The FINDER Project

‘How to de-risk corporate startup innovations, while improving speed and cost?’

Highlights from the session held at Atos’s Inclusive Digital Innovation in Financial Services & Insurance Event Week (15th to the 18th March 2021)

Thought Leadership Atos

Overview - What did the session cover?

Since 2013, the number of corporate investments has nearly tripled from 980 to 3,235 in 2019. These investments are worth in the region of $134 billion. Yet the success rates of corporate investments, venture builders or accelerators is low. Research between Atos and FINDER with more than 500 Chief Innovation Officers shows that around three in four corporate innovation initiatives fail. In this session, the expert panel discussed the findings, lessons learned and strategies used by the 25% that have succeeded.

Who was on the panel?

The session was hosted by Atos CTO Remco Neuteboom and Rick Aalbers, Associate Professor Strategy and Innovation at Radboud University. They were joined by Josemaria Siota – Executive Director of the IESE Business School – who presented findings from a new report on corporate venturing. The discussion was moderated by Nikhil Chouguley, the Global Head of Product Governance & ESG Oversight at Deutsche Bank.

Insights from IESE

Josemaria Siota began by defining corporate venturing as, *"The collaboration between established companies and innovative startups, in which corporations participate in external innovation."* He went on to explain that the research shows how the pursuit of open innovation through these relationships is often built on specific mechanisms, including:

- Startup acquisition
- Corporate venture capital
- Corporate accelerator
- Corporate incubator
- Strategic partnership
- Venture builder
- Venture client
- Scouting mission
- Hackathon
- Challenge prize
- Sharing resources

Each of these has a different approach and commitment of resources between the partners. The research also highlights a number of issues that the two sides of the corporate venturing relationship are seeking to address. From lack of speed or creativity in corporates to difficulties accessing new markets or small workforces within startups. By working together, these partners can overcome their individual disadvantages. There are a number of advantages that boost the 'win-win' scenario for the partners too:

Startups gain access to corporate advantages:	**Corporates gain access to startup advantages:**
Knowledge and access to market	Organizational agility
Experience workforce	Flow of new ideas and niche knowledge
Resources, experience and power	Desire to challenge the status quo
Available capital	Highly motivated teams
Wide network of partners	Potentially rapid growth
Visibility and quality assurance	Little impact if it fails

And the motivation for such collaborations? Josemaria demonstrated the extreme levels of market volatility in the previous 18 months. In some cases, as much as six times average levels. This volatility creates uncertainty that, in turn, has an impact on market costs, speed and 'anticipation' – or the ability to identify opportunities before your competitors. Yet despite these drivers, the research shows that 75% of collaborations fail. Which begs the question, why do the other 25% succeed?

The role of an ‘enabler’

The research findings showed the importance of a corporate venturing ‘enabler’. This is, “*An institution or individual, within an innovation ecosystem, that facilitates a resource or activity in the collaboration between an established corporation and a startup, in order for the corporation to attract and adopt innovation*.”

There are many types of enabler, including private accelerators and incubators, research institutions, venture capital firms or investors, governments and even other corporations. Their role is to help determine the innovation gap within your entity, explore the options for building your own innovation capacity or partnering with others, and provide support in facilitating any partnership.

Build or partner?

The research reveals the key considerations when deciding whether to build or partner. The number one factor is whether the search field for partners included those connected with the company’s core business. Second on the list is the capability of the partner and whether it has a skilled team or proven processes to work within the chosen ‘mechanism’ or partnership arrangement. This does not include deal flow – or the quality and quantity of opportunities to collaborate – as this is the third key consideration on its own. Next comes cost required, speed to value, search field understanding, and availability to get started. Often, the relative importance of these factors changes depending on the mechanism in question. However, this overview is a useful way to understand the general success factors for corporate venturing.

There are also key considerations in selecting the enabler. Do they have proven capabilities? Can they offer access to an existing ecosystem (e.g. of mentors, developers, etc.)? What is their understanding of the field? Is there a level of trust and can they tailor their services to meet your needs? Then there are the typical factors such as overall cost, public reputation, proven speed, and ability to cross-pollinate capabilities into the corporation.

Research conclusions

In drawing this part of the session to a close, Josemaria asked a question likely to be on the minds of many members of the audience: How can we use these insights in the everyday life of an established business?

He explained how the research points to five crucial conclusions for corporates:

1) Protect your company’s core business when running corporate venturing through an enabler
2) Choose capabilities rather than ‘packaging’ to filter potential enablers. For example, working with partners via a local enabler that has a deep understanding of a specific sector in a specific country
3) Remember that enablers are not just consulting firms – the reality is far richer as they bring databases, events and other ways to connect organizations
4) These opportunities offer you a completely new revenue stream: enabling other partnerships through corporate venturing ‘squads’

5) Every day, the company is becoming less and less unique and enablers can improve your value proposition

There was also time for one key conclusion for potential enablers: A proven capability is the most frequent aspect considered by partners. So always under-sell and over-deliver.

