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**The outcomes, objectives, limitations and enablers of Corporate Venture Capital
investing in South Africa**

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria,
in partial fulfilment of the requirements for the degree of Master of Business Administration

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ABSTRACT

In light of the emergence of corporate venture capital activity in developed markets, resulting in a large portion of start-ups being invested in by corporate venture capital investors, this research paper explored the activities, objectives, outcomes, limitations and enablers of corporate venture capital investments in South Africa.

The research process consisted of a literature review that analysed international literature and where available, literature pertaining to the South Africa, focusing on objectives, outcomes, limitations and enablers of corporate venture capital investments in other markets.

Twelve unstructured interviews were conducted with corporate venture capitalists, entrepreneurs and independent venture capitalists. Ethical compliance was observed during every interview, ensuring that the integrity of the data was maintained. The data was analysed with the assistance of computer-assisted qualitative data analysis software (CAQDAS).

The research found that the corporate venture capital market in South Africa is underdeveloped in comparison to international markets. There are no distinct strategies employed by those individuals interviewed. However, the outcomes, objectives, limitations and enablers were similar to those in international markets.

A framework has been suggested to assist corporate venture capital investors in South Africa, ensuring that they are aware of the objectives, outcomes, limitations and enablers that they could encounter when performing corporate venture capital investments.

Keywords: Corporate Venture Capital, Corporate venturing, Venture Capital, Strategic renewal, Risk aversion

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name: Rob Levin

Signature:

Date: 11 November 2013

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DEDICATION

This research paper is dedicated to my unborn baby.

GLOSSARY OF TERMS

BBBEE – Broad-based Black Economic Empowerment

CVC – Corporate Venture Capital

EBITDA – Earnings before interest, tax, depreciation and amortisation

IPO – Initial Public Offering

IVC – Independent Venture Capital

NPV – Net Present Value

SAVCA – South African Venture Capital and Private Equity Association

VC – Venture Capital

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QUOTATION

Here's To The Crazy Ones. The misfits. The rebels. The trouble-makers. The round pegs in the square holes. The ones who see things differently. They're not fond of rules, and they have no respect for the status-quo. You can quote them, disagree with them, glorify, or vilify them. About the only thing you can't do is ignore them. Because they change things. They push the human race forward. And while some may see them as the crazy ones, we see genius. Because the people who are crazy enough to think they can change the world - are the ones who do.

Jack Kerouac

1. INTRODUCTION TO RESEARCH PROBLEM

1.1. BACKGROUND TO RESEARCH PROBLEM

“More and more smart companies are going Venture Capital (VC) to find their next breakthroughs.” (Lerner, 2013b)

In 2008, Google hired William Maris, a former entrepreneur with investing experience to help set up their corporate venture capital fund. In setting up their fund – Google Ventures – they joined the likes of Intel, Motorola, and Comcast who have all set up formal Corporate Venture Capital (CVC) funds. The results of Google Ventures was evident in the first half of 2013 when they topped the list of the most active CVC investors, followed by Intel Capital, Qualcomm Ventures, In-Q-Tel, and Novartis Venture Funds (CB Insights, 2013; Vascellaro, 2008).

Bielesch, Brigl, Khanna, Roos, and Schmieg (2012), writing for the Boston Consulting Group, claimed that after three distinct boom-and-bust cycles of Corporate Venture Capital since the 1960s, CVC investing is once again a focal point due to the establishment of formal venture capital units. This has been encouraged by investment activities by some noteworthy market giants such as BMW, General Electric, Google, and Intel.

CVC activity has generally corresponded with booms in Venture Capital investments and venture-backed Initial Public Offerings (IPOs), specifically in the late 60s, mid 80s, and late 90s (Lerner, 2013b). However, Lerner (2013b) and McHugh (2013) add gravitas to Bielesch et al. (2012) by suggesting that there is currently a CVC surge, despite traditional VCs currently facing unexciting days.

According to Patty Burke, while the capital inflows of traditional venture capital funds have slowed down, CVC funds are increasing their investment activity in start-ups. Since 2010, 182 corporate venture funds have been launched in America, taking the total number of CVC funds in America to 900. Furthermore, in 2011, more than 11% of capital that start-ups received came from CVC funds, despite IVCs struggling to raise capital due to the financial crisis of 2008. In 2012, roughly 16% of companies acquired had received capital from a CVC, with 90% of Initial Public Offerings expected in 2013 to have CVC investments (McHugh, 2013; Lerner, 2013b).

1.2. BUSINESS RATIONALE FOR RESEARCH

McHugh (2013) posited that if companies such as Kodak and Blockbuster had created CVC arms and invested in companies like Netflix and Instagram respectively, they might not have faced bankruptcy. Such is the influence that CVCs yield today that many corporate Research and Development (R&D) units are being replaced by CVC (Lerner, 2013a). Furthermore, Lerner (2013a) states that corporate R&D is too focused on improving technologies already in existence.

The move from R&D to CVC could be ascribed to the fact that CVC funds are able to explore new opportunities, move with greater speed and flexibility, as well as at a lower cost, even for companies that are able to plan for the future. CVCs also assist companies to identify and provide investment to start-ups that would be able to assist the corporate parent in identifying and responding to changes in the general business environment. At companies such as Google, BMW, and General Mills, R&D has been complemented with CVC by joining other investors and investing money into start-ups, providing companies with novel ways of learning and innovating. According to Lerner (2013b), CVC funds are able to move more rapidly and with greater agility. They require less investment than traditional R&D to stimulate a company's response to technology and business model changes (Lerner, 2013b; Lerner, 2013a).

CVC funds are also able to increase the demand for a company's existing products. Moreover, such investments might even result in beneficial financial investment for companies upon exiting the investment (Lerner, 2013b). Lerner (2013b) further states that this is "an added benefit for a tool that helps capture ideas that may ultimately shape an organisation's destiny."

One of the pitfalls of corporate venturing is that many large companies are wary of making investments due to the funds being administered incorrectly. Furthermore, CVCs can be affected by the opposing agendas of different corporate stakeholders. Therefore, in order for the CVC to succeed, the goals of the CVC have to be aligned with the objectives of the corporate parent (Lerner, 2013a).

Currently, one of the trends of CVC is to partner with independent venture capitalists (IVCs). CVCs will provide investment to IVCs, in return being able to screen start-ups and determine which start-ups will assist the CVC in achieving their objectives. The benefit of screening start-ups at the beginning of investments is more valuable than the deal at the end. Post screening, the corporates are then able to apply their own filters,

based on what they determine to be of importance to them (Newing, 2013). However, complications could arise as noted by Lerner (2013b), who noted that unlike IVCs that are operated by risk-seeking individuals, corporates are process-bound, resulting in incompatibilities between the two.

Although CVC is not a new phenomenon, some companies are only now discovering how to create 'pragmatic innovation' through partnering with innovative start-ups, in turn, learning from them. Conversely, other companies have over time been able to form natural synergies with start-ups, ensuring that the process of acquiring and integrating the start-ups is a relatively easy one (McHugh, 2013). An IVC in McHugh (2013) highlighted the need for corporates to adopt CVC operations by stating that corporates "no longer have the luxury to not get involved in rapid global innovation".

