

# **Venture Capital and Corporate Governance**

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## **Abstract**

In this report we set out to gain new insights into corporate governance in venture capital. First, we introduce the topic by discussing the main terms and general operating logic of venture capital. We then dive into theory and previous studies done on the role of corporate governance in venture capital. We split our focus between two distinct forms of venture capital, external venture capital funds and corporate venture capital. Lastly, we contrast the theoretical view with the practical situation by conducting a case study on both a venture capital fund and a corporate venture capital-engaged corporation. We conclude with our findings: Our venture capital case company (Maki VC) utilizes financial contracts just as our theory would suggest. The company creates monitoring and control environments through for example holding board seats in its venture investments as well as redrafting the shareholders agreement to include vesting periods for core human capital assets among other governance practices that theory would also suggest. We also found some discrepancies present in the Finnish VC scene and Maki specifically. Our corporate venture capital case company Bayer's practices correspond with two findings in Anokhin et al. (2016). Firstly, the paper found a positive correlation between the ratio of board members holding multiple mandates and the firm's CVC activity. Secondly, the paper observed a positive relationship between the board equity ownership when combined with high tolerance for risky investments and the firm's CVC activity. Both links were present in our case company Bayer's CVC practices. From a bundle perspective, we see that the governance bundles employed by our case companies epitomize said forms of venture capital, and highlight the different approaches often underlining VC and CVC activity.

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## **1. Introduction**

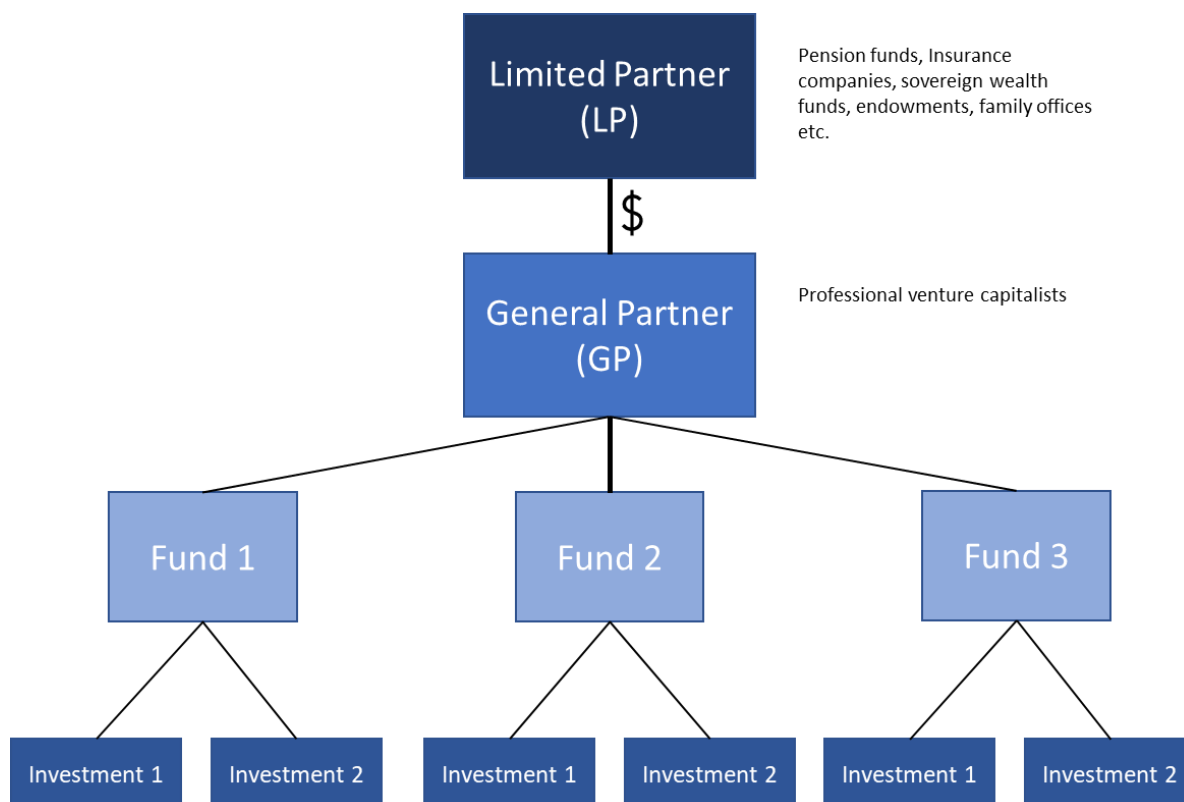
In this report we critically evaluate the relationships between corporate governance and two distinct forms of venture capital, internal corporate venture capital (CVC) and external classical venture capital (VC). Our study employs the case study method where we look at two case companies, one for each form of venture capital. We set out to find determinants and/or dependencies between venture capital as a form of ownership and the corporate governance practices applied.

