CORPORATE VENTURE CAPITAL INVESTMENTS: THE OPTION TO PARTNER (SUMMARY)

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Recommended Citation
Wadhwa, Anu (2008) "CORPORATE VENTURE CAPITAL INVESTMENTS: THE OPTION TO PARTNER (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 28: Iss. 19, Article 17. Available at: http://digitalknowledge.babson.edu/fer/vol28/iss19/17

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SUMMARY

CORPORATE VENTURE CAPITAL INVESTMENTS: THE OPTION TO PARTNER

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Principal Topic

Uncertainty and complexity are hallmarks of many technological landscapes today. In such dynamic environments, corporate venture capital (CVC) investment has been embraced by leading corporations as a strategic tool to learn about external new technologies, markets and business models. CVC investments have been characterized as the “creation of a real option” by established firms. Taking a real options view of venture capital investments made by established corporations in entrepreneurial ventures, we argue that established corporations exercise the options created via the initial CVC investment by forming strategic alliances with ventures they invest in. In this paper we highlight the impact of uncertainty and investor capabilities on corporate investors’ decision to exercise the options inherent in their CVC investments in new ventures.

Methods

We argue that different types of CVC-investment specific uncertainty and investor capabilities influence the likelihood of formation of strategic alliances between investor firms and startups. In particular, we hypothesize that the likelihood of post-investment alliance formation is negatively impacted by the new venture’s technical and lifecycle uncertainty, and is positively impacted by competitive uncertainty surrounding the investment. We further hypothesize that these relationships are moderated by investor specific capabilities.

Our hypotheses are empirically examined in the context of CVC investments made by established firms in the telecommunications equipment industry during 1995-1999. Using venture investment data, a dataset of more than 280 “corporate investor - new venture” dyads has been constructed to test the conditions under which established corporations convert their CVC investments into strategic alliances.

Results and Implications

We find support for most of our hypotheses. This study contributes to the literature on CVC investments by exploring corporate investor decision-making after the first CVC investment in a new venture through a real options lens. We bring in the role of firm heterogeneity into real options reasoning and highlight the role of investor capabilities in overcoming investment-specific uncertainty, which technically lies outside the boundaries of the investing firm, but may be resolved partially by the actions of that firm. Our results yield useful insights for practitioners in large corporations about when their own capabilities can be used as a tool in reducing some of the uncertainty related to their CVC investments.

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