals to the market about the attractiveness of the venture. Since the reason of dropping off is not the lack of trust in the viability of the venture but the change in the CVC's investment focus, outside investors might be less inclined to invest based on the false signal.

> *"It is also another sort of potential red flag around having a corporate VC as part of the syndicate is that if the next financing round comes they, for whatever reason, they pull out, they don't invest, they disinvest that sends a strong negative signal to the market." (Interviewee 2)*

However, it has been mentioned several times during the interviews that IVCs "discount" the significance of a CVC dropping off, knowing that it can happen purely on the basis of change in strategic focus.

> *"Knowing that they can drop for reasons that have nothing to do with the health of the company makes me less concerned about their non-participation." (Interviewee 5)*

4.3.3. The Strategic Incentives' Effect on Portfolio Firms

It was mentioned numerous times during the interviews that the effect of the CVCs' strategic incentives are evaluated differently by IVCs depending on the growth stage of the given portfolio

company. IVCs tend to be cautious when a CVC invests in early stage firm, because they fear that the CVC might try to influence the portfolio company's development to fit its strategic objectives. The corporates strategic incentives with the investment, however, might not result in the portfolio firm reaching its highest financial potential in which the IVCs are interested in. This can create a conflict of interest between the syndicate partner.

The strategic objectives of CVCs are less of a concern from an IVC point of view when the corporate venture capital invests in later stages of the portfolio company's life. One reason for this is that when CVCs invest in growth stage and late stage rounds the portfolio companies already tend to have a working business model, their growth trajectory is clearer and the CVCs are less likely to influence the investee firm's strategic path. Furthermore, later stage investments from CVCs are seen more predictable by IVCs because they can better judge the corporate venture capital arms strategic incentives and since the investee firms are closer to liquidation (and there are less investment rounds) the corporate venture capital investor is less likely to drop off due to strategic reasons.

The strategic focus of corporate venture capital arms is the main reason for misalignment of goals with their IVC syndicate partners. As a result it is the main source of uncertainty and conflicts in the life of a mixed syndicate. CVCs, as described above, range on a wide spectrum of their strategic goals and IVCs have to take into account how those goals can affect their investments in the portfolio firm of the syndicate.

4.4. Structure

When it comes to syndication, independent venture capital firms take into account several different factors stemming from the different structure of CVCs. Due to the diverse strategic objectives of CVCs that influence the organizational and legal structures, employee incentives, investment criteria and post investment engagements of the fund, CVCs show a wide variety in their structure which affects their attractiveness as syndicate partners from an IVC point of view. (Asel, Park and Velamuri, 2015) Some of these factors have direct effects while some of them affect syndication indirectly.

4.4.1. Source of the Capital

Most CVC arms have only one limited partner which is the parent company, and the capital that is being invested comes from the balance sheet of the corporation on a deal-by-deal basis. This is a significant difference compared to independent VC firms, where the IVC has to raise its funds from multiple investors and after the fundraising period is over the firm has the committed capital at its disposal over the life of the fund which is generally ten years with and optional two year extension period. In case of CVCs the amount of money that the CVC arm has at its disposal to invest depends on the finance department of the parent company and often has to "compete" against other departments for the corporate resources. This exposes the CVC to more uncertainty due to the parent companies fluctuation in business cycles and changes in operating budgets and therefore undermines the CVCs consistency to support investments through economic cycle. (Asel, Park and Velamuri, 2015)

When it comes to syndication, this difference in source of capital reinforces the problem of predictability of CVCs. Investing on a deal-by-deal basis allows the parent company of the corporate venture capital arm to have control over the CVC arm's activity by authorizing every deal. This can become an issue in case of longer investment periods where a CVC has to participate in several investment rounds. If the company's strategic priorities have shifted over time and a certain portfolio company does not fit into the new corporate strategy or there has been some changes in the corporate operating budgets due to business cycles, the CVC might not receive the needed capital and as a result it has to drop off.

Therefore, if a CVC invests from the balance sheet it can signal to the syndicate partners that there is always the possibility that it will not be there in the next investing round, because it does not have a fund structure with a separated pool of capital like IVCs. This was noted by the interviewees on several occasions.

> *"I don't think that it directly influences the decision from a diligence perspective, but it is more of like that setup that will affect their actions in the marketplace which will affect their brand and reputation which will affect my decision to work with them." (Interviewee 6)*

Therefore this structural difference between CVCs and IVCs has an impact on the predictability and reputation of CVCs as investment partners and therefore can have an indirect impact on syndication.

4.4.2. CVC Personnel

Personal connections and relationships are of great importance when it comes to investing in VC syndicates due to the agency cost considerations of such activities. Venture capitalists prefer to syndicate with other investors who have good reputation and competence or with whom they have positive previous investing experience. (Sorensen, 2008; Wright and Lockett, 2003) There is a significant difference between the investment managers of independent venture capital firms and corporate venture capital arms, both in terms of performance, motivation and incentives. A large part of this difference exists due to the different structure of the CVC fund.

There was a general consensus among the interviewed independent venture capitalists was that a large percentage of managers at CVC arms are not professional investors. It was mentioned several times that most of the managers at CVC arms look at the position as a stepping stone to climb higher on the corporate ladder.

> *"Most of the firms basically have a position in the venture group open to executives that they are grooming for better, bigger roles inside the company." (Interviewee 10)*

This observation is supported by the literature. "Internal CVC units typically source the majority of their investment managers from their own business units, choosing people with deep knowledge of the company's products, strategy and procedures". (Asel, Park and Velamuri, 2015) Oftentimes the aforementioned executives do not have the investment knowledge and experience that would make them attractive investment partners.

> *"Those executives don't know what a deal looks like and it is totally understandable. People often make the mistake that if you are a good executive than you must be a good investor. It is a common mistake." (Interviewee 10)*

Another frequently mentioned theme regarding CVC employees was the fact that some of them work at a corporate venture arm with the motivation of putting together a track record to become independent venture capitalists.

> *"Maybe their ambition is to build a personal track record so they can start their real venture fund. Which if they did then would make a lot more money."* (*Interviewee 9)*

The compensation structure of personnel often differs between IVCs and CVCs. The former group's compensation is much more performance-based with the industry standard compensation package of management fees and carried interest, while the latter group most of the time has a more corporate-like compensation structure that includes salary and bonuses without any performance-based element. IVC managers tend to look at this difference in compensation schemes as a selection mechanism that enables people with certain personality traits and motivation to end up in whichever place that fits them best. Risk-taking was one of the personality traits mentioned the most. According to some of the interviewees, corporate venture capitalists tend to be more risk-averse than their independent counterparts.

> *"And most of the time it should not surprise you, they are not willing to take a lot of risk, because the people who gravitate to work in large corporations, at least make a career of it, are not risk-takers." (Interviewee 1)*

This can be either because they are not motivated to take risks due to the lack of performance-based pay or CVC managers are afraid of getting fired.