CVCs tend to have a longer-term outlook than IVCs, as posited by Tom Whitehouse, chairman of the London Environmental Investment Forum. Unlike IVCs, CVCs are finding ways to grow, and VC provides them with a way to power the growth as corporates are holding cash earning low interest rates. According to Whitehouse, the benefit of corporates investing in a portfolio investment is that should the start-up succeed, they would be able to acquire the start-up (Newing, 2013). Grabow (2013) disagrees though, and argues that the investment does not ensure an eventual acquisition.

Vascellaro (2008) claimed start-ups are often apprehensive of CVC investments as it could entail certain conditions, such as the right to buy the company at a later date. Start-ups therefore felt that such investments could limit their options, potentially turning away other investors. Research conducted by Ernst and Young confirms Vascellaro's (2008) claims in their findings that since 2007, start-ups that had received CVC investments were only acquired by the corporate 2% of the time (Grabow, 2013).

According to CB Insights (2013), in the United States of America CVC deals are much larger than IVC deals, with CVC deals averaging over \$15 million in the second quarter of 2013, versus an average of \$9,5 million for IVCs. Furthermore, CVCs in other markets such as the USA, have moved away from investing in later stage companies, with almost 40% of CVC deals occurring at Seed or Series A stages. This indicates that CVCs internationally are more willing and comfortable to invest in earlier stage companies than previously (CB Insights, 2013).

It would seem as if CVC has moved beyond a fad that occurs every few decades. This is evidenced by Grabow (2013) who stated that with the dot com bubble crash, most active CVCs retreated. However, in the early 2000s, CVCs showed an increase in activity with most of the CVCs remaining post the financial crisis. Since 2003, almost 25 percent of companies backed by VC have had a corporate investor (Grabow, 2013). Whereas IVCs expect returns from their investments in a few years, CVCs are more focused on the long-term. This highlights the volatility of IVC funding cycles versus the CVC cycles that seem to be more stable (Lerner, 2013a).

Previous issues with CVCs were focused on the fact that many corporates had given up too quickly - the average life span of a CVC was one year. Even though some corporates have had successful funds, they have struggled to absorb the knowledge gained from investments. The rules and processes of corporates also plays a role in CVC investments, consequently CVCs could be slow to act and are occasionally unfocused (Lerner, 2013b).

1.3. RESEARCH OBJECTIVES AND MOTIVATION

Lerner (2013) identified six steps that can assist corporates in acquiring knowledge from CVC investments, namely aligning the goals of the CVC with corporate objectives, streamlining approvals, providing powerful incentives, creating a failure-tolerant and experimental mind-set, sticking to commitments, and harvesting valuable information.

In a 2010 survey released by the South African Venture Capital and Private Equity Association (SAVCA), Intel was mentioned as having the largest VC fund in the world (Lamprecht & Swart, 2010). To date, Intel has invested in companies such as CNET, and Research in Motion (RIM) (Marino, 2010).

This research report seeks to define the strategic investment objectives identified by Dushnitsky (2006) as – but not limited to – access to novel technologies, recognising and reacting to technological discontinuities, stimulating demand for core products by investing in complements. This serves to identify the relevant objectives and outcomes of CVC investing for South African companies.

Furthermore, this research report attempts to understand the benefits of CVC investments as identified by Lerner (2013b) as – but not limited to – a faster response, an improved view of threats, easier disengagement, a bigger bang, increased demand, and higher returns.

Due to a paucity in the literature with specific focus on CVCs in a South African context, this paper attempts to validate the research undertaken to date, which pertains to studies conducted in developed markets, such as Europe and the USA. The assumption is that the concept of CVCs is underrated in a South African context, or alternatively, the CVC concept has adopted a different guise.

In South Africa, several listed and unlisted corporations have invested in external entities over the years. Most CVCs interviewed by SAVCA chose not to reveal data to SAVCA for reasons such as the partial limitations imparted on listed companies, with associated media obligations for revealing their data to third parties (Lamprecht & Swart, 2010).

From a South African perspective, corporate venturing received the most attention in terms of investments made, and the value of the transactions in 2006. According to SAVCA (Lamprecht & Swart, 2010), no corporate venturing occurred, potentially illustrating the effects of the worldwide economic crisis of 2008/09.

This research project explores the objectives of CVCs in South Africa and the role that start-ups play in achieving these strategic objectives. The research will also examine outcomes of the investment, while further intending to shed light on the limitations of CVC investments that are uniquely South African. An additional focus of the research is on factors that could enable CVC investments in South Africa.

The scope of the research focuses solely on Corporate Venture Capital, defined as an investment activity by corporations, in which an equity investment is made in an external start-up (Chesbrough & Tucci, 2004), and excludes Independent Venture Capitalists, Private Equity Investors, and Angel Investors, unless where necessary to draw comparisons against CVCs.

2. LITERATURE REVIEW

2.1. INTRODUCTION

The literature review afforded the researcher an opportunity to explore the definition of the Corporate Venture Capital (CVC) activities within the context of the developed world. The review explored the strategic objectives of the CVC, the benefits of CVC investments, as well as the limitations, and enablers of CVC investing. Furthermore, the nature of CVC investing in South Africa was examined.

2.2. DECONSTRUCTING VENTURE CAPITAL

2.2.1. The funding environment

Ojah and Mokoaleli-Mokoteli (2010) described two types of private equity markets that serve different purposes, depending on the stage of the start-up. These markets are classified as venture capital/angel finance (the process whereby capital is provided to start-ups from the onset) and buyouts/going-private (the process of investing in generally unlisted established companies) (Ojah & Mokoaleli-Mokoteli, 2010).

Bent, Williams and Gilbert (2004) extended this view by stating that private equity companies will invest in firms with a history, whilst venture capitalists will provide funds to start-ups. For the purposes of this paper, the definitions of private equity proposed by Bent et al. (2004) will be used.

An angel investor, as defined by Wong, Bhatia and Freeman (2009) is “a high net-worth individual who typically invests in small, private firms on his or her own account” (p. 221). Angel investors will generally invest in start-ups that are at an infant stage, whilst venture capitalists tend to invest in start-ups that are already operational. Unlike venture capitalists who will enforce control mechanisms in order to protect themselves against expropriation, angel investors provide investment without the need for any of the traditional control mechanisms (Wong et al., 2009).

Venture Capital (VC) is defined by Gaba and Meyer (2008) as professional investors that will raise funds from wealthy individuals and institutions that lack the ability to identify, manage and harvest start-ups, but who wish to take equity stakes in such start-ups. Beyond funding, venture capitalists provide additional services to

entrepreneurs who might be technologically competent but commercially inexperienced (Peneder, 2010; Chen, 2009; Gompers, Kovner, & Lerner, 2009).