Key research questions to guide our task are: 1) How do different governance factors affect venture capital fund characteristics, actions taken, and the relationships between the investor and the entrepreneur(s)? and 2) How do existing corporate governance structures affect the corporate venture capital practices of a firm? First, we introduce the topic and give a general background on theory and practice related to venture capital at large, and more specifically CVC and VC. We then establish the theoretical framework for our study. We look at select well-cited research papers to guide us and give us context on factors to evaluate in our case companies. We then present our case companies: Maki (VC) and Bayer (CVC) and evaluate their venturing practices through our selected lens and evaluate their practices in light of our presented theoretical context.

## **2. Background**

### **2.1 Introduction to Venture Capital**

Venture capital is a form of private equity financing provided usually to start-up and growth companies in exchange for equity in the firm. Venture capital operates on the logic that although single investments might be very risky, the small chance of outsized returns is enough to make the risk-return relationship attractive. Venture capital can roughly be divided into stages based on the growth stage of the company receiving the investment. The established stages of a venture capital investment are pre-seed, seed, and early-stage investments. Early-stage investments are further divided into funding rounds coined series A, series B, and series C. Venture capital operates through a limited partnership structure illustrated in Figure 1.



*Figure 1 Venture Capital Fund Structure*

Limited partners (LPs) provide capital to general partners (GPs) who act as capital allocators and invest said capital through funds. Particular funds might have certain focus areas such as a certain part of a company's life cycle and/or a specific industry or sector focus. In addition to providing day-to-day management of the investments, venture capital GPs often provide their knowledge and expertise to the companies they have invested in through their funds. Venture capital is argued to have an essential role in economic development through enabling the development and commercialization of emerging technologies and ideas, and the establishing of new firms that otherwise would not be conceived. The presence of venture capital has been shown to elicit positive effects on the establishment of new firms, employment, and aggregate income (Samila and Sorenson, 2011).

## **2.2 Corporate Venture Capital**

Corporate venture capital can be seen as a subset of venture capital. CVC is essentially the investment of corporate funds into external companies with similar characteristics as previously mentioned regarding traditional venture capital: early-stage or start-up companies. The motive for a corporation to engage in this kind of practice is to gain a specific competitive advantage through innovation and/or commercialization of a new product or service. Corporate

venturing is setting up structural collaborations with external parties to drive mutual growth. It is said to be clearer to explain CVC by explaining what it is not. Investments made through an external fund managed by third party GPs is not CVC (Chesbrough, 2002).

Chesbrough (2002) identifies four types of CVC investments: driving, enabling, emergent and passive. They differ in their links to the investor's operational capabilities and the balance between strategic and financial objectives, which form the basis of the classification. Driving investments have a strong strategic objective and strong links to the current operational capabilities of the investing company and are meant to advance the current business strategy of the investor. Enabling investments have likewise strong strategic objective but loose links to the operational capabilities of the investor. These investments do not directly advance the business strategy but complement it. Emergent investments have a weaker strategic and stronger financial objective and strong links to investor's operational capabilities. These investments allow the exploration of new business opportunities and therefore in best case they yield both a financial return and strategic synergies. Passive investments have no strategic objectives at all and are therefore a misuse of corporate funds as there is no evidence that corporations would be efficient investors for example due to their superior knowledge. (Chesbrough, 2002)

According to Maula et al. (2005), CVC and traditional venture capital add value to their portfolio firms in different ways. Traditional VC is described as providing "enterprise nurturing" value which means for example professionalizing the organization, recruiting important employees, getting more financing and so on. Corporate venture capital is described as adding value by "commerce building" which is more directly related to growth than the "enterprise nurturing". This means for example providing technological advice and attracting foreign customers.