> *"And so for that reason they may be a little bit more on the conservative side because if there is any risk-taking going on, and it doesn't go their way, then they could get fired. You know in a way that a general partner cannot be fired at a financial VC." (Interviewee 7)*

These two factors, namely the venture group position as a stepping stone and the motivation to become independent venture capitalist, have an important implication from a syndication point

of view. Similarly to the predictability of strategic incentives of the corporate venture arm, the consistency of CVC personnel was mentioned as an important factor for well-functioning syndicates. It was mentioned by several interviewees that change in personnel can be detrimental for the cooperation between the CVC and the rest of the syndicate.

> *"It becomes a problem, if you need their money or support in some way and the person is gone." (Interviewee 9)*

As one of the interviewees points out:

> *"In a corporate job cycle two years is sort of a long time, four years is a full investing cycle. You can't accomplish that much in four years, great companies do not get built in four years." (Interviewee 9)*

This again emphasizes the difference between the corporate and independent venture capital timeline. The problem of high CVC personnel turnover is documented in the literature. In their interviews made with CVCs, Asel, Park and Velamuri reveal in their study (Asel, Park and Velamuri, 2015) that CVCs face challenges retaining their key personnel due to two primary factors, namely high-performing investors often leaving for independent venture firms for better compensation and CVCs personnel rotation among corporate posts. These two factors were also the main issues mentioned by our interviewees that in some cases can lead to CVCs being less predictable syndicate partners.

4.4.3. Independence from the Parent Company

There has been a trend in recent years which has seen CVCs become more and more structured like independent venture capital firms which was mentioned several times during our interviews.

> *"In general I think the CVCs more recently, at least for the purposes of attracting good talent and good investing behaviour, they are starting to operate more like a fund." (Interviewee 3)*

In their aforementioned paper Asel, Park and Velamuri (Asel, Park and Velamuri, 2015) classify CVC arms into two main categories, namely internal and external CVC programs. With the first

category they refer to CVCs that invest from their balance sheet and staff the CVC program mostly with professionals coming from corporate operational roles. Internal CVCs primary objective is mainly strategic and financial returns are secondary. Due to this investment focus they prefer late-stage investments where the partnerships and strategic benefits are readily apparent.

External CVC programs, on the other hand, operate more like IVCs where they manage a separate fund, with fixed funding commitment and life expectancy. This structure allows them to have greater financial autonomy and therefore more consistent investment management compared to internal CVCs. Their compensation structure is similar to their independent counterparts and therefore they can attract and retain more experienced investment professionals. External CVCs have a more financial investment focus and they are more likely to invest in disruptive businesses from their corporations' core business point of view. Therefore they tend to invest more in earlier stages where strategic benefits might not be apparent yet. (Asel, Park and Velamuri, 2015)

The recent trend of CVC arms becoming more independent from their corporation and more like IVCs is seen positively by independent venture capitalists. Most of the interviewees thought that it makes working with CVCs easier and more predictable if they have similar structures to IVCs.

In general the structure of the CVCs can affect their attractiveness as syndicate partners considerably. During our interviews some of the IVC investors said that they take into account the CVC arm's structure as an important decision factor before syndication, some of them said that it only plays a minor role. However, those belonging to the second group also mentioned themes relating to structure that they deemed important. One of the most important themes was predictability, both in terms of the CVC being there for subsequent financing rounds and people investing on behalf of the corporate venture arm. As discussed earlier, the structure of the CVC arm has a large influence on both of these factors.

IVCs in general prefer to syndicate with CVCs that have similar structure to them which can be explained by the fact that similarity results in lower agency costs. Therefore external CVC programs that are more independent from their parent organization are more likely to be sought after syndicate partners than internal ones. This can be explained by the facts that external CVCs

have a separate fund with fixed funding commitment and life expectancy allowing for more financial independence. Also they are more often staffed with experienced investors who are compensated performance based similarly to their independent investor counterparts and their investment focus is more financially than strategically driven. All these factors make them more predictable which is important from a syndication point of view. However, some of the IVC managers mentioned that working with CVCs that are too independent from their corporation might be detrimental to their ability to access the parent organization's important complementary assets. Therefore the most optimal CVC structure from an IVC point of view is one where the corporate venture arm is independent from a financial and decision making standpoint but also has ties to the business units of the parent organization to access complementary assets.

4.5. Complementary Assets

Building on the rationale of the research-based view, much of the literature surrounding corporate venture capital focuses on the complementary assets that a CVC can bring to a venture or newly started company. From an IVC point of view however, it is for the purpose of this study interesting to try and understand how these complementary assets are viewed when CVCs are being evaluated as syndication partners.

4.5.1. Potential Benefits of Complementary Assets

In their paper Keil, Maula and Wilson showed that newcomer CVCs to the venture capital market with unique resources are able to move into central positions in the VC networks. This means that due to their unique resources they become sought after syndicate partners despite the fact that they are new to the VC industry. (Keil, Maula and Wilson, 2010) This finding emphasizes the importance of resources when it comes to the motivation to syndication. Venture capital firms have different knowledge, experience and resources and therefore they provide different value-added services to their portfolio companies. IVCs and CVCs have even greater differences in the forms of value that they can provide. IVCs are better at “enterprise nurturing” while CVCs are better at “commerce building”. (Maula, Autio and Murray, 2005) Our empirical

data confirms that CVCs are seen by IVCs to be better at providing more value for later stage ventures.

> *"But you know at later stages, you know when a company is sort of getting to a certain scale, they gotta put in the systems and processes and trying to get to more predictability. Large companies are pretty good at that, they know how to manage and execute and run" (Interviewee 9)*

This knowledge in managing and executing paired with large corporations resources can make CVCs highly valuable investment partners when a certain portfolio company is about to scale its operations. The most often mentioned complementary assets that are valued by IVCs are marketing, sales and distribution channels, access to R&D facilities.

> *"Later stage is when companies' main goals are sales and marketing… If you have access to large corporations as a CVC investor the thing they can help out the most on is helping them to reach geographically or use their sales channels." (Interviewee 6)*

Also, CVCs can help through giving a second opinion and providing insight to the potential lucrativeness of a new technology, and even provide ideas how a technology can be used and how to compares to what is now the standard. A company in that position can of course also evolve into a potential customer, but even as a type of validation it could prove useful.

> *"Alongside us, it can help us do a bigger deal, it can help us validate. I did a deal with (CVC), and they are a corporate venture capital group by the way, (Parent Company). It was great to have them alongside, they were able to validate to us just how they're using the product internally. And give us access to their users in City Bank, and that was really helpful to us understanding, the uniqueness of a technology in a company and the bigger use in a financial institution. " (Interviewee 5)*

Many of the interviewees mentioned that beside providing company resources CVC opinion can be highly valuable in certain areas. Technological knowhow, go-to-market strategy and domain expertise were the three most important areas that were brought up where CVCs can add most value at.

> *"And sometimes they can bring real insights to things that we don't necessarily see. Particularly if they have experience in a space that we don't." (Interviewee 8)*

> *"I would value their opinion less on the business model and more on the technology or the go-to-market strategy." (Interviewee 6)*

> *"Maybe some benefits in the domain expertise that they may have and their knowledge of the industry that they are in." (Interviewee 7)*

4.5.2. Considerations and True Value of Complementary Assets

While much of the literature about corporate venture capital focuses on the complementary assets that they can provide that IVC's lack, the evaluation of these from an independent venture capitalist point of view is not straightforward. Several of the interviewees mentioned that just the fact that a CVC promises certain complementary assets that does not necessarily mean that it will benefit the portfolio company. Instead the most fruitful collaborations, where the portfolio companies can benefit the most from the complementary assets of the CVC, happen in situation where other business units of the CVC's parent company have been in some kind of business relation with the portfolio company earlier.