Furthermore, from an entrepreneurial perspective, the different stages of entrepreneurship have to be defined. Xavier, Kelley, Kew, Herrington, and Vorderwülbecke (2013) identified four phases of entrepreneurship and defined them as potential entrepreneurs, nascent and new entrepreneurs, and established business owners.

Potential entrepreneurs are defined as individuals who believe they have the relevant skills and capabilities to start a business. Moreover, they do not fear failure, and as such, are not dissuaded from starting a business. Nascent entrepreneurs are those entrepreneurs who have started new businesses that are less than three months old. Entrepreneurs whose businesses are older than three months, but less than three-and-a-half-years old are defined as new business owners, or start-ups. Entrepreneurs whose businesses have been in operation for more than three-and-a-half-years are defined as established business owners (Xavier et al., 2013).

Figure 1 depicts the different stages of entrepreneurship.

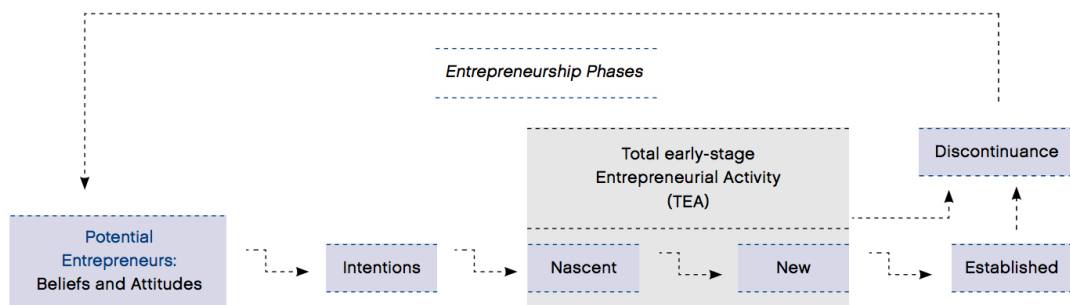


Figure 1: The different stages of entrepreneurship

(Source: Xavier et al. 2013, p. 13)

For the purposes of this research, the phases of new business owners and established business owners will be examined.

The need for VC investments arises due to the fact that entrepreneurs who have an innovative idea generally lack the relevant managerial experience. Furthermore, the venture typically will reach its full commercial potential only with the assistance of VC companies. The VC companies are able to assist the entrepreneur with the relevant

managerial skills that the venture requires in order for it to reach its full potential (Maula, Autio, & Murray, 2005).

2.2.2. Venture Capital Investments

There are two types of VCs namely Independent Venture Capitalists, and Corporate Venture Capitalists (Dushnitsky & Shaver, 2009). IVC funds are defined as private partnerships with funding from larger institutions, investing in ventures of high-risk, offering high-returns. The sole objective of IVCs is to realise capital gains through exiting the venture, either through an Initial Public Offering or an acquisition (Sahlman, 1990; Park & Steensma, 2012).

Conversely, CVC is the means by which an established corporate sources the innovative ideas from start-ups external to the company by taking a minority equity stake in these companies (Dushnitsky & Shaver, 2009; Chesbrough, 2002). Such investments in start-ups would serve to assist the established firm in achieving its financial and strategic objectives, as identified by Dushnitsky and Lenox (2006). Chesbrough (2002) emphasised that a CVC investment is defined by two unique characteristics, namely its objective and the degree to which the operations of the investing company and the start-up are linked. CVC investments follow the same or similar decision-making processes as IVCs in that the initial screening, information gathering, assessment of risk, and evaluation of the target company is undertaken by both IVCs and CVCs (Fried & Hisrich, 1995; Proimos & Wright, 2005; Yang, Narayanan & Zahra, 2009).

Although CVCs follow similar processes at the outset of the investment, the decision to invest or not is more difficult as CVC investments are characterised by “high risk, due to illiquidity, volatile returns, and a lack of information” about the start-up (Yang et al, 2009:p. 263). The difficulty for CVCs to select and evaluate the various start-ups efficiently can be attributed to the fact that start-ups usually exhibit high levels of uncertainty that are associated with potential financial and strategic benefits, as well as with a lack of appropriate measurements (Yang et al., 2009).

2.2.3. Activities of Corporate Venture Capitalists

It is imperative to differentiate between Corporate Venturing and CVC. Covin and Miles (2007) explained that Corporate Venturing is the most productive path to superior corporate performance. However, in order to ensure that the corporate achieves superior corporate performance, the corporate venturing activities have to be practiced in a strategic manner.

Narayanan, Yang, and Zahra (2009) proposed that CV “is the set of organisational systems, processes, and practices that focus on creating businesses in existing or new fields, markets, or industries – using internal and external means” (p. 59). Chesbrough (2002), however, argued that Corporate Venturing cannot be classified in the same way as CVC, as Corporate Venturing includes the funding of new internal ventures that are legally part of the company.

Keil (2004) defined external Corporate Venturing as the process where large firms understand, create, and develop ventures together with entities external to the company through VC investments, alliances and acquisitions.

Lai, Chiu, and Liaw (2010) extended this definition by adding that external corporate venturing is a means through which established corporates can innovate, plan for future growth, and gain an advantage over their competitors either by CVC investments, Joint Ventures or acquisitions.

It is evident from the literature that the terms Corporate Venturing and CVC are used interchangeably. Therefore, for the sake of consistency Corporate Venturing and Corporate Venture Capital will be referred to as CVC in this research paper.

Chesbrough (2002) argued that even though large companies realise the value of investing in start-ups, they have often been unable to attain much success in such investment. This highlights the fact that corporates, unlike IVCs, do not have the ability or the agility required to manage such investments. This is further exacerbated by the fact that most CVC investments occur in fast-paced, high-risk environments (Chesbrough, 2002).

Conversely, it can be argued that corporates are indeed equipped to manage CVC investments. This is evidenced by Bielesch et al. (2012), who identified that corporates’

VC units now have the skills to tap the resources of a large corporation even as they operate with the speed and agility characteristic of the start-ups they invest in.

2.3. STRATEGIC OBJECTIVES OF CORPORATE VENTURE CAPITAL

Certain strategic objectives that generally dominate the financial goals of CVC investments have been identified in the literature. These objectives include access to novel technologies, recognising and reacting to technological discontinuities, learning about potential acquisition targets, stimulating demand for core products by investing in complements, developing strategic relationships, and exposure to entrepreneurial thinking and culture (Dushnitsky, 2006; Basu, Phelps, & Kotha, 2011).

Furthermore, several authors identified six main reasons why a corporate would undertake CVC investments; these reasons are summarised below:

2.3.1. Technology intelligence

By investing in new companies, the corporate is able to access novel technologies. Such access would stimulate new ideas that may not have been considered before internally while utilising cost-effective methods (Markham, Gentry, Hume, Ramachandran, & Kingon, 2005).