### **3. Literature review**

#### **3.1 Open System Approach**

As our theoretical framework and lens through which we examine our topic we will use Aguilera et. al. (2008)'s organizational open systems approach which looks at governance practices in the form of costs, contingencies, and complementarities. The open systems perspective refers to the fact that different corporate governance practice's effectiveness is

dependent on the context of the organizational environment, and the factors cannot be considered in a vacuum/outside of their context.

### **3.2 Corporate Governance in Venture Capital**

The relationship between a venture capitalist and an entrepreneur is sometimes cited as the relationship most closely resembling the theoretical investor and firm relationship (Kaplan and Strömberg, 2003). Financial contracts are seen as solutions to conflicts of interest between investors and entrepreneurs. As predicted by basic principal-agency theory, the entrepreneur might not be incentivized to choose the firm value maximizing choice since he/she does not receive all the benefits that follow. The investor then, to maximize firm value, tries to align the incentives of the entrepreneur with his/her own by utilizing financial contracts. Financial contracts are one of the main explicit forms of corporate governance employed in venture capital.

Kaplan and Strömberg (2003) find that VC-related financial contracts allow the venture capitalists to separately allocate cash flow rights, voting rights, board rights, liquidation rights among various other control rights. Cash flow rights are often contingent on subsequent performance (performance vesting) or remaining with the company (time vesting). In Kaplan and Strömberg's (2003) study VCs were found to control on average half of the cash flow rights of the entrepreneur's company. Founders controlled on average around 30%.

Voting rights measure the percentage of votes that a party has to have to enact corporate decisions. Most decisions are based on majority rule. Kaplan and Strömberg found VCs to hold majority voting rights in roughly 56% of the rather extensive sample they studied. The share of companies with VC voting majority varies significantly based on the stage of financing in question with VCs being more likely to hold majority voting share during pre-revenue financing rounds. VCs were less likely to hold majority voting share during first investment rounds compared to subsequent investment rounds.

Although closely related to voting rights, board rights and board seats are another way for VCs to enact control on the companies they invest in. Kaplan and Strömberg (2003) found boards to hold a median of 6 board seats, much less than the same figure in public firms. VCs had a majority of the board seats in 26% of the companies in the sample. This shows that VCs are less likely to have board rights compared to voting rights. VC board rights and board control are generally stronger in investments made to later stage companies.

Liquidation rights refer to the investor's ability to liquidate the firm's assets to ensure payment in case it is otherwise not feasible. VCs have liquidation claims that are senior to common stock that is held by the founders and other non-VC entities. Interestingly VCs claims in liquidations are often larger than the original investment. In Kaplan and Strömberg's (2003) study that was the case in 98% of the financings. Optional redemption and put provisions are also common in these financings as ways to strengthen the liquidation rights of the VCs (Kaplan and Strömberg, 2003).

The aforementioned internal risks are something that as said, financial contract theory has clear predictions for. External risks on the other hand are something financial contract theory has ambiguous predictions for. Traditional moral hazard theories like the one presented by Holmström (1979) predicts that when risks are external and not controllable by the entrepreneur, performance contingent compensation are less desirable since a risk averse entrepreneur wants to be compensated for taking on the external risk. Other theories such as Prendergast's (2002), predict that performance contingent pay should instead increase as external uncertainty makes monitoring more difficult.

Kaplan and Strömberg (2004) use investment analyses to measure actions that VCs commonly took before investing and expected to undertake afterward. These actions were further classified into intervening and supporting actions. In more than half of the sample of investments the VCs expected to play a role in recruiting management for the firm or engage in some other action that the entrepreneur would probably view as a conflict. This phenomenon's likelihood increased as the VC's level of control increases. VCs also often expect to provide value-add services to the firms they have invested in. This was the case in over one-third of the investment sample analysed by Kaplan and Strömberg (2004). These value-add services include actions such as strategic advice or customer introductions to name a few. VC's value-add services increase as the VC's equity stake increases are not found to be related to VC level of control (Kaplan and Strömberg, 2004).

### **3.3 Corporate Governance in Corporate Venture Capital**

In this section we will draw on findings of the previous section regarding corporate governance in venture capital as a whole. We will focus on differences brought on by the corporate aspect of CVC and look at other CVC specific aspects of corporate governance.

Although much of the literature regarding CVC seems to focus on the positives a corporate can add to the VC equation, the literature regarding CVC also brings up various drawbacks.



