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CORPORATE VENTURE CAPITAL AS A REAL OPTION: A DYAD-LEVEL ANALYSIS OF THE EVOLVEMENT OF INTER-FIRM TIES (SUMMARY)

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SUMMARY

CORPORATE VENTURE CAPITAL AS A REAL OPTION:
A DYAD-LEVEL ANALYSIS OF THE EVOLVEMENT OF INTER-FIRM TIES

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Principal Topic

This paper discusses how a corporate venture capital investment might be the first step towards a more intense form of collaboration with the portfolio firm. CVC investments are small equity investments, made by incumbent firms, in young, entrepreneurial firms. Pursuing these types of investments allows the innovating firm to create a portfolio of different options while waiting until the technological and commercial opportunities about the technology have become clear. If the technology turns out to be promising, a follow-on investment is likely to take the form of a more intense type of collaboration, for instance through a strategic alliance or acquisition of the venture. In this paper we investigate when CVC investments evolve into a more intense form of collaboration between the two firms. We develop our arguments around a number of possible determinants. Our hypotheses predict that the likelihood of a follow-on investment in the form of a more intense type of collaboration depends on dyad-level characteristics such as the stage of investment, the number of investment rounds the firm participates in, the size of the investment, the share in the portfolio firm vis-à-vis co-investors, and the technological distance and geographical/cultural differences (same economic block) between the investor and the portfolio firm.

Method

To examine the likelihood that a CVC investment evolves into a more intense form of collaboration, we use a sample of all CVC investments, strategic alliances, and M&As entered by the 150 largest companies in the pharmaceutical industry. The dataset was compiled from various data sources, including VentureXpert, Thomson ONE Banker, and the MERIT-CATI database. Based on this dataset, we perform a dyad-level analysis of the relationships between a corporate investor and the portfolio firm.

Implications

The empirical results of the paper indicate when established companies in the pharmaceutical sector are inclined to establish strategic alliances with companies they have previously invested in through corporate venturing investments. Similarly, when are investing companies acquiring (spinning-in) these small companies they invested in before? CVC investments as early, small investments can be regarded as a way to create options to in-source technology through strategic alliances or M&As.

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