This is further illustrated by Dushnitsky and Lenox (2005a) who explained this notion and pointed out that corporates will invest in start-ups with the intention of gaining access to new ideas and knowledge not yet considered by the corporate. Such investments are made with the intention of helping the corporate enhance and solidify their competitive positions within the markets or industries that they operate in. Furthermore, corporates will invest in start-ups in order to explore emerging technologies that differ from those used currently within their firms, however, they do so without the guarantees of successful financial returns (Narayanan et al., 2009).

2.3.2. Market intelligence

Markham et al. (2005) suggested that by investing in start-ups, corporates are able to identify new markets, anticipate competitor moves, and identify any potential new entrants into their market space with the additional benefit of opening a window to market opportunities in other parts of the value chain.

2.3.3. Growth of existing businesses

Markham et al. (2005) further posited that over and above the Return on Investment, it is evident that one of the main drivers for many companies is growth of the existing business. By undertaking CVC investments, the corporate is provided with a quicker growth opportunity than by undertaking internal development, as the latter entails time lags.

2.3.4. Entering new businesses

With regard to breakthrough opportunities, Markham et al. (2005) discussed two forms namely 'white space' opportunities and disruptive opportunities.

'White space' opportunities are opportunities that focus predominantly on new developments and products that generally do not exist within the corporate, requiring the desired knowledge and capabilities to be sought outside of the corporate environment.

Disruptive opportunities are generally new business models that could pose a threat to the corporate's existing operations. By investing externally, it provides the new opportunities the autonomy and resources required without cannibalising on existing products and processes.

2.4. FACTORS THAT ENABLE CVC INVESTMENTS

Some factors that seem to enable or stimulate CVC investments and the success thereof are discussed below. These factors include: partnering with IVCs and/or individuals, mentoring and identifying goals upfront.

2.4.1. Partnering

Matusik and Fitza (2012) emphasised that there are benefits to syndication agreements, as the different companies involved are able to leverage their specialised assets. By doing so, corporates are able to mitigate the risk of developing all the specialised assets in-house. The syndication allows corporates to make use of their specialised knowledge in conjunction with the specialised knowledge of other companies.

Birkinshaw and Hill (2005) and Yang et al. (2009) agree that IVC firms have a superior ability to select targets with the potential of generating greater financial returns. CVCs are generally not at the forefront of venture capital players, therefore, they may have access to fewer deals. This is further evidenced by Matusik and Fitza (2012) who elaborated on the benefits that VC firms could experience by syndicating. They would be able to leverage off the skills of other syndicate partners who have strengths in other focus areas or industries. Such an example is Intel, who have their own CVC arm, but will not invest in start-ups unless IVCs are also prepared to invest (Maula et al., 2005).

The potential pitfall of entering into syndicate relationships is that in some cases, the participation could lead to losses that outweigh the gains. The corporates involved in the syndicates should ensure that the information exchanges between the syndicate are both open and closed. The corporates need to be able to take the knowledge gained from their co-investors and the start-ups that have received investments, whilst at the same time, ensure that they protect their core competencies from being divulged to competitors (Anokhin, Ortqvist, Thorgren, & Wincent, 2011).

2.4.2. Individuals

Colombo and Grilli (2010) stated that the human capital of founders is one of the key drivers of the growth of the start-up. Furthermore, start-ups created by individuals with greater human capital will attract greater levels of investment, while also having an indirect effect on the growth of the start-up.

In order to successfully get a start-up operational, it requires knowledge in specific fields, such as marketing and technology. The founding member of the start-up needs to source other individuals who possess the relevant skills required to provide the start-up with a chance of success (Colombo & Grilli, 2010).

Several authors agree that individuals who have greater educational attainments, greater work experience and greater entrepreneur-specific human capital are likely to have better entrepreneurial judgement. This puts them in a better position to seize neglected business opportunities and take effective strategic decisions crucial for the success of the new firm (Feaser & Willard, 1990; Colombo & Grilli, 2005).

MacMillan, Siegel, and Narasimha (1986) conducted a study in which respondents were asked to rank certain criteria that they felt were of importance in successful

ventures. The most important criteria were ones highlighting the importance of the entrepreneur or the experience or personality of an individual. They concluded by stating that “There is no question that irrespective of the horse (product), horse race (market), or odds (financial criteria), it is the jockey (entrepreneur) that fundamentally determines whether the venture capitalist will place a bet at all” (MacMillan et al., 1986, p. 119).

2.4.3. Mentoring

Over and above financing, VCs ‘build winners’, meaning they have been known to assist start-ups with mentoring or coaching efforts which lead to an improvement in the capabilities of the start-up. These improvements assist in meeting the challenges that arise when start-ups reach certain developmental milestones (Bonnet & Wirtz, 2011; Croce, Marti, & Murtinu, 2013).

Hsu (2004) extended this view by stating that even though the entrepreneurs sacrifice a significant equity stake in their business in return for investment from the CVC, the value of their share increases after the investment. This is primarily due to the fact that over and above the financial assistance, the mentoring they receive increases the value of the start-up.

Van Praag and Versloot (2007:352) conducted a study in which they found that there is a need for entrepreneurs as they “produce and commercialise high-quality innovations.” This is contradicted by Jones and Mlambo (2009), who concurred with Van Praag and Versloot (2007) that entrepreneurs have innovative ideas, however, Jones and Mlambo (2009) believe that they often lack the relevant skills to commercialise the ideas.

Commercialisation of ideas require individuals who already possess the relevant skills (Jones & Mlambo, 2009). Mentoring or coaching as identified by Bonnet & Wirtz (2011), Croce et al. (2013), and Hsu (2004), could therefore assist entrepreneurs in South Africa, ensuring that they are able to commercialise their ideas.

Luiz and Mariotti (2011) added that mentoring would enable entrepreneurs in South Africa to be independent, have a locus of control, be creative, and have the mentality to take risks.

2.4.4. Clearly defined goals

Locke, Shaw, Saari, and Latham (1981) explained that the term 'goal' refers to individuals who achieve a certain standard or level on a task and generally in a specific time frame.

According to Hechavarria, Renko, and Matthews (2012), goals direct attention and action to goal-related activities, whilst also having an energising function. Furthermore, the more ambitious the goals, the greater would be the effort to achieve them. Goals also affect persistence, therefore, when individuals are allowed to control the amount of time that they spend on a specific task, the more difficult goals will prolong the effort. Conversely, Wiese, Freund, and Baltes (2002) found that entrepreneurs who had set difficult goals exhibited greater progress as opposed to entrepreneurs who thought of their goals as being less difficult.

Campbell (1988) in Hechavarria et al. (2012), and Shane and Delmar (2004) agreed that the development of a concise business plan for the start-up will enhance the performance of the start-up. From this it is evident that that the business plan is helpful to formalise tasks that the entrepreneur might be uncertain about, and where the entrepreneur can not rely on past experience.

By writing the business plan, individuals are also aware of the actions required in order to achieve the goals, evidenced by Van Gelder, De Vries, Frese, and Goutbeek (2007) who found that start-ups that were still in operation had set more specific goals than those start-ups that had failed (Shane & Delmar, 2004).