For example, the literature examines what drawbacks might surface when ventures bring on corporate capital and form tight links with a particular corporate investor. Park and Steensma (2011) find that CVC investments may constrain ventures from accessing complementary assets through the open market. This phenomenon is brought forward by a form of opportunism from the corporate investor as they are hesitant to share the potential proprietary knowledge generated inside the venture. The hybrid nature of CVC incorporating both characteristics of a rigid corporate culture as well as start-up culture also brings its own problems. Taking this trade-off into account, Park and Steensma (2011) look for conditions under which CVC investments prove beneficial to ventures. They look at a sample of computer, semiconductor, and wireless ventures and find that CVC funding is especially beneficial for ventures engaged in fields where one requires very specific assets in the form of specific knowledge, intellectual property, physical assets etc. They also find CVC to be especially beneficial in uncertain operating environments. So, although corporate venturing has its drawbacks compared to just plain old venture capital, it seems to have its place in the field. Next, we shall look more closely at governance in the context of CVC.

Anokhin et al. (2016) conducted a study where they investigated how governance factors affect the corporate venture capital activities of a firm. A number of hypotheses concerning the relationship between CVC activities and corporate governance factors were constructed and empirically tested. The conclusion was that there is a correlation between some corporate governance factors and CVC activity.

The hypotheses were as follows. The first two hypotheses (H1a, H1b) deal with board composition and state that the board ratio of directors with multiple board mandates and the ratio of outside directors, respectively, correlates positively with CVC activities. The second hypothesis (H2) states that CEO duality, that is CEO being also the chair of the board, has a negative relationship with CVC activities. The third hypothesis (H3) suggests that the ratio of equity pay of the CEO correlates negatively with CVC activities. The fourth hypothesis (H4) states that CEO tenure has a negative association with CVC activities, suggesting that CEOs who have been in the position longer, tend to be more risk averse. The fifth hypothesis (H5) states that ownership of the firm by institutional investors correlates negatively with CVC activities. The sixth hypothesis (H6) is that board equity ownership and CVC activities correlate positively. The last two hypotheses deal with corporate risk tolerance level moderating some of the previously hypothesized correlations. They posit that risk tolerance positively moderates the correlation between board equity ownership and CVC (H7a) activities

and negatively moderates the correlation between institutional ownership and CVC activities (H7b). (Anokhin et al., 2016)

These hypotheses were tested empirically using data from years 1998-2001 and included 153 corporations. CVC activity of a corporation was measured by the number of ventures the corporation supported. The following hypotheses were supported by the analysis: H1a, H2, H5 and H7a. Therefore, the governance factors associated with CVC activities are ratio of board members with multiple mandates, CEO duality and institutional ownership. It was found that boards with higher equity ownership and higher firm risk tolerance had higher CVC activity (H7a). However, in absence of this high-risk level, board equity ownership (H6) was not supported.

In conclusion, these results show that governance factors are correlated with CVC activities. However, whether some or all of these correlations are truly causal or caused by some other factors, being so-called spurious correlations, is an open question. That is, for example, does board members having multiple mandates lead to higher CVC activities or do firms with high CVC activities tend to nominate board members with multiple mandates for some reason? Hemalin and Weisbach (2003) in their paper on boards of directors, which deals also with these challenges in empirical research, describe these interpretations as either out-of-equilibrium or in-equilibrium. An in-equilibrium interpretation refers to a spurious correlation caused by some other factor whereas an out-of-equilibrium interpretation would mean that the causation is real. As stated before, it is often unclear which is the correct way to interpret the results.

## **4. Case Study**

Our case study aims to shine a light on the role of corporate governance in traditional venture capital managed through external funds and corporate venture capital. We evaluate this through the previously presented theoretical background and literature review as our lens. Our case companies were chosen based on factors such as their geographical presence, role as established players, and to an extent the availability of information regarding their employed venturing practices.

### **4.1 Maki VC**

Maki VC is a Finnish venture capital fund of moderate size that invests in deep tech and distinctive brands with an initial investment ranging from 200k EUR to 3m EUR. The

investments include Pre-seed, Seed, and Series A+ funding rounds. Maki manages currently 180 million EUR in assets, and on their website the Fund discloses taking part in at least 38 investments, 11 of which were Series A+ funding rounds.

