PROMOTING DE FACTO STANDARDS THROUGH CORPORATE VENTURE CAPITAL (CVC) INVESTMENTS: FROM THE PERSPECTIVE OF AGENCY THEORY (INTERACTIVE PAPER)

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INTERACTIVE PAPER

PROMOTING DE FACTO STANDARDS THROUGH CORPORATE VENTURE CAPITAL (CVC) INVESTMENTS: FROM THE PERSPECTIVE OF AGENCY THEORY

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Principal Topic

A number of big corporations have strategized to establish *de facto* standards using CVC investments (Keil, 2000). Through CVC investments in technological startups, the large player may construct an ecosystem which provides compatibility across products within the system and thus supplies significant network externality (Besen & Farrell, 1994). However, in the standard-setting process, it is uncertain which one of the competing technologies will become the dominant standard. To avoid being technologically locked out (Schilling 1998), startups may conduct some agency behaviors, for example, developing products on competing technologies after receiving CVC investments. Thus, the research question in the study is what factors may predict portfolio companies’ agency behaviors in a standard-setting process through CVC investments? We hypothesize that market dominance has a negative relationship with the occurrence of portfolio company’s agency behaviors. In addition, corporate investors may employ several mechanisms to further control agency behaviors including additional financial investments, intensive technological supports, and board representation in their portfolio companies.

Methods

We first constructed a list of corporations that established *de facto* standards in the history. Then, for each corporation, we identified its CVC investment relationships during the period of 1990-2004. If a portfolio company formed partnership with competing technologies after receiving the first CVC investment, we coded this event as an occurrence of agency behavior. Based on Market Share Reporter, a dichotomous variable was created to indicate whether technologies were dominant in the market. Additional financial investments were measured by a count of successive investments after the first one. Intensity of technology support was measured by whether a portfolio company formed R&D alliance with its corporate investor.

Results and Implications

The finding of our study first adds to the CVC research by examining one of the major strategic objectives associated with CVC activities – promoting de facto technology standards. We also contribute to the technology standard studies as we provide a contingency view on how to control agency problems in the standard-setting process. In addition, the finding also has practical implication to the parent companies of CVC investments, especially those attempting to promote their technology standards through CVC investments.

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