Goals that are expressed in quantitative terms ensure better results and performance in obtaining those results, versus goals that are more vague and possibly qualitative (Hechavarria et al., 2012). Therefore, when specific goals are set in start-ups entrepreneurs would enjoy greater benefits.

Hechavarria et al. (2012). suggested that apart from setting goals, a level of self-efficacy is also required. Bandura (2001) defines self-efficacy as the extent to which an individual believes he or she can organise and effectively execute actions to produce given attainments. Self-efficacy increases with the experience of the individual, and is also highly related to their actual ability (Hechavarria et al., 2012).

Based on the above, Zacharakis (1999) in Hechavarria et al. (2012) found that those individuals with a strong sense of self-efficacy will exert greater effort to achieve the goals. However, should they fail, they would attribute such failure to factors that are within their control, and not make excuses about factors that are out of their control (Hechavarria et al., 2012).

When examining goals in terms of VC investments, the VC is traditionally concerned that the entrepreneur will not exert as much effort in the start-up once the investment has been made. VCs will therefore ensure that the compensation model is dependent on performance (Kaplan & Stromberg, 2004). Furthermore, the entrepreneur has greater knowledge about their qualities or abilities than the VC who has provided the investment. In this case, the VC will design a contract with greater pay-for-performance, consistent with the findings of Bandura (2001) and (Hechavarria et al., 2012).

2.5. THE OUTCOMES OF CORPORATE VENTURE CAPITAL INVESTMENTS

It is evident from the literature that the outcomes overlap with many of the benefits associated with CVC investments. The benefits of CVC are discussed below:

2.5.1. Risk mitigation

CVC investments reduce risks of developing new technologies internally, whilst at the same time they alleviate the issue of not knowing what other companies are developing. CVC investments allow the corporate to view multiple new technologies and business models with minimal financial risk (Markham et al., 2005).

According to Keil (2002) in Williams and Lee (2009) when corporates invest in start-ups that enable them to alleviate the risks involved in setting up a new internal venture it provides the corporate with a more palatable option for the renewal of the firm.

Hayton (2005) added to the findings of Keil (2002) in Williams and Lee (2009) by arguing that new ventures within the high-technology industry could generate intellectual capital assets. These intellectual capital assets provide the corporate with a strategic advantage over their competitors, primarily by reducing the risk involved with external versus internal venturing.

However, Matusik and Fitza (2012) warned that irrespective of the type of venture – internal or external – the industry within which investments are made, the ‘entrepreneurial environment’, is fraught with uncertainty.

CVCs differ from IVCs who adopt one of two approaches to investments, namely investing in specific industries, or alternatively diversifying their investments. By diversifying investments, IVCs expand their knowledge of different industries, exposing themselves to a wider range of knowledge areas. The diversification of investments allows IVCs to protect themselves should uncertainty in a specific industry arise (Matusik & Fitza, 2012). Traditionally CVCs invest in start-ups that are in the same industry as the parent (Dushnitsky & Shaver, 2009).

2.5.2. Windows on technology

Dushnitsky and Lenox (2006) discussed the findings of an Ernst & Young (2006) survey of global CVC programs that found that 67% of firms invest in new ventures for strategic reasons. This solidifies the claim that CVC is used for indirect strategic investments as well as direct financial return on investments, with the most important strategic benefit for CVCs being the windows on technology.

Dushnitsky and Lenox (2005a), and Siegel, Siegel, and MacMillan (1988) concluded that windows on technology were one of the firms’ main motivations for investing in start-ups. These investments increase the ability of the start-up to continue with their innovative efforts, in turn assisting the firm in improving their innovative efforts.

CVC investments also have the potential of providing corporates with innovative benefits by implementing various mechanisms which facilitate increasing the stock of entrepreneurial knowledge to which the CVC investors have access (Dushnitsky & Lenox, 2006). This is generally done by securing board seats or observation rights, thus enabling the investors to gain knowledge of the start-up’s key activities and technologies (Maula & Murray, 2001; Bottazzi, Da Rin, & Hellmann, 2004; Dushnitsky & Lenox, 2006).

2.5.3. Increased demand through complementary products

Another strategic benefit for the corporate is that it is enabled to build demand for its technologies by helping develop start-ups that provide complementary products and services (Nalebuff & Brandenburger, 1996; Dushnitsky & Lenox, 2006). Dushnitsky (2006) pointed out that investments in innovative ventures will increase with the level of complementarity between the corporate and the venture. Further, Rothaermel (2001) claimed that corporates are able to benefit from the investment in the start-up, especially when it has assets that are beneficial to the successful commercialisation of the technology offered by the start-up.

Riyanto and Schwenbacher (2006) concluded that the CVC investments in start-ups occur with the possibility of the corporate parent increasing the complementarity between its products and the start-up's products. However, the level of complementarity is dependent on other elements within the company's strategic environment – it has to be willing to accept external ideas, requiring it to overcome the 'not-invented-here' syndrome (Katz & Allen, 1982; Cassiman & Veugelers, 2006).

Corporates that consider the development of new products or penetration of new markets require complementary assets that will assist and enable them to develop the required technologies (Lai et al., 2010; Teece, 1986; Colombo, Grilli, & Piva, 2006).

Corporates generally have the capabilities required to develop new products. However, these capabilities should be used together with complementary products, assisting in generating the desired returns. Corporate Venturing has been identified as an efficient method to achieve such desired returns (Lai et al., 2010).

2.5.4. Access to complementary services

Beyond the financial gains a CVC provides to start-ups, it also provides the start-up with unique services that make use of the CVC's value chain. Such services include: access to corporate laboratories, customer and supplier networks, beta test sites, and distribution channels. In addition to this, CVCs can provide the start-ups with unique insights into industry trends that would be beneficial to the start-up (Dushnitsky & Shaver, 2009).

2.5.5. Rate of innovation

Historically, corporates have considered innovation as focusing on internal research and development. However, internal R&D expenditures play only a partial role in a corporate's innovation rates. There is an increasing realisation that innovation includes exploiting external knowledge. This is evidenced by the fact that in the past ten years, attention has moved from the role that innovative inputs within the corporate play, to the role of innovative inputs residing outside of the corporate's boundaries (Dushnitsky & Lenox, 2005b). Rigby and Zook (2002) further added that even those corporates actively involved in innovation can no longer rely on internal sourcing alone and this requires them to start looking beyond their current set-up.

In their research, Criscuolo, Nicolau, and Salter (2012) examined the innovative activities of start-ups and compared it to the innovative activities of established firms. The age of the firm, i.e. start-up or established would affect the innovation activities (Criscuolo et al., 2012).

Cefis and Marsili (2005, 2006) in Criscuolo et al. (2012) found that an increase in the level of corporate innovation results in an increased chance of its survival. This finding is consistent with Karim and Mitchell (2004) who stated that GE, IBM, and Nokia have remained market leaders by constantly innovating through various forms of external and internal venturing.