> *"But often times I think the most fruitful of these discussions are once where it stems from a kind of business relationship and then got passed over to the corporate venture groups." (Interviewee 4)*

Some IVCs only take into account the complementary assets as advantages in case where those previous business connections between the portfolio company and the parent organization of the CVC have been established.

> *"I only value the complementary assets more than zero if they are*

> *already deep in those discussions. If Bosh is investing and saying if you take our investment we will introduce you to our guys in Germany then I am gonna value that at zero, but if it is they already have discussions with the guys in Germany and the guys in Germany are so excited about our product that the venture guys can call them up and say then it becomes mutually reinforcing." (Interviewee 6)*

Also, CVCs ability to actually provide certain complementary assets vary. There are some CVCs who deliver on their promises to connect the portfolio company with valuable resource while others do not.

> *"There's all these promises and how do you evaluate these promises? How do you deal with them? Do they underpromise and overperform or overpromise and underperform? These are things that can be established by reputation and we quickly learn that which venture sources are telling tales and what they can deliver." (Interviewee 6)*

Furthermore, what was found early on during the interviews was that a requirement for any potential complementary assets to be useful was that there was not a too strong disconnect between the CVC arm and the parent corporation. One of the interviewees agreed that in the best of worlds an optimal CVC arm would be one that was more or less fully disconnected from its parent company and was structured and acting as the typical IVC, while at the same time being able to provide the potential complementary assets that a larger corporation might possess.

> *"I mean it is good if they are independent in terms of making decisions, because that makes it easier and faster. But the reason to get money from a corporate fund is really, you know, in addition to the money get access to the network. So if they are too far removed then it can be somewhat detrimental." (Interviewee 10)*

Lastly, according to the findings, IVCs tend to agree that even though they do not directly possess the complementary assets that CVCs have they can acquire those and provide them to

their portfolio companies in other ways. IVCs have a wide network in the industries they invest in, and they can therefore provide the portfolio firms with connections to acquire those complementary assets through their networks. This fact discounts the importance of the complementary assets that CVCs might have, and therefore they are seen as “nice-to-haves” but not “need-to-haves”.

> *“Whatever knowledge they bring about the space that you are investing in and the internal resources that they have there, that is nice to plug into, but again that is a secondary issue because you can get that other ways.” (Interviewee 8)*

> *“I will say that the value that my firm provides to startups, with connections to corporations, is far greater than what the corporate venture arms of these corporations can provide.” (Interviewee 1)*

In summary, the findings suggest that CVCs can provide complementary assets to portfolio companies and therefore increase the capability of syndicates to add value to their portfolio companies in accordance with the resource-based view. From an IVC point of view the most valuable resources are access to marketing, sales, distribution channels and to R&D facilities. Also CVCs domain expertise, technological know-how and insights into go-to-market strategies are areas where corporate venture capital arms can help their portfolio companies greatly. Generally, the complementary assets of CVCs are more valuable to portfolio companies in later stages and as a result IVCs see their corporate counterparts as better later stage investors. However, through their networks independent venture capitalists can provide the complementary assets that they do not directly possess. Therefore when it comes to the evaluation of a CVC as syndicate partner these assets are deemed “nice-to-haves” and not “need-to-haves”.

4.6. Reputation

One of the more notable themes that were consistently discussed during the interviews was the reputation and brand of the CVCs. Mostly discussed was the idea of reputation as a reason to include a CVC arm in a syndicate. The idea of reputation differs from that of complementary assets as reputation does not include any knowledge or skills that a corporate partner might

provide. Instead reputation in this instance refers to the potential gains that may come from simply including a CVC arm in an investment round. For example, being able to show that a large, well-known corporation has invested might increase the likelihood of an acquisition in the future, therefore arguing for an inclusion of a CVC no matter the size of investment or other form of contribution.

> *"We have had many companies, the only reason that we did it is the PR value, the founder for whatever reason would say, hey because we got an investment from Microsoft or Intel or Cisco or IBM or whatever, it would help our credibility in the marketplace. They put it in a little press release and it almost doesn't even matter how much they have invested, even if they* invested *you know 500 000$, you say, oh they have invested in us. No one knows, no one really knows how much each investor invested in this list of investors. So there is a halo effect." (Interviewee 9)*

Notably a large corporation that through a CVC chooses to invest in a company could also be viewed as a potential acquirer. This could then give further strength to the investment as a long-term opportunity.

> *"It definitely helps when you hear that a big company that is a partner but also a potentially ultimately an acquirer of the company, gets involved, that can add gravitas and legitimacy to the company." (Interviewee 7)*

4.6.1. Brand Value

The idea of reputation is closely related to that of brand value. In the article "making sense of corporate venture capital" H.W Chesbrough notes that while a CVC has the potential to bring a lot of knowledge of market and technology the brand and the quality associated with it may be the most useful thing that a CVC contributes to a venture. Simply put it may encourage other investors to put their money towards that particular start-up increasing the chance of success. Furthermore, it may also highlight potential customers or acquirers of the potential value of the

venture. All of this increases the potential returns for a CVC but could also encourage independent investors to include CVCs in syndicates. (Chesbrough, 2002)

Notably the reputation of the CVC was viewed as important by many of the interviewees but still not nearly as vital as the more general characteristics that IVCs look at as they evaluate potential syndicate partners. Instead reputation was viewed as something that could contribute in certain contexts but something that was rarely a priority.

> *"That is I think outside the money that it [reputation] is probably the most valuable thing. It is a stamp of saying, if (CVC 1) does it it believes in it if (CVC 2) does it (CVC 2) believes in it. But I mean it is marginal, I mean it is nice, it is a nice to have it is not a need to have." (Interviewee 8)*

4.6.2. Acquisition/IPO - Detriment of Publicity

While having a corporation with a strong reputation associated with your investment can be a positive thing that contributes to the success of an investment, some of the interviewees suggested that the presence of a "big player" CVC also has the potential of being detrimental. In certain situations the presence of the CVC could scare of other corporations that would otherwise be interested in investing or acquiring the venture further down the line. These other corporations might think that the already invested CVC either already was in control of the technology that the venture had created or that that CVC was set to at some point acquire the company invested in. The consequence of this could therefore be that the IVC leading the investment chooses to not include the CVC in the public statement of what investors are involved.

> *"I would not say that they have complementary assets to IVCs but certainly having a CVC on board is a double edged sword. I gave you one side of the sword and the other side, the flipside is they can give a sense of validation to the company. So it is kind of validating the fact that this company is doing something interesting so it is certainly signalling that validation so you have to sort of weigh that up against the potential downsides as an independent VC and also as an entrepreneur. You gotta be aware of that it has*

> *advantages and also disadvantages. You can signal to the rest of the world that this big company believes in us, what we have is working, but it can potentially cause problems if you are trying to raise money from these actors." (Interviewee 2)*

This was however not something that happened on a general basis, and all investors were generally made public and most interviewees were of the view that the presence of a CVC rarely scares away neither investors nor potential acquirers.

