Venture capital managers affect firms' success, study finds

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(PhysOrg.com) -- Corporate venture capital investment strategies, goals and outcomes vary greatly depending on the background of the investment manager, a new University of California, Davis, study shows.

In an analysis of the corporate venture capital units of 93 U.S.-based information technology firms, UC Davis researchers found that if managers had private venture capital backgrounds, they tended to invest in start-ups with high-growth prospects — and had less regard for the start-ups' technological or strategic "fit" with the corporate parent.

On the other hand, if managers came from inside the corporate parent, or had a strong technical background themselves, they tended to invest in start-ups that could fill a strategic need of the larger corporation.

The finding affirms that the experiences of the people who work for an organization shape its functions in important ways — and that this is true not just at the top.

"It is widely understood that the leaders of corporations have strong effects on the organizations, but we show that individuals at lower levels can also affect the way organizational practices are conducted," said Gina Dokko, an assistant professor at the UC Davis Graduate School of Management and co-author of the study.

The new paper, "Venturing into New Territory: Career Experiences of Corporate Venture Capital Managers and Practice Variation," is scheduled to be published in the June 2012 issue of *Academy of Management Journal*. It is co-authored by Vibha Gaba, an assistant professor at INSEAD, an international business school.

Starting in the 1990s, many large U.S. companies started setting up in-house investment units. Doing so enabled corporations to gain a stake in promising start-ups, which have the potential not only to make money but also to give the larger corporation access to important new technologies, patents and intellectual property.

By 2001, more than 300 U.S. firms had established corporate venture capital units. The corporate share of venture capital rose from 2 percent in 1994 to 17 percent at its peak in 2000. In the years 2002-2006, the share leveled off at 6 to 8 percent.

But the way venture capital units function varies widely, Dokko and Gaba found.

“What we saw is that corporate venture capital managers with an independent venture capital background are more oriented toward financial goals,” Dokko said. “We also found that they are more likely to make investments in earlier stage start-ups. They tend to be less focused about the industries they invest in. They're just looking for something that appears very promising.”

Those with technology backgrounds, however, showed a different investment pattern.

“Managers who came to the job with technology backgrounds or from within the corporation tended to invest in a narrower range of start-ups, typically with a technological orientation that could help the larger firm,” the researchers wrote.

Using corporate websites, LinkedIn, and other sources, the researchers determined the career backgrounds of the 311 corporate venture capital/investment managers at the 93 U.S.-based information technology firms they studied — whether they had worked for independent venture capital firms, or had been hired from within the corporation or had technical backgrounds.

Using venture capital databases, the researchers then determined the approach of the units to the timing and industry focus of investment, as well as their orientation toward financial or strategic goals. Through statistical analyses, the researchers were able to determine how the backgrounds of the managers affected the approaches and goals of the venture capital units.

More information: An abstract of the paper can be found at: papers.ssrn.com/sol3/papers.cf … ?abstract_id=1969861 (select one-click download box, and download with id or download anonymously).

Provided by UC Davis

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