

Corporate venture capital in Germany: A comparative analysis of 2000 and 2003

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Abstract

Established corporations are often at a disadvantage vis à vis technology-based entrepreneurial firms when it comes to generating and adapting to radical technological and business-model innovation. Consequently, industrial corporations increasingly wanted to participate in the financial or strategic success of start-ups. The tool of choice for many corporations was Corporate Venture Capital (CVC). CVC had already seen two waves of popularity in the USA when it was introduced in Germany in the early 1990s. This development is often assumed to have come to a halt in 2001, when so-called ‘New Economy’ spiraled into decline.

This paper analyzes central attributes of strategy, investment and organization of the CVC units active in Germany in 2000 and 2003. We find evidence for a continuation of strong CVC activity in Germany. We differentiate between CVC units that were a) active at both points in time, i.e. ‘survivors’ b) those that have closed down since 2000, i.e. ‘losers’ and c) those that were founded after 2000, ‘new entrants’. The comparison of the characteristics allows us to make inferences for the use of CVC.

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1. Motivation, definition and background

The principal concern of this paper is Corporate Venture Capital (CVC)—defined as the provision of Venture Capital (VC) by corporations. Based on the analysis of recent developments in Germany, we seek to gain insight into the strategic and organizational characteristics that distinguish CVC units

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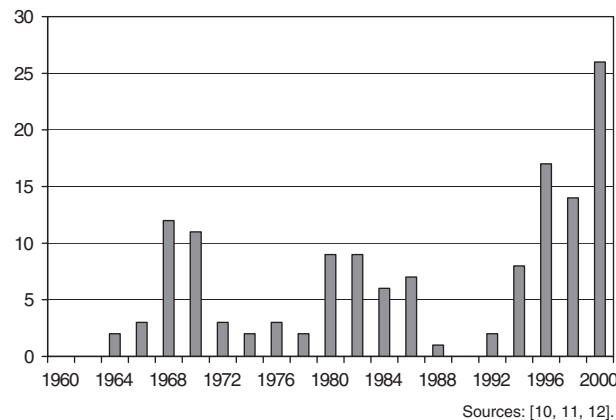


Fig. 1. Formation of CVC units by US Fortune 100 companies per year, 1960–2000.

that either were continuously active throughout an economic downturn—or founded despite of it—from those that were closed down prematurely. The following sections give a brief introduction to the historical background of CVC, the motivation and empirical basis for our research.

1.1. Historical perspective

The first VC fund was set up in Boston as early as 1946. After the success of VC-backed firms such as Digital Equipment Corporation, Memorex and Raychem, corporations started to engage in Venture Capital themselves in the late 1960s. This first wave ended with the oil price shock in 1973 and a subsequent focus on short-term profitability. It was followed by a second wave of activity in the 1980s that was induced by tax and investment law changes. Several successfully VC-backed initial public offerings (IPOs) of companies such as Apple, Inc. or Genentech, the deregulation of key industries and advances in computer science, medical technology and genetics further contributed to a wave of CVC activity. By 1986, CVC investments amounted to 12% of the entire VC sector in the US. This trend was reversed by the stock market crash of 1987. By 1992, the number of CVC units had decreased again by two thirds, the remaining units commanded only 5% of the sector. In 1992, a new boom of VC and CVC activity set in the US, fuelled by successful IPOs of Internet-related VC-backed firms such as Netscape, AOL, Yahoo and Ebay. The VC sector reached record figures of an average annualized return of 140% in 1997. The influx of capital into the VC sector helped start new technology-based firms that undermined the competitive position of the incumbents [1,2].

A changing competitive landscape and radical innovations have forced established corporations to look for novel ways to lastingly increase their success. All the more so because several of the innovations that were commercialized by VC-backed start-ups originated in the research laboratories of established corporations.¹ The highly publicized example of Xerox illuminates this: scientists at Xerox' Palo Alto Research Center (PARC) in fact invented the laser printer, the computer mouse and the

¹ This is the more remarkable as the total amount of VC investments is marginal compared to the overall R&D-expenditures of established corporations [3].

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