Something else that was discussed was whether a reputed CVC investing in one round and then stepping out in the next round potentially could damage the venture invested and signal to other potential investors or acquirers to stay away. While some said that it potentially might, there were more that argued that an IVC leaving a syndicate would be more detrimental for the future of an investment. The argument for this was that CVCs were as a group considered to be more volatile, this due to them being strategics, and their strategies potentially shifting quickly and unpredictably. Saying that a CVC could shift its strategic focus towards a different technology that perhaps fits where the rest of the company is going, or even decide that VC investments will no longer be part of their business.

> *"Knowing that they can drop for reasons that have nothing to do with the health of the company, makes me less concerned about their nonparticipation." (Interviewee 5)*

4.7. Governance

The governance in venture capital syndicates, where the different objectives of IVCs and CVCs can become apparent, includes two main areas. The first is leading the deal and setting the terms for the investors and the portfolio company in a financing rounds. The second area of governance is the influence on the portfolio company's development by having a representative on the board of directors.

4.7.1. Leading a deal

According to the Global corporate venture capital survey 2008-09, CVCs' preferred method of investing is through a syndicate where an IVC leads the deal. (Ernst and Young 2008) However, what is more unclear in the existing literature is whether they choose to let independent investors to lead or this is something that is forced upon them by their IVCs. According to the findings this phenomenon can be explained by both reasons. In general IVCs do not want CVCs to lead and CVCs prefer if IVCs lead the deals.

The first reason why CVCs usually do not lead deals is that they prefer not to. Firstly, leading a deal takes significant knowledge and experience about venture capital investing. As was detailed above, most of the CVC arms are staffed with corporate employees who are not experienced investors therefore leading a deal might not be part of their skillset.

> *"The reason is that the corporate VCs, that is not their primary job. They are not professional investors, so they rely on independent outsiders to set the price." (Interviewee 9)*

Secondly, CVCs let IVCs to do all the legwork with due diligence and then setting the price. If an IVC thinks that the deal will have a positive return it serves as validation to the CVC that the investment opportunity is financially sound and worth pursuing. This also means that the employees of the CVC do not have to take the risk losing their jobs for setting up a bad deal.

> *"They want validation that this is a good investment… Because if an institution (IVC) does that then the institution thinks that it will make money, right?" (Interviewee 8)*

> *"A lot of these guys don't want to take this risk, they don't want to say, you know what, I am going to evaluate this company." (Interviewee 1)*

The second and perhaps most obvious reason why IVCs do not want CVCs to lead are the differences in incentives between IVCs and CVCs. If a CVC was allowed to lead an investment there might be a risk that their strategic incentive pushed the venture towards a direction that would not fit the pure financial incentives of the independent investors.

> *"I think in general corporates should not be in the business of setting terms and setting the valuation. Because it is very hard to do that independent of a strategic mindset." (Interviewee 3)*

IVCs prefer if a financially driven VC firm leads the deals, since then it is guaranteed that the objectives of the portfolio company and IVCs themselves will be aligned.

> *"I think you either as a syndicate partner or as an entrepreneur, you always want your lead investor to be an independent if they are not an independent VC even if they are a CVC they need to be thinking financially first." (Interviewee 6)*

Lastly, CVCs oftentimes do not want to lead investments due to legal reasons. Lead investors usually take the largest equity stake in the target portfolio company. However, having a large equity stake forces the parent company to account differently for the investments that the CVC makes. Also by having a large equity stake, the parent organization of the CVC can end up being liable for legal claims against the portfolio company.

> *"So in the majority of cases corporate VCs tend to stay below a certain threshold in terms of ownership of the company which is typically a maximum of 20%. So they want to stay below that and they don't want to lead and they don't want to have any control over the company on paper because that changes how you account for these investments." (Interviewee 2)*

> *"I think they have legal reasons for not wanting to do that. They don't want to assume, especially if they are a publicly traded company, the legal liabilities of the company that they are investing in." (Interviewee 7)*

However, there are cases when CVCs take the lead investor role and do the due diligence and set the price of the deal. According to the interviewees there is a fear that in case a CVC leads, their term sheets will include such things as right of first refusal for the corporation, that represents the strategic incentive of the CVC and goes against the financial incentives of the IVC syndicate

partners and the portfolio company. These terms can be detrimental to the valuation of the portfolio company during acquisition.

> *"Something like a rights of first refusal to potential sale of the company and things like that, and those are clearly red flags for IVCs because that is a cap on the valuation of the company." (Interviewee 2)*

> *"Maybe there are certain condition, like right of first refusal and things like that that prevents the company from being acquired by the competitor of the investor and that really will corrupt the deal." (Interviewee 10)*

IVC might pass on investment opportunities in cases where terms sheets contain highly strategic terms favoring the CVC. This fact shows that agency costs stemming from the different objectives of IVCs and CVCs can be high enough to prevent a deal from happening.

> *"We will look at the term sheet and what sort of rights will be given up to the corporate and just pass on opportunities if those rights seem to complicate matters." (Interviewee 2)*

4.7.2. Board Representation

Board representation is the other area of governance where the different objectives of IVCs and CVCs can result in conflicts of interests. However, most of the interviewees mentioned that CVCs tend to be reluctant to take board positions due to the legal reasons detailed above. Therefore they tend to take more passive roles, like having information rights and observer seats, and they usually do not take part in the governing of the portfolio companies.

> *"Most of the governing that goes on in private companies is done by the IVCs, because most CVCs are either unable to or unwilling to take board seats because when they take the board seat that could pierce the corporate veil. Let's say (CVC 1) invests 5 million in a company and the company has hundreds of millions of liabilities for defective products if they invest 5 million and they*

are not on the board there is no way that they lose more than their 5 million, that's it. Most corporations are very concerned about piercing the veil back to their main corporation." (Interviewee 6)

"From my perspective 9 out of 10 times when CVC is invested they are not really involved in the governance they are observers, they come to the board meetings, they have information rights, they give their input but they are not actually governing the company like we do." (Interviewee 6)

In cases where CVCs do have board positions their presence can be a source of conflict due to their different objectives from IVCs. CVCs that are active in the governance of their portfolio firms and act according to their strategic incentives will be less favored investment partners by IVCs than ones that take a passive, supportive role in the boardroom of the portfolio company.

"I don't want, generally speaking, a corporate venture capitalist to be taking a board seat. The reason for that is it creates a lot of complications in the boardroom when we are looking at, you know, potential acquisitions and stuff like that." (Interviewee 10)

In summary, CVCs behaviour in the governance of their portfolio companies affect their predictability as investment partners. Those corporate venture capital arms that do not lead investments and take a passive, supportive role in the boardroom of their portfolio companies are more predictable from an IVC point of view. On the other hand, those CVCs that lead deals, especially with term sheets containing terms that support their strategic objectives, and take on active roles in the boardroom of their portfolio companies are less predictable. Unpredictable behaviour in the governance of syndicate investments results in increased agency costs and influences how IVCs evaluate CVCs.