The handling of R&D activities by external parties began in the mid-1980s during the time that internal R&D resulted in low financial returns for corporates. By CVCs investing in start-ups, it has the potential to replace the R&D activities performed by corporates, entrusting R&D to the new start-ups (Gaba & Meyer, 2008).

Dushnitsky and Lenox (2005a) discussed the process of how in certain environments, CVC activity and the ability to access sources of knowledge outside the firm could assist in satisfying the firms' innovation requirements. Napp and Minshall (2011) also argued that CVC activities of corporations play an important role in their innovation strategy, partly because programs provide the corporates with new opportunities by accessing complementary technologies from the start-ups.

CVC programs enable the established corporate to identify any new products that could replace existing products, whilst simultaneously providing them with quicker access into new markets. Furthermore, corporates invest in innovative start-ups as a

bridging process, with the eventual aim of acquiring those ventures for their technologies (Park & Steensma, 2012).

According to Dushnitsky and Lenox (2005b), in order for a profit-seeking firm to provide CVC investments to a start-up, the expected innovative output of the start-up must be perceived to provide greater returns than if a firm were to invest in internal R&D. However, CVC investments could be complementary to internal R&D, rather than being perceived as a substitute (Dushnitsky & Lenox, 2005b). This highlights the fact that companies that have complementary capabilities and a history of generating innovation could provide essential and valuable skills to the new ventures and help them to survive and prosper. The consequential increase in one activity would result in increases in another (Cassiman & Veugelers, 2006).

Innovative capabilities are defined as those capabilities grounded in the processes, systems and organisation structure which can be applicable to the product or process innovation activities (Chen, 2009). Chen (2009) continued by stating that corporates with strong innovative capabilities could be superior to their rivals. This is consistent with the findings by Peneder (2010) that innovative start-ups have a higher chance of receiving funding from venture capitalists, thus enabling them to grow faster.

For firms operating in industries that experience rapid technological change, their products and technologies are rendered obsolete as new technologies and products are created. Therefore firms continuously need to develop new resources to add value (Qualls, Olshavsky, & Michaels, 1981; Basu et al., 2011).

2.6. FACTORS INHIBITING CVC INVESTMENTS

Certain factors with the effect of inhibiting investments have been identified in literature, namely the paradox of disclosure, investing to silence, success limited to vertical investments and absorptive capacity. These factors are discussed in greater detail below.

2.6.1. Paradox of disclosure

It should be noted that in an industry within which patents are less effective, such as technology, the 'paradox of disclosure' as discussed by Dushnitsky and Shaver (2009) arises in respect of CVCs. In this case, entrepreneurs have an inherent difficulty in protecting their intellectual property, but at the same time require funding in order to

further their business and idea. Because the CVC operates within the same industry, the entrepreneurs run the risk that the CVC might copy their idea.

Research conducted by Dushnitsky & Lenox (2005b) highlights the fact that firms invest more so in ventures in industries that show weak IP protection, amplifying the issue of the paradox of disclosure. The “Paradox of disclosure” (Dushnitsky & Shaver, 2009) is closely related to the concept of exploitation (Yang, Zheng, & Zhao, 2013), whereby corporates will leverage a smaller firm’s existing capabilities for the benefit of the corporate. However, by doing so, it places the smaller firm at higher risk of appropriation due to the smaller firm’s size and the difficulty therein of governing these exploratory alliances (Teece, 1992).

However, Stuart, Hoang, and Hybels (1999) emphasise that for small firms to grow and ultimately survive, alliances with corporates are vital. Such alliances with corporates would enable smaller firms to leverage off the corporate’s customers and clients. This provides the start-up with credibility and improves their reputation in the industry. However, Yang et al. (2013) indicated that in certain circumstances the start-up may suffer from an alliance with a corporate as the corporate has the ability and resources to exploit the start-up (Alvarez & Barney, 2001).

The above two points illustrate the issue of the paradox of disclosure identified by Dushnitsky and Shaver (2009).

2.6.2. Investing to silence

The purpose of a corporate’s investment in a start-up is often to acquire, at a minimal cost, the new technology that the start-up is offering that could compete with the corporate’s core business. In this case, the CVC will invest in the start-up with the intention of not growing the start-up, but rather with the intention of ‘stealing’ the technology offered by the start-up (Chesbrough & Tucci, 2004).

2.6.3. Success limited to vertical investments

Dushnitsky and Shaver (2009) concluded that a CVC will more likely target a start-up that is within the parent corporation's industry, versus a venture that operates in a different industry. CVC investments will have a higher frequency of failure when large corporations invest in start-ups that do not strategically fit their own R&D activities, or are far removed from their technological competencies (Gompers & Lerner, 2000; Ernst, Witt & Brachtendorf, 2005).

2.6.4. Absorptive capacity

Cohen and Levinthal (1989) defined absorptive capacity as the ability of firms to recognise knowledge from their external environment, imbibe, and make use of the knowledge identified for commercial purposes. Cockburn and Henderson (1998) agreed stating that absorptive capacity has become one of the key competencies for a firm to obtain a competitive advantage.

Ernst et al. (2005) made reference to Hardyman, De Nino, and Salter (1983) in their discussion of the failure of CVC programmes as a consequence of the corporate parent's possible struggle to absorb the technologies of the start-up into their own organisation. This is further evidenced by Dushnitsky and Lenox (2005a) who contended that the level of absorptive capacity of the firm will determine the degree to which a firm may learn from its CVC investments.

Escribano, Fosfuri, and Tribo (2009) concluded that although the innovation role of the firm's knowledge base is not dependent on the volume of external knowledge, the absorption role only becomes a focal point if external knowledge flows are available.

Furthermore, Escribano et al. (2009) identified two types of contingencies in the external knowledge environment that could affect the relationship between absorptive capacity, involuntary knowledge flows and innovation performance, namely, the degree of turbulence and the strength of the intellectual property rights protection. The more turbulent an environment and the tighter the intellectual property rights protection, the more marked the focus on absorptive capacity becomes (Escribano et al., 2009).

This is in contrast to CVCs, who generally operate in highly turbulent environments, with weak intellectual property protection, and sufficient absorptive capacity (Dushnitsky & Lenox, 2005a).

2.7. FACTORS INHIBITING CVC INVESTMENTS SPECIFIC TO SOUTH AFRICA

Although the literature is limited when it comes to CVC investment in South Africa specifically, a few distinct characteristics have been defined that are unique to South Africa.

2.7.1. Access to funds

One of the roles of IVCs and CVCs is to provide start-ups that have ideas that can be taken to market with the financing necessary to ensure that they can expand (Lerner, Moore, & Shepherd, 2005). Start-ups with innovative ideas traditionally suffer from cash constraints. In order for the start-ups to implement their ideas they require capital greater than the funds currently available to them when they are starting out (Da Rin, Nicodano, & Sembenelli, 2006; Van Deventer & Mlambo, 2009).