Maki's portfolio includes many firms from the Nordics, but the fund also has presence in Germany, France, the UK, and US. What makes Maki special in the VC fund field, is their focus, understanding and interest towards strong brands in addition to the deep tech solutions of the firms. The fund describes that a strong brand dares to differentiate and break conventions. They have potential to become category-defining and defensible brands by applying their clear value proposition rigorously across all touchpoints. This means that a strong brand has the capability of communicating their value propositions clearly to the customers across their whole business. From a technology perspective, the Fund looks for businesses with technologies that challenge category norms within their specific industries and have a long-term disrupting effect within the industry.

This brand-driven approach, accompanied with the focus on deep technology, gives Maki and its portfolio companies important advantages in differentiation and market disruption capabilities. Maki has a clear focus it has built its expertise around to be able to provide the ventures it invests a unique value proposition. Recent successful funding rounds include the a €11M Series A round to Spinnova Oy in 2018, a fibre tech company, which later went public.

As mentioned in chapter 3.2., most commonly the governance of the entrepreneurs is exercised via financial contracts, that tie the core team into the company's performance. Depending on the company's maturity, Maki might try to tie the ownership by time vesting a significant part of the stock of the entrepreneurs for a specific period. Vested stocks are tied by certain "Good- and Bad Leaver" terms which are exercised when the entrepreneur leaves the operational activities of the firm e.g., an exit (Good Leaver) or termination (usually Bad Leaver). SHAs without any core team vesting terms are not secure from the VCs perspective as they are vulnerable to the loss of core team skills and passivation of a significant part of the cap table (owner mix). Especially in the initial VC funding round, VCs tend to demand the redrafting of the Shareholders agreement as part of the overall investment terms.

Defining the ownership of Maki VC in each funding round is challenging because the data is not publicly available. However, with the findings of Kaplan and Strömberg (2003), we can presume that in more mature funding rounds, Maki could aim towards an ownership of +50%. By analysing the earlier rounds, such as the Pre-Seed funding rounds, that Maki has

participated in the past two years we find that the mean of the Pre-Seed rounds is 958k EUR. By diving further into the Pre-Seed portfolio, we find that the Pre-Seed firms should not be valued that high during the round and thus, Maki's ownership should be comparably high.

Alvar Pet Oy, a Maki's portfolio company had 200k EUR revenue and -700k net income during the time of Maki's 1M funding round in 2020. Based on their financials alone, the company would have had a difficult time to convince a VC about their

significant growth especially in a consumer oriented, physical product, such as the dog food that Alvar Pet sells. By analysing the findings of Kaplan and Strömberg (2003) and the investment approach of Maki VC, we estimate that Maki is capable of negotiating a higher initial ownership from the typical ownership range of 15-30%.

Maki also provides clear value-add services to its portfolio companies for example through its deep expertise in its focus area and through its connections. This works essentially as a binding agent between the venture and the VC investor through mutual benefit to one another. In this context the Board seats become an integral part of the power structure within a small company. We consulted members of Finnish Business Angels Network (FiBAN), who work closely with entrepreneurs in non-VC Pre-Seed and Seed rounds as Angel investors. FiBAN investors tend to work actively in boards and prepare the companies for further VC funded rounds if necessary. Their insights supported the findings of Kaplan and Strömberg (2003) regarding financial contracts and liquidation rights specifically.

Determining specific liquidation rights in the SHA is an efficient method for the VCs to ensure the liquidation of their ownership from the company. Usually VCs demand priority liquidation rights, meaning that their stock is sold over any other shareholder, after any liabilities have been taken care of. Founders and the core team can also be tied to work for the company after the exit. Usually this means the limitation of stock sales until specific terms have been filled. Therefore, one could describe this liquidation priority as follows: 1. Creditors, 2. VC, 3. Individual investors, 4. Founders & Core Team

We also found that in Finnish VC scene, the Board seats have significantly higher weight in ability to affect decisions in start-ups. The Board seats are especially important for a VC, which has expertise in value-adding services and brand-driven growth as they can influence the operative leadership and define strategic goals based on their proficient experience. More specifically, the brand value and matters affecting its growth are not decided in General Meetings, so these decisions are usually handled by the board. SHA related limitations can also

be included in the context of board decisions. A common board related limitation is the need for majority shareholder approval to raise large loans or larger strategic shifts in operations. Requiring the approval of majority shareholders is an effective form of control and regulates the use of funds and risk-taking of entrepreneurs, especially in large investments. This unique order of approval can be a very effective mode of governance for VCs that want the funds to be used in a specific way, such as brand-driven approach of Maki.