4.8. CVC Activity and Performance

During the interviews it was acknowledged that the CVC activity in the Silicon Valley was growing. Many of the general partners that were interviewed had previously experienced similar growth spurts that were always aligned with upticks of the economy, but said that as soon as

those good times went away, so too did most of the CVC investors. To a large extent this was considered to be because most CVCs only see their venture capital arms as a place to spend their capital when they have an abundance of it, this is also the characteristic that most point towards when explaining why they consider CVC arms to being unreliable syndicate partners. As mentioned previously there is a substantial difference between investing through a fund and investing from the companies' balance sheet. Once a fund is established that money is not going anywhere, the ten year life of most funds is set in stone and no financial crisis will change that. However, many of the CVCs that are active in the Silicon Valley do not invest through funds and will therefore always have the possibility of withdrawing their money from the venture capital industry as their strategy changes in accordance with the current economic situation in the world.

There has been an undoubtable surge in the amount of money being invested and also the number of deals made by CVCs. The increased amount money invested increases competition for good deals and therefore drives up valuations in general, creating a "seller's market" where entrepreneurs negotiation position is stronger. Due to the higher valuations, the amount of capital needed to fund deals increases which in itself can lead to CVCs being allowed onboard to "fill out" a syndicate.

> *"If there is more money around then you know there is more access to capital, there is more competition for deals that just drives up valuations. So drives up valuations and rounds, the size of the rounds tend to be bigger." (Interviewee 2)*

There was also a clear divide between interviewees who had negative view on CVCs, and their increased activities, versus those who were more positive. Those who were more negative simply viewed the increased CVC presence as something that was part of the CVCs natural cyclicality and that as soon the VC industry took a turn for the worse, financially or otherwise, that they would disappear. More than one interviewee even went as far as calling the CVCs tourists. Several interviewees mentioned that the track records of CVCs historically have not been good.

> *"But you know, usually the track records are not going to be very good." (Interviewee 9)*

However, those who believed that the presence of the CVCs would be temporary just as it had been during other periods, did not necessarily have a large problem with this.

> *"Yeah, you know, corporate venture capital is a lot more cyclical than venture capital. So I ... with the next downturn CVCs will pack their bags and that is fine, that is fine with me because like you know it is, they will be better customers for that." (Interviewee 10)*

In general, the cyclicality of corporate venture capital makes CVCs less predictable as syndicate partners. In case a parent organization decides to cease the operations of its CVC arm due to changes in corporate resource allocation and leave the venture capital industry, CVC arm is forced to drop off in subsequent financing rounds of its portfolio companies. Therefore weaker track records the results in lower "staying power" in the industry which makes them less predictable.

> *"I think they are going to be a source of capital in the short-term and in the long-term they are going to go away again. So as a group they are not a predictable long-term source of capital." (Interviewee 5)*

Interestingly however, those more in favor of a stronger CVC presence in the Silicon Valley believed that more CVCs would stay even during the onset of a financial crisis. Arguing that not only had many of the corporate investors understood the value that venture capital investments can bring them, they are also more equipped and organised to deal with acting within the venture capital industry.

> *"I think that if there is a shake out or a wash out there will still be more groups remaining than there were in previous shake outs. Because I think that corporations have seen the value of it over time and have learned how to do it better frankly over time. I think there is much more greater recognition of best practices within corporate VC then there used to be I think the industry is better organized, there is a CVC group within the national venture*

> *capital association for instance, they get together, they have meetings on their own, and discuss the pros and cons of doing things different ways, so I think all of those things are contributing to a better corporate VC ecosystem out there that benefits everybody." (Interviewee 7)*

In summary, the recent increase in CVC activity and the overall performance of corporate venture capital is seen differently by the interviewees. Some think that the uptick in CVC activity is a result of excess capital on the balance sheet of large corporations while some see the changes and reforms in the best practices of CVCs that make them better investors. However, the CVCs track records and their staying power have an effect on how IVCs evaluate them as syndicate partners. CVCs with higher performance have a higher probability of staying in the venture capital business therefore they are more predictable investment partners, which is important from an IVC point of view

4.9. Major Factors of Evaluation

This analysis shows two major factors of consideration when IVCs evaluate CVCs as syndicate partners. Firstly and most importantly, no potential value-added capabilities that a CVC can provide is valuable to the syndicate unless predictability is guaranteed. Predictability is a direct consequence of the themes structure, strategic versus financial incentives, governance, and CVC activity. A structure that is too dissimilar to that of an IVC, corporate strategies that shift to often, ways of governing a syndicate that do not align with the IVC, and a likelihood of not staying within the venture capital industry in the long-term, are all factors that can make CVCs unpredictable as investment partners. Secondly, value-added capabilities such as the inclusion of a corporation with a strong brand-name that can validate an investment; and access to the complementary resources of a larger corporation (sales, marketing and distribution channels, R&D facilities, networks, etc.), are areas that are considered once predictability is assumed to be guaranteed. These main areas are displayed in the mind map below.

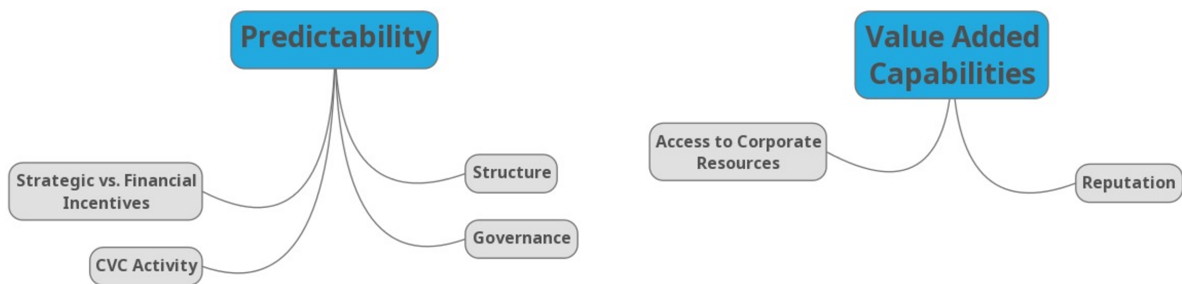

Figure 2. This figure displays the result of the analysis: the two major factors of evaluation (Predictability and Value-added capabilities) and their relation to the 6 main themes

Predictability and value-added capabilities are the major factors of evaluation provided by the analysis and they are what will be further built on in the results and conclusion chapter. They are an illustration of what the main considerations are for IVCs when they evaluate CVCs as syndicate partners.

This chapter has provided the steps of the thematic analysis, concluding with the two major factors of consideration when IVCs evaluate CVCs as syndicate partners, predictability and value-added capabilities. These two major factors will be further built upon and discussed in the following results and conclusion chapter.

5. Results and Conclusion

This chapter will built on the major factors of evaluation provided by the analysis; predictability and value-added capabilities. Based around these a CVC typology will be created, which will lead into a typology model that illustrates how predictability supported by value-added capabilities are the two main considerations when IVCs evaluate CVCs as syndicate partners.

5.1. Typology

5.1.1. Predictability

The empirical findings in this study show that the most significant factor when independent venture capital firms evaluate their corporate counterparts is predictability. Will CVCs be a reliable source of financing within the syndicate, will they remain as an investor come the next investment round?