In South Africa, access to finance often is problematic for entrepreneurs and consequently they are unable to commercialise their products or ideas (Turton & Herrington, 2013). In 2006, only 2% of entrepreneurs in South Africa had access to bank loans, and over 75% of entrepreneurs that applied for bank loans were rejected. This highlights the fact that commercial banks are hesitant to provide cash to start-ups (Mazanai & Fatoki, 2011).

On the one hand, the high cost of capital in South Africa is linked to the uncertainty around the success of the start-up (Mazanai & Fatoki, 2011). On the other, the lack of access to finance is hampering the entrepreneurial development in South Africa (Rogerson, 2008).

2.7.2. Aversion to risk

Although corporates promote a 'fail fast' mentality whereby the emphasis is on learning versus punishment, the corporate exists beyond being a pure economic system. Corporates are well known for group decision-making, long memories, and vying for positions, resulting in the corporate being risk-averse. The risk-aversion of corporate parents therefore affects the levels of risk that the CVC is willing to take (Raynor, 2011; Masulis & Nahata, 2011).

Conversely, Kreiser, Marino, Dickson, and Weaver (2010) suggested that managers who act individually without the use of group-decision making, are more willing to make risky decisions, using their own judgement.

Traditional VCs however, have a much higher appetite for risk, as their only investment is the money provided. In CVCs, over and above money, individuals are investing their political and social capital. These additional investments impact on their reputations and ultimately, on their careers (Raynor, 2011). Raynor (2011) further argued that in some cases, those individuals involved in the investment-making decisions are simply more risk-averse than those who seek venture financing.

Moreover, CVCs are traditionally riskier due to the fact that it is difficult to predict the benefits of investments in the short-run, with most benefits only becoming evident in the long-run. Furthermore, the implementation of investments requires the involvement of multiple departments who could resist such implementation, thereby limiting the success of the investment (Gaba & Bhattacharya, 2012).

Shareholders would generally insist that in order to maximise the value of the corporate, all NPV projects should be examined. However, risk-averse managers will ignore certain positive NPV projects as they would perceive them as too risky (Dushnitsky & Shapira, 2010).

Kreiser et al. (2010) note that “since risk taking generates high levels of outcome uncertainty, managers must be willing to cope with ambiguity in strategic situations” (p. 962).

2.7.3. Broad Based Black Economic Empowerment issues

One of the effects that Broad Based Black Economic Empowerment (BBBEE) has had on early-stage investments is the drawing away of funds. Even though BBBEE investments are classified as replacement capital, it has been the focus of many new funds. This has been an unintended consequence, however, it has made it more difficult to raise funds (Jones & Mlambo, 2009).

Alessandri, Black, and Jackson (2011) stated transactions in South Africa appear to fall under Corporate Social Responsibility. Corporate Social Responsibility, as defined by Barnett (2007) in (Alessandri et al., 2011) is “...any discretionary corporate activity

intended to further social welfare” (p. 230), as these transactions are encouraged by the South African government through BBBEE quotas.

Furthermore, corporates are required to have BBBEE accreditation in order to do business with government. Because of these requirements, BBBEE transactions benefit corporates, acting more like CSR (Alessandri et al., 2011).

Some benefits of BBBEE deals to corporates include access to government contracts, access to new market opportunities, and an increased reputation with the black majority (Alessandri et al., 2011). This indicates that although some BBBEE deals are conducted for the reasons it was intended, some however, are conducted for economic gains for corporates (Alessandri et al., 2011).

Varriale (2013) noted that according to the BBBEE Act 53, it is not a requirement of South African corporates to meet the targets. However, it does require the government to apply its Codes of Good Practice when creating its procurement policy. This is backed up by Thayser (2004) in Alessandri et al. (2011), who reasoned that for corporates, “there is the view that if you are empowered, you can play in the match. If not, you are not even in the stadium” (p. 238).

When examining the relationship between BEE deals and the financial performance of corporates, it would seem that provided the transactions are conducted for the right reasons, they can create value for the corporates. The value is created as shareholders realise the benefit these transactions have in the long term, such as the potential of winning government contracts and receiving positive media coverage. From a social perspective, black empowerment groups would view the corporates in a positive light, resulting in access to new markets (Alessandri et al., 2011).

2.7.4. Tax issues

Da Rin et al. (2006) examined the effect of taxes on the activities of venture capitalists, stating that a reduction in the corporate capital gains tax would have a positive effect on innovation ratios. This in turn would increase the activities of venture capitalists by raising the return to their effort. The issue with a higher corporate income tax rate however is that it reduces investment in high-tech and early stage companies through the effect that it has on net project return (Da Rin et al., 2006).

From a South African perspective, Jones and Mlambo (2009) in their research found that the respondents they interviewed felt that the South African government was not doing enough to assist venture capital. Respondents were also of the opinion that tax incentives should be one of the main priorities of the government.

By reducing the corporate capital gains tax the supply of venture funds by companies and investors should be stimulated. Furthermore, it augments venture capitalists' incentives to exert effort in monitoring entrepreneurs (Da Rin et al., 2006).

According to SAVCA, in South Africa tax disincentives have traditionally constrained high risk and growth capital investments (Doneva, 2009). In 2013, a new fund was started in South Africa, in accordance with Section 12J of the South African Income Tax Act, the Section 12J fund. This fund requires a minimum investment of R100 000, and in return, investors receive exposure to the VC sector. Those who invest in the fund will receive a 40% tax incentive on the investment, meaning that for an investment of R100 000, individuals will receive a rebate of R40 000 (Mahlutshana, 2013).

The Section 12J fund (Mahlutshana, 2013) follows in the footsteps of similar funds that have been set up elsewhere in the world. In the UK, the Venture Capital Trust was established in 1995, and the Fonds Communs de Placement dans l'Innovation was established in France in 1997 (Da Rin et al., 2006).

2.7.5. Regulatory issues

Factors around the regulatory environment are high-income taxes for small firms, high-import taxes for technology, challenges in registering trademarks, difficulties in exporting new innovations, registering for tax, and receiving registration licenses. Furthermore, start-ups require access to skilled and motivated employees to experience continuous growth. However, labour regulations in South Africa make this a costly and time-consuming process (Booyens, Molotja, & Phiri, 2013; Olawale & Garwe, 2010). Because the implementation of many regulations are time-consuming, many start-ups and established SMMEs do not comply, specifically in terms of VAT and income tax as noted by Mollentz (2002) in Rogerson (2008).

In his discussion on the labour regulations in South Africa, Rogerson (2008) stated that the empowerment agenda is highly important for high-growth start-ups. But, according to Christianson (2003), the regulations introduced were aimed at larger corporates rather than the start-ups who perceive these as 'additional hassles'. Rogerson (2008)

added that the regulatory compliance costs are higher than those in developed countries, as mentioned by SBP (2005) in Rogerson (2008).

2.7.6. Cultural Limitations

Culture, as defined by Hofstede (1980) and Mueller and Thomas (2001) is the system of collective values that distinguish members of various groups. National culture therefore provides the frame of reference that members of society use to understand companies, the environment, and the relationship between the two (Kreiser et al., 2010; Geletkanycz, 1997).