In conclusion, Maki VC has a unique approach to sourcing portfolio companies and an investment strategy that offers the portfolio company proficient tools for brand growth and the VC greater access to the portfolio Company, via a larger ownership and Board seats within the company. Findings of Kaplan and Strömberg (2003) can be seen in the actions of Maki VC, especially in the financial contracts and liquidation perspectives.

## **4.2 Bayer**

Our CVC case company Bayer employs a CVC strategy with its strategic investment unit “Leaps by Bayer” (Leaps). Leaps’ mission is to invest in breakthrough technologies and disruptive business models. Leaps was established in 2015 and currently operates a portfolio of over 50 companies. Since 2015 Leaps has invested over 1.5bn USD in its ventures.

Leaps’ specific investment focus is on early-stage innovation in the life sciences sector, with an aim to advance prevention and cure for chronic diseases with breakthrough medicines in healthcare and create a sustainable and nutritious food supply by developing disruptive technologies in agriculture. More specifically, Leaps has articulated ‘the ten leaps’ representing ten global challenges that Leaps aims to tackle through investing in and catalyzing transformative biotechnologies and digital solutions. Even though each Leap starts with a very low probability of success due to the high risk associated with technological failure, Leaps believes achieving any of these leaps could fundamentally change the world for the better.

The scale of Leaps’ mission requires significant and sustained investment of both capital and time. Leaps uses minority equity to found new companies and invest in existing start-ups, specifically focusing on medium-to-large equity investments over a minimum of three to five years. Through this investment approach, Leaps by Bayer can provide significant early-stage funding, thus enabling companies to focus on the long-term delivery of their disruptive technology, rather than short-term and lower impact results. Through each investment, Leaps aims to form targeted collaboration with new venture and facilitate their growth through a process of ‘active incubation’. In practice, Leaps firstly enables the exchange of proprietary

assets, which mandates the sharing of Bayer's own patents and access to the Bayer network of technical capabilities and expertise. Secondly, Leaps makes sure that all the companies they partner with remain autonomous with respect to decision-making. Lastly, the active incubation process entails an active engagement of Bayer's experienced team members in the young companies' development by providing resources and helping them to steer the initial strategic direction.

Motivated by findings highlighted in the study of Anokhin et al. (2016) on how governance factors affect the corporate venture capital activities of a firm, we aim to reflect the same characteristics of Bayer's corporate governance on Leaps' (their CVC) activity. More specifically, this paper investigates the relationship of the governance factors with Leaps' activity, namely the ratio of board members with multiple mandates, CEO duality, institutional ownership, and board equity ownership with a high risk tolerance profile.

Our study has been able to find the links of two findings in Anokhin et al. (2016) with the observed characteristics of the corporate governance system at Bayer. Firstly, this paper found a positive correlation between the ratio of board members holding multiple mandates and the firm's CVC activity. Assessing the level of CVC activity at Leaps (50+ investments, >1.5bn USD invested), we can argue that Leaps shares the characteristic of high CVC activity. After understanding the high level of CVC activity, this study proceeds to assess the ratio of board members holding multiple mandates. Assessment of the resume of the current supervisory board shows that 14/20 board members do hold memberships in multiple supervisory boards in multiple other corporations. Therefore, this observation is congruent with the positive relationship between the ratio of board members holding multiple mandates and the CVC activity found in Anokhin et al. (2016)'s study. However, as discussed in Chapter 3.2, the interpretation of this observation can be highly subject to spurious correlations. Hence, it is of great importance to make a clear distinctive difference between whether board members having multiple mandates, in fact, lead to higher CVC activities at Leaps, or whether Bayer with an aim to drive high CVC activities tend to nominate board members with multiple mandates.

Secondly, this paper observed a positive relationship between the board equity ownership when combined with high tolerance for risky investments and the firm's CVC activity. As Leaps is focusing on seed- or early-stage interests, the investments made can be considered risky, especially when Leaps' ventures entail high risk of technological failure. Through the study of Bayer's current board remuneration plan, this paper found out that there has been

increase in share ownership guidelines for outside board members, from 75% to 100% of the total base salary. Therefore, tying in the two observations relating the increase in board equity ownership and high risk profile, this paper argues that there is an indication of motivating the engaged board to seek out new technology breakthroughs, which in return accelerates Leap's CVC activity.