> *"At the end of the day, it is all money. And that is what matters. And the rest of it is all nice to haves. But the number one thing about a CVC is predictability."(Interviewee 8)*

According to the empirical findings the "indicator" of predictability consists of three main factors. Firstly, predictability depends greatly on how strong the strategic incentives of the CVC are, and how often and to what extent the corporate venture capital arm changes its investment focus. This means that even if the parent organization's strategy shifts a CVC with high predictability would not drop off in future financing rounds or neglect an investment as the result of the change in strategic focus. In general, CVCs that have strong financial incentives next to strategic ones are seen more predictable from an IVC point of view. On the contrary, if a CVC has mainly strategic incentives and its financial incentives are negligible that creates a larger gap between the objectives of the investment partners resulting in lower predictability.

Secondly, predictability is influenced by the structure of the CVC. Corporate venture capital arms that invest from the balance sheet are seen less predictable than ones with fund structures. This is reinforced by the fact that CVCs with fund structures tend to have more financial

independence from their parent organization since they do not have to get approval for their investment on a deal-by-deal basis. Therefore potential changes in the parent organization's strategy has a lesser effect on the CVCs ability to participate in follow on rounds because the CVC has the authority to deploy the capital set aside in their fund. Also, CVCs with more independent structures have similar performance metrics to their IVC counterparts and they tend compensate their employees on a performance basis. Due to the performance-based compensation scheme they tend to attract better investor talent too. In summary, the more IVC-like structure a CVC has the more predictable it is from an IVC point of view.

Thirdly, the last factor that influences predictability is the CVCs behaviour when it comes to the governance of the VC syndicate and its portfolio companies. IVCs generally prefer when CVCs do not have an active role in the management and decision making of the portfolio company through board positions. Independent venture capitalist aim to minimize the influence of their corporate counterparts in the boardroom in order to avoid the effects that the CVC's strategic objectives might have on the portfolio company's development. Also, when CVCs demand certain investment terms, such as right of first refusal, during financing negotiations it raises red flags about the CVCs strategic incentives with the investment. In general, the predictability of a CVC is higher when it does not intend to take up an active role in the management and decision making of the portfolio company and has no demands for special terms when negotiating financing agreements.

Lastly, predictability is influenced by the CVCs track record and previous investment performance. Due to the high cyclicality of CVCs, IVCs have to take into account that if they co-invest with a corporate venture capital arm their investment partner might go out of business before the portfolio firms are liquidated. Therefore CVCs with good track records are not only more sought after investment partners because of their performance but also because they are more predictable, the are more likely to stay in the VC industry in the long-term.

To summarize, the predictability of a CVC is built up by four factors. CVCs that have strong financial incentives to invest, are structurally independent from their parent organization, behave cooperatively in the governance of the syndicate and have good track records will be the most predictable from an IVC point of view. The higher the predictability is the lower the agency

costs of syndication will be, therefore it is more likely that a predictable CVC will be evaluated as suitable syndicate partner by IVCs.

5.1.2. Value-added Capabilities

The secondary major factor of evaluation is value-added capabilities. According to the empirical findings value-added capabilities consist of two main factors, namely complementary assets and reputation. Complementary assets are resources that CVCs possess, due to their parent organization, which are not directly possessed by the independent venture capital firms. Such complementary assets can be the ability to provide access to R&D facilities; marketing, distribution and sales channels and support the portfolio firm with technological know-how. Having a CVC with valuable complementary assets improves the syndicate's ability to provide greater support in the development of the portfolio company and therefore increases it's chances of success.

The other factor that influences a CVC's value-added capabilities is reputation. CVCs can bring value to the syndicate by having a parent organization with a well-established brand. According to the findings, the brand value of a CVC's parent organization has a validating effect, meaning that just the fact that the CVC made an investment can increase the value of the portfolio company. Therefore CVCs with parent organizations that have high reputation in their respective industry will be more sought after syndicate partners.

In summary, the CVCs with valuable complementary assets and good reputation will have high level of value-added capabilities. According to the resource based-view, these CVCs with high level of value-added capabilities will be sought after syndicate partners by IVCs. According to the findings value-added capabilities are important, however, they are only secondary to predictability when IVCs evaluate CVCs as syndicate partners.

5.2. The Typology Model

To illustrate the results of the analysis of the ten interviews a typological model has been created. The empirical findings have shown that avoiding conflicting incentives and strategies within a syndicate is of utmost importance, and more than anything if a CVC is to be included in a

syndicate it needs to be able to show that it can be a predictable investment partner. Therefore, predictability is put on the below typology models X-axis.

However, in the best of worlds a CVC is able to be predictable but still provides value-added capabilities that benefit the syndicate in a way that an IVC could not. Hence, these capabilities are to be considered the greatest potential benefit of investing alongside a CVC that is considered once it is established that said CVC is a predictable syndicate partner. Therefore, value-added capabilities will be put on the below model's Y-axis.

This goes in line with viewing the agency theory as the primary lens through which to view CVC inclusion in investment syndicates. IVCs focus much more on avoiding agency costs than they search for partners with strong complementary assets. However, in situations where it is possible for a syndication partner to provide value added capabilities alongside strong alignment qualities, this is considered beneficial. Therefore, things such as reputation, market knowledge, networks and technological know-how are valued once alignment and predictability can be guaranteed. This is depicted in the model, with four separate typological profiles distinguishing how the study interprets that IVCs evaluate CVCs. However, no CVC will ever fit one profile exactly, instead the profiles should be viewed as guidelines, in reality different CVCs will fit within a spectrum of the profiles.