The full research findings are available to download for free.

Panel discussion
The second half of the session was open to the audience. Host Nikhil Chouguley introduced himself and explained how he was interested in both sides of the relationship. In his day job, he is responsible for governance at a major corporate but he also operates his own fintech startup. Nikhil was particularly interested in the role of enablers and the relatively new concept of corporate venturing squads. The 25% of collaborations that had succeeded still represented a huge positive as he invited audience questions for Josemaria Siota to answer about the research and its implications in the market.

Q1 – Is corporate venturing increasing or decreasing and why?
The evidence shows that the volume of collaboration and the number of corporates involved has grown massively since 2013. However, there is some disparity between regions in terms of growth rates. Comparing this research with other studies shows that areas like Latin America are growing rapidly. Yet this is based on corporate venturing still being in its infancy. In terms of specific sectors, like banking, IESE research shows that more than 70% of the world's biggest banks are already working with startups.

Q2 – Why are there regional discrepancies in corporate venturing?
Regional discrepancies could be to do with corporate venturing maturity or culture. Stages of maturity seem to be the most important factors. Some regions are in the Building phase (0-3 years). While others are already in the Scaling (3-7 years) or Consolidating (7+ years) phases. The building phase needs fewer resources and carries with it fewer risks – especially as it usually involves simpler mechanisms like open challenges or scouting missions. In some areas, cultural factors may also be an issue. Traditional corporates in Asia, for example, tend to have rigid hierarchies. These can affect the speed of decision-making and this, in turn, will affect the success of innovation relationships. In particular, when you consider that some startups may not be around three months after the initial proposal is made.

Q3 – Can enablers give direction for less mature startups and are there any cultural differences between companies that can affect innovation?
Any organization that offers up advice to a startup could be seen as an enabler. But this is not the same as being a corporate venturing enabler, which need specific skills and/or capabilities. As for corporate culture, it can indeed have an impact. There are many different ways to measure this. For example, the length of time your company takes to process a proof of concept is an indicator of corporate agility. Corporate culture may affect strategy too and the data available from the research can help you create a strategy and also benchmark that strategy over time. Things may change in the market and other organizations may be moving faster or slower – representing a new opportunity. It's not just about strategy either. It's also about delivery. In 2018, the IESE measured corporate venturing mechanisms and found the most popular was the corporate incubator. Yet we also investigated the most successful mechanism and found that – despite

being selected much less – becoming a venture client (in which the corporation is the first client of the new partnership) was 2-5x more cost-effective and 2-5x faster in seeing results.

Q4 – How should corporate venturing be structured to reduce the risk of failure?
It's important to ask the right questions first. Like who *are we talking about? Lots of people think corporate venturing is just for big corporates but it is for SMEs too. There may be some strategy differences but the same mechanisms still apply. Then there is the* how. *This comes down to the* why *(Why do you want to do it and do you have a clear idea of the objective?) and the* what *(What are the KPIs you are going to use to measure things and what mechanism are you going to choose?). It is also important to be able to nurture deal flow based on the innovation that comes from the collaboration.*

The data can help you answer some of these questions. Like which KPIs to choose. When we asked 500 Chief Innovation Officers what they used to measure strategy compared with what they used to measure delivery, it was clear that the two were not always aligned. Delivery was often measured against a short-term metric. So the advice would be, try to be coherent in what you design strategically and implement tactically.

There are some other patterns in the research too. For example, if the corporate has the internal capability to integrate the value from the partnership at speed (because of a 'good fit' with the startup) then this is likely to lead to more autonomy. *The other pattern was to do with* agility. *The majority of successful collaborations had linked KPIs to agility, like time to deliver a proof of concept.*

Q5 – How does the economic downturn and increased perception of risk affect the likelihood of partnering?
This all comes down to the perception of risk. If we agree that it is linked to market volatility and we focus on corporate actions then it is true that many collaborative units have shut down. But many more have opened up in their place and some of these are accelerating rapidly. If we focus on startups then we have certainly seen many in 'safety mode'. But again, it comes back to how the collaborations are enabled and the relative benefits of the relationship. Here, it is all about identifying deals before the competition, proving the concept quickly and having the agility to take advantage to be able to integrate the value quickly.

About the Event
This session took place as part of Atos's 'Inclusive Digital Innovation in Financial Services & Insurance Event Week' (15th to the 18th March 2021). This is part of Atos and Radboud University's joint initiative FINDER (https://thefinderproject.eu/), funded by the European Commission.

The COVID-19 pandemic has been a catalyst for digital adoption across various aspects of our private and professional life. In the financial services and insurance industry, processes are increasingly tackled by leveraging data, machine-learning, and Fintechs/InsurTechs. Atos joined forces with practitioners, academics, and policy-makers to discuss how to yield benefits from these developments by re-positioning banks in the ecosystem, using Artificial Intelligence in insurance, mitigating risks in new venture collaborations and exploring the opportunities of the European GAIA-X project.