## **5. Comparative Analysis of Governance Bundles in VC and CVC**

Relating to the previously presented concept of an open system approach to analysing and evaluating corporate governance practices, we now present the concept of bundles as it relates to corporate governance and compare the bundles of governance practices present in the two forms of venture capital we analysed through our case companies. A corporate governance bundle is the interrelated system of different governance practices that make up a company's corporate governance.

The differences between VC and CVC start from the different motives for investment present in said forms of venture capital. VC is mainly motivated by financial objectives and CVC often has additional strategic motives involved. As corporate governance deals with ways which providers of financing can assure themselves that they receive a return on their investment (Schleifer and Vishny, 1997), the motives of the principals in this principal-agent relationship have large implications on the governance practices that both should be and are employed.

In VC following Kaplan and Strömberg (2003, 2004) we mainly looked at corporate governance through varying forms of financial contracts. What we found through our case study was that our case company employed a portfolio of different financial contracts to better align the incentives of the agent with the principal, gain decision-making power, and to get assurances related to capital gains and capital retrieval in the case of good or bad performance. The interrelated system of governance practices (bundle) employed by Maki VC focus on aligning the incentives of the agents with its own by for example employing vesting terms, having decision-making power through a board seat(s), and ensuring the retrieval of their invested capital with specific liquidation rights. Together these governance practices push the venture's managers to a certain direction while preserving the core capabilities inside the venture, they give Maki decision-making power in key situations in the venture's lifecycle, and they ensure Maki's invested capital to a certain extent. This is done ultimately to maximize

their general partners' return on invested capital to be able to raise larger funds and collect larger fees in the future.

In CVC we looked at employed corporate governance practices mainly through the lens of Anokhin et. al. (2016) which examines links between employed governance practices and CVC activity. Our case company Bayer's venture capital arm Leaps by Bayer (Leaps) was found to support some of the findings in said article. The interrelated system of governance practices (bundle) employed by Leaps is clearly different from our VC case company Maki's bundle. Leaps makes minority investments, keeps its ventures autonomous, and shares Bayer's proprietary assets (patents, technical capabilities etc.) with its ventures. Leaps' bundle of governance practices clearly shows the more supportive role taken by Leaps compared to our VC case company Maki. Bayer's governance practices are not aimed solely at maximizing the bottom line with strict vesting clauses and liquidation rights, but rather Leaps sees value in achieving technological progress across the industry with a decades long approach. This results in Leap forgoing its intellectual property rights in some cases, ultimately to benefit the parent company Bayer, just not through a linear relationship or near-term payback.

To conclude, the corporate governance bundles employed by our case companies are vastly different due to the different motives and approaches of our case companies and VC and CVC in general. Our scope was limited as we only looked at a single company from each category (VC/CVC), but we hypothesize that these companies epitomize the characteristics of the different approaches taken by these two forms of venture capital and that these differences would be visible also in a more exhaustive sample.

## **6. Results and Conclusion**

Our case study gave us definite insight into the governance practices employed at our selected case companies. Maki employed governance practices largely in line with our findings from the literature, especially considering financial contracts and liquidation perspectives. The Bayer case study found out a positive correlation between the ratio of board members holding multiple mandates and the firm's CVC activity, and a positive relationship between the board equity ownership when combined with high tolerance for risky investments and the firm's CVC activity.

Looking at the bundles of corporate governance practices applied by VC and CVC funds our findings from our case study coincide with the literature. Governance practices employed by our VC fund aim to ensure the retrieval of capital while employing decision-making power



in the venture. Our CVC fund on the other hand keeps its ventures autonomous and provides them access to Bayer's vast resources while only making minority investments and thus not focusing on decision-making power. The VC fund's bundle aims at capital protection and maximizing the bottom line, while the CVC fund's bundle sees value as a more holistic concept.

Our report is not without its limitations. First, our theoretical framework is based on a select few well-cited key studies rather than an all-inclusive meta-analysis. Second, our scope of discussion focused on certain key topics rather than being completely exhaustive. This is due to strict length instructions and the fact that we think a report of this length serves better to be focused rather than broader but shallower.

Future research could be done regarding the relation of governance structures to venture fund activity (see Anokhin et. al. 2016). This could be furthered into studies regarding which governance structures correlate with certain fund characteristics. This could have major implications for investor practitioners as they could then better set governance structures to elicit certain types of fund activity.

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**Disclaimer:** for the Bayer Leaps case study we used proprietary material kindly provided to us by a Bayer Venturing executive.