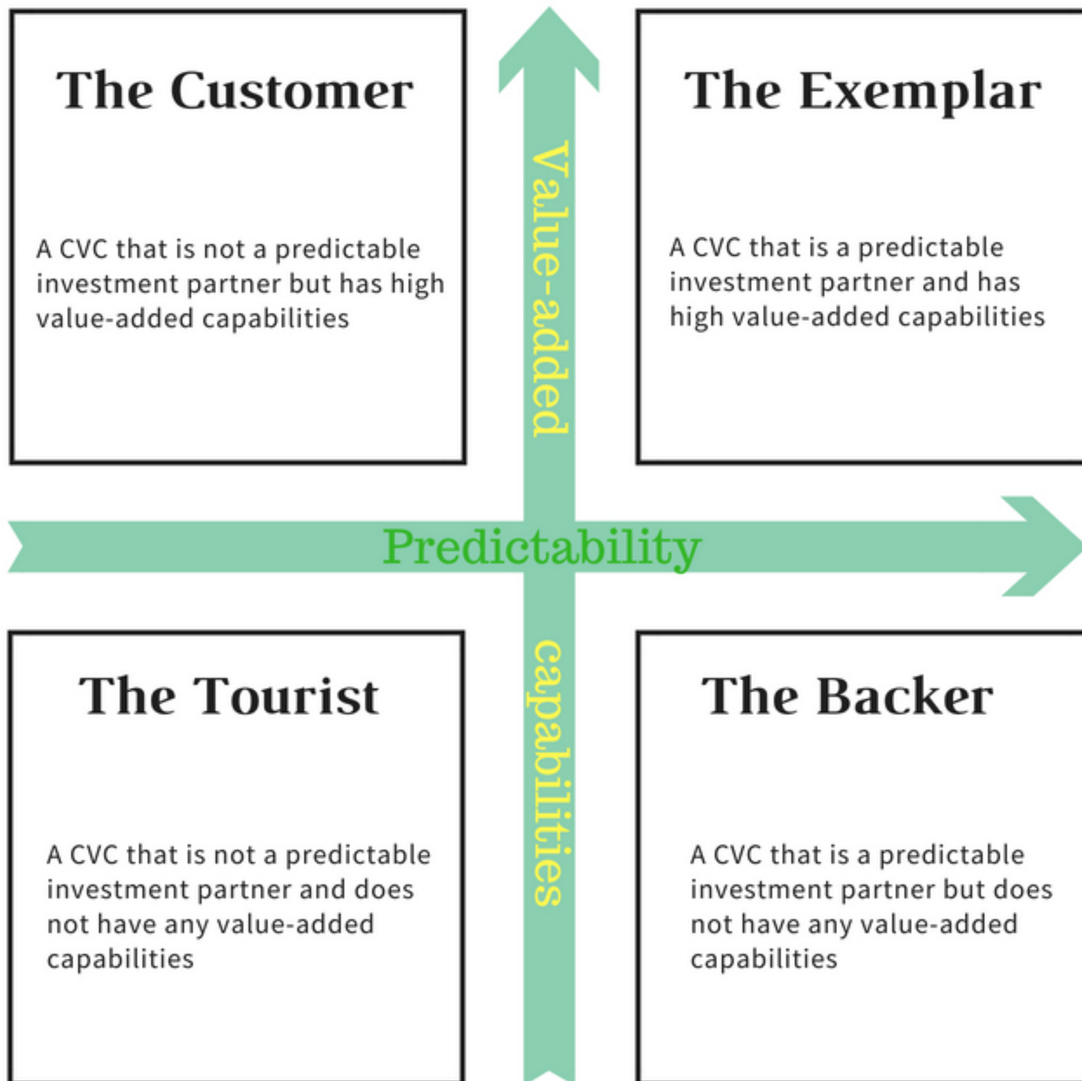

Figure 3. In this model the four types of CVCs are depicted. The X-axis of the model represents the predictability of the CVC investment partner based on their consistency of strategic agenda and investment focus, structure and reputation as a venture capital group. The Y-axis represents the value-added capabilities of the CVCs that they can provide to portfolio firms and therefore improve the performance of the syndicate.

5.2.1. The Exemplar

The Exemplar is the ideal CVC syndicate partner from an IVC point of view. This profile embodies all three pillars of predictability. The Exemplar is strategically consistent, and it does not go through strategic shifts that affect its investment focus, meaning that it will not drop off from one investment round to another. Also, The Exemplar is structured similarly to an IVC. It is often structured as a fund, it acts more independently from the parent organization, and it employees are experienced venture capital investors who are compensated based on their performance. When it comes to governing the syndicate The Exemplar does not try to steer the portfolio company towards strategic incentives of the corporation, if they are leading a syndicate the do not present term sheet or demands that could harm the financial motives of the IVCs within the syndicates or disrupt the focus of the portfolio company. Finally, they have a good track record that ensure that they will stay in the VC industry in the long-term.

The Exemplar guarantees predictability, but it also has value-added capabilities that the IVC investment partners do not possess. Therefore, the CVC's presence in the syndicate improves the portfolio companies chances of success. The Exemplar can provide assets, such as technological know-how, access to marketing or distribution channels of the parent organization that are complementary to the IVCs' added-value. Also, another type of value-added capability of the Exemplar can be its reputation, providing validation for the investment and potentially increasing the value of the portfolio company to future potential acquirers.

The Exemplar is the most desirable type of syndicate partner from an IVC point of view. High predictability and high value-added capability makes The Exemplar a good candidate to be an active investor whose value-added capabilities enable it to directly influence the development of the portfolio company in a direction that is aligned with the objectives of both the CVC itself and IVC syndicate partners.

From the resource-based point of view, the value-added capabilities make The Exemplar a suitable syndication partner for IVCs. On the other hand, the high predictability of The Exemplar results in low agency costs, which is also crucial factor from a motivation to syndicate point of view. In other words, according to both theoretical lenses, The Exemplar will be a sought after CVC to syndicate with.

5.2.2. The Backer

The Backer provides predictability equal to that of The Exemplar. Including strategic consistency, structural independence, and cooperative, non-conflictory behavior within the syndicate.

Contrary to The Exemplar, The Backer has no value-added capabilities that are significant to the investment at hand. Instead, The Backer is behaving even more similar to an IVC. They are strategically aligned with the syndicate with a financial focus, they are not disrupting the syndicate nor the portfolio company. As the name suggests, The Backer is primarily a source of capital, they are supportive investors who follow through on their investments, and are to be viewed as similarly predictable investment partners as IVCs.

The Backer, similarly to The Exemplar, is a desirable syndicate partner from an IVC point of view. The Backer fits the role of a passive investor in a syndicate. By not having any significant value-added capabilities that are complementary to those of the IVCs, The Backer cannot directly influence the development of the portfolio company like The Exemplar. It can, however, provide passive support by being a reliable source of capital.

From a resource-based point of view The Backer would not be a sought after syndicate partner since it does not possess unique value-added capabilities compared to the IVCs. However, the findings suggest that IVCs do not see the lack of these value-added capabilities as a "deal-breaker". As was detailed in the analysis, the most common opinion was that these capabilities are "nice-to-haves", but not "need-to-haves", since they can be acquired in other ways through the networks of the IVC investors. On the other hand, the The Backer's high level of predictability makes it a preferred syndicate partner by IVCs. This means that the agency considerations outweigh the importance of value-added capabilities, proving that syndication is highly affected by the agency theory perspective.

5.2.3. The Customer

The Customer is, as the name suggests, a potential acquirer in the future, but not a type of CVC that and IVC would want to include in their syndicate. The complementary value-added capabilities that The Customer possesses can be highly valuable for the portfolio companies

similarly to The Exemplar. However, the low level of predictability makes The Customer a difficult investment partner to deal with.

The low level of predictability of The Customer stems from several different factors. Firstly, The Customer has a strong strategic incentive to invest, financial returns are of secondary importance. Also, the strategic focus of the investments change frequently based on the strategy changes of the parent organization in which case The Customer tends to drop off in later investment rounds or become unsupportive of the portfolio firms that do not fit into the strategic focus of the parent company. Secondly, from a structure point of view, The Customer tends to be an internal CVC program. This means that they invest from the balance sheet, have less financial autonomy from their parent organization and usually staff their positions with people from corporate operational roles. (Asel, Park and Velamuri, 2015) Thirdly, when it comes to the governance of syndicates, The Customer tends to influence the development of the portfolio company according to its strategic incentives that might not be aligned with the financial incentives of the IVC syndicate partners. In case The Customer is the lead investor it might insist on certain investment terms, such as rights of first refusal, that would solely benefit its strategic objective and would potentially harm the development of the portfolio company down the road.

From a resource-based perspective The Customer would be a sought after syndicate partner by IVCs, since it possesses complementary value-added capabilities that the syndicate can benefit from. However, according to the findings, this is not necessarily the case. IVCs prefer having predictability to complementary value-added capabilities. This means that as long as syndication with The Customer resulted in too high agency costs due to the low level of predictability IVCs would prefer not to have the CVC as a syndicate partner and would try to get access to the value-added capabilities in different ways. From an IVC point of view the main question is that why would the syndicate be better off having the CVC that is unpredictable as a minority equity owner in the portfolio company instead of having them as a potential business partner/acquirer for the portfolio company down the road? The rationale behind this question is that even if the CVC has certain value-added capabilities that could benefit the portfolio company the IVCs still have the option to get access to those via commercial deals and other ways without having to include the CVC as an investor and bear the agency costs that come with it. The results suggest that IVCs prefer to have CVCs with low predictability and high value-added capabilities as

business partners or potential acquirers of their portfolio companies, hence the name The Customer.

5.2.4. The Tourist

The Tourist is, from an IVC point of view, the least favorable CVC syndicate partner. The low level of predictability and lack of significant value-added capabilities make The Tourist a suitable syndicate partner only in cases where there is severe need of capital in a financing round.

The Tourist tends to have a low level of predictability due to changing, strong strategic incentives; and a lack of structural independence from the parent company. Also, The Tourist does not have good track record and therefore its "staying power" in the VC industry is questionable which fact also decreases its predictability. Furthermore, The Tourist does not possess any value-added capabilities that the syndicate could benefit from and it is also likely to only take part in the venture capital industry when its parent company has excess capital on the balance sheet; something that usually aligns with ups and downs of the economy at large. This in turn means that CVCs of this profile are the ones largely contributing to the increase of CVC activity during good times and decrease during recessions, hence the name The Tourist.

As a result, The Tourist would not be a sought after syndicate partner from neither the resource-based view nor the agency theory perspective. The findings suggest that including The Tourist in a syndicate happens only in cases where IVCs have problem with the financing of a portfolio company and The Tourist serves a source of capital to make the financing round successful. Therefore syndication with The Tourist is not driven by the value-adding motive but purely by financial reasons. In this case the agency-costs stemming from including The Tourist in the syndicate are lower than the need for capital.

5.3. Conclusion

This study set out to investigate *How independent venture capital firms evaluate corporate venture capital arms as syndication partners.* The findings contribute to the limited literature on

IVC-CVC syndication. Previous research has shown that unique, complementary resources play a crucial role in motivation to syndication between IVCs and CVCs. However, the results suggest that the main consideration for IVCs when they evaluate CVCs as investment partners is predictability, with potential complementary assets only considered as beneficial once predictability can be guaranteed. According to the findings independent venture capitalists prefer to syndicate with corporate venture capital arms that are consistent with their investment thesis, independent from their parent organization structurally and have mainly financial incentives to invest. This is because all those factors create better strategic alignment of the investment partners and make the corporate venture capital arm more predictable. In other words, independent venture capitalists prefer to syndicate with CVCs that are structured and act more like IVCs, with the potential that they also can provide some complementary assets. Therefore the results suggest that agency considerations have a larger effect on syndication than seeking complementary value-added capabilities according to the resource-based view.

5.3.1. Future research

Based on these proposed results that future research should investigate how the different characteristics of CVCs, and the agency costs stemming from them, affect syndication between corporate venture capital arms and independent venture capital firms. As previously mentioned, some CVCs are becoming more and more like IVCs which is a trend that has been identified in both previous literature and was also highlighted several times in the empirical data. The proposition is that future research should investigate whether more predictable corporate venture programs, which belong to “The Exemplar” and “The Backer” profiles of the model, have a more central position in venture capital networks than the ones with lower predictability belonging to the “The Customer” and “The Tourist” profiles. Also, the predictability of corporate venture capital arms can have an effect on the performance of venture capital syndicates due to the negative effects of syndicate frictions between investing partners. Therefore comparing the performance of mixed syndicates with predictable CVC firms and unpredictable ones can be an interesting field of research in the future.

5.3.2. Managerial implications

The findings of this thesis have important managerial implications to both independent and corporate venture capitalists, as well as entrepreneurs who get funded by these investors. Based on the model IVCs can better judge CVCs by identifying which category their corporate counterpart belongs to and therefore avoid the potential agency costs stemming from syndicating with unsuitable investment partners. Corporate venture capital is still an evolving concept meaning that the practices of organizing a CVC program still vary greatly. The insight provided by this study into how IVCs evaluate CVCs can help established corporations to run their corporate venture arm in a way that makes them sought after syndicate partners. Lastly, entrepreneurs can benefit from the findings of this study by accepting capital from corporate investors whose objectives are more aligned with their IVC investment partners and therefore decrease the chances of syndicate frictions that can affect the portfolio firms' growth negatively.

The empirical problem of CVCs having controversial reputation among independent venture capitalists will most likely be present for the near future. However, as the best practices of corporate venture capital become more and more sophisticated and aligned with the preferences of IVCs the strong negative opinions similar to Fred Wilson's will surely disappear. Well-functioning mixed syndicates are essential for a more effective entrepreneurial finance ecosystem where different types of investors can help entrepreneurs to bring their innovations to the markets.

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7. Appendix

Appendix A

Investor	% of Total Deals
Kleiner Perkins Caufield & Byers	29%
Venrock	25%
Draper Fisher Jurvetson	25%
InterWest Partners	24%
True Ventures	24%
Polaris Partners	23%
Atlas Venture	23%
RRE Ventures	22%
First Round Capital	21%
Greylock Partners	21%
Andreessen Horowitz	21%
New Enterprise Associates	20%
Accel Partners	20%
Khosla Ventures	19%
SV Angel	18%
Bessemer Venture Partners	18%
Lerer Hippeau Ventures	16%
Sequoia Capital	16%
General Catalyst Partners	15%
500 Startups	10%

Source: CB Insights Available at: https://www.cbinsights.com/research/top-venture-capital-corporate-syndicate/

Appendix B

Part 1: General questions about VC experience:

Please tell us about your venture capital investing experience and a bit more specifically about the experience you have with VC syndications?

Part 2:

How do IVC managers view the problem of evaluating the added value vs the potential conflicts of the CVC syndicate partners?

- Strategic vs financial only incentives
    - strategic incentives' influence on their attractiveness as partners?
- Complementary assets
- Structure of CVCs
    - Parent company as only LP
        - CFO Mercy
        - Balance sheet investment
        - Economic cycles
    - Staff competence/compensation
        - 2nd tier managers
        - Non-performance based salary
    - Fund life
        - Are CVCs more patient due to 'unlimited' fund life?
        - Potential conflict with IVC fund cycles
- Governing of mixed syndicates
    - IVC vs CVC leading
    - Red flags in term sheets provided by CVCs (rights of first refusal, other contractual terms)
    - Keeping CVC stake/influence as low as possible?
- Reputation of CVCs
    - Second opinion value in due diligence?
    - Legitimacy provided by having CVC in the syndicate
    - Track record of CVC

- CVCs position in VC networks?
- Suitable syndicate partners by firm stage? The later the better?

Part 3

CVC impact on VC industry

Ranking of the most important factors when it comes to evaluating CVCs as syndicate partners from an IVC point of view?