In previous studies, it was found that a relationship exists between the entrepreneurial orientation and cultural variables, namely, individualism and power distance (Davidsson & Wiklund, 1997; Hayton, George, & Zahra, 2002; Mueller & Thomas, 2001; Luiz & Mariotti, 2011). Various authors agree that societies have different abilities to create and sustain entrepreneurial activity (McGrath, MacMillan, & Scheinberg, 1992; Kreiser et al., 2010). The cultural attributes of a country are one of the main determinants of its economic and entrepreneurial development, and the national culture has a particular influence on the level of entrepreneurship. This influence occurs through cultural values inherent in a society, as well as in the institutions representative of that culture (Hofstede, 1980; Kreiser et al., 2010).

In their research, Kreiser et al. (2010) posited that the entrepreneurial orientation consists of three dimensions, namely, innovativeness, risk taking, and proactiveness. Furthermore, they found that uncertainty avoidance and power distance have a negative effect on risk-taking levels.

Cultures that exhibit high levels of uncertainty avoidance – the ability of a society to deal with the inherent ambiguities and complexities of life – have a great dependence on written rules and regulations. Furthermore, they embrace formal structures as a mechanism to cope with the uncertainty (Hofstede, 1980; Mueller & Thomas, 2001; Kreiser et al., 2010).

Furthermore, institutions that are influenced by the culture of a country have an effect on the activities of corporates, especially the actions available to them. Therefore, the institutions such as laws, rules, governance mechanisms and capital markets, which are affected by the culture of the country, will determine the boundaries within which corporates can operate (Kreiser et al., 2010).

Entrepreneurial behaviour is influenced in different ways, depending on the different forms of protection of property rights. Therefore, entrepreneurship is dependent on different environments, namely the legal, labour and regulatory environments, as well as the design of bankruptcy (Anton & Yao, 2002).

Da Rin et al. (2006) posited that a reduction in the legal and regulatory barriers will increase the incentive to create high-tech and early stage companies, in turn, increasing the innovation ratios.

2.7.7. Structural limitations

In their report, Lamprecht & Swart (2010) identified two major obstacles considered to be an impediment to growth for South African Venture Capitalists, namely exchange control regulations and the size of the VC sector in South Africa.

2.7.7.1. Exchange control regulations

The exchange control regulations hamper the globalisation of South African developed intellectual property because IP relocation is on an arm's length basis. This requires the intellectual property to be sold outright, meaning that it is sold before the benefits are realised by the investor and the economy as a whole (Lamprecht & Swart, 2010).

Those investors who required exchange control approval spent an inordinate amount of time and money on developing globalisation strategies that bypassed exchange control regulations (Lamprecht & Swart, 2010).

2.7.7.2. The size of the VC sector in South Africa

Another major threat identified is the size of the South African VC asset class in comparison to other global VC markets. Considering the VC sector in South Africa is related to the growth and prosperity of the South African economy, the industry could enter into a state of decline if the economy enters one, resulting in local sources of VC funding becoming even more scarce (Lamprecht & Swart, 2010).

Tshabalala and Rankhumise (2011) found that in South Africa, the smaller businesses are more susceptible to changes in the economic environment than large businesses. Small businesses, unlike large businesses are unable to respond to changes primarily due to the lack of funds that large corporates have access to.

2.8. SUMMARY

The focus on CVC investments highlighted the distinct difference between IVCs and CVCs. Unlike IVCs, who are more focused on investing in start-ups with the eventual aim of exiting via IPOs or acquisitions, the CVCs are more focused on the achievement of strategic objectives for the corporate parent.

Several strategic objectives were identified, which take precedence over financial growth for corporates. CVCs are responsible for investing in companies that will assist the corporate parent in achieving the strategic objectives. Furthermore, the strategic benefits of CVC investments highlight the additional benefits that can be achieved by the corporate parent with the investments made by CVCs. Some of the benefits are realised by both the corporate parent, and the start-up, such as the access to complementary services, and the rate of innovation.

However, with identified objectives and benefits, so too are there obstacles around CVC investments. The obstacles to CVC investing are more focused on the corporate parent due to their financial power, existing policies, and their ability to 'make or break' the start-ups they have invested in. The corporate parents, due to inability to change, can adversely affect the start-up, and in turn, affect the operation of the start-up.

From a South African perspective, there is evidence that additional obstacles, hinder the growth of the CVC investment, and in turn, could lead to the corporate parent withdrawing their investment due to the complications, and costs associated.

3. RESEARCH QUESTIONS

This chapter provides a breakdown of the research questions that will be answered. As highlighted in the literature, the main area of focus has been in developed markets, such as the United States of America and Europe. In analysing the literature on CVCs, there was very little that focused on CVCs from a South African perspective. Based on the above, the purpose of this research is to identify whether the same outcomes, objectives, limitations and enablers are evident in South Africa, or alternatively, if the activities of CVCs in South Africa are markedly different.

The research method adopted was a qualitative, exploratory study. The researcher made use of interviews in order to answer the research questions. The interviews were unstructured and were guided by the discussion with the respondents, with a discussion guide used to assist in the conversation. The research methodology is discussed in detail in Chapter 4.

3.1. RESEARCH QUESTIONS

The following questions will be answered in the research paper:

1. What is the nature of CVC investing in South Africa?
2. How do corporate venture capitalists make investment decisions South Africa?
3. What are the factors that enable CVC investments?
4. What are the outcomes of CVC investments?
5. What are the factors that inhibit CVC investments?
6. What are the factors that inhibit CVC investments that are specific to South Africa?

4. RESEARCH METHODOLOGY

4.1. INTRODUCTION

The purpose of this chapter is to present and explain the research methodology that was adopted for this research. It includes research philosophy, the approach, design and the method of data analysis used. The chapter aims to illustrate how the approach was most appropriate in light of the objectives of the research topic.

The study entailed an assessment of how CVCs operate in a South African context. The research identified primarily pertains to developed economies, including North America and Europe.

4.2. RESEARCH DESIGN

Research design, as defined by Yin (2010) are 'logical blueprints', serving as the "logical" plans behind the research. In this instance the logic comprises the links between the research questions, data, and analysis, ensuring that the findings address the research questions put forward adequately.

The research design was qualitative and exploratory as the researcher intended to gain insight into actual experiences and knowledge of active corporate venture capitalists, and entrepreneurs. Furthermore, the research was deductive, therefore from the concepts outlined in Chapter 2 the researcher could determine the type of relevant data that had to be obtained. However, in inductive research the data obtained "lead[s] to the emergence of concepts" (Yin, 2010, p. 94).

Saunders and Lewis (2012) stated that exploratory research is performed with the aim of discovering new understandings, viewing existing topics in a new manner, and asking different questions to those asked already. Exploratory studies usually involve three ways of conducting research, as defined by Saunders and Lewis (2012), namely, searching for academic literature, interviewing experts in the subject, and conducting interviews.

Furthermore, exploratory research is not intended to provide definitive answers to a problem, but rather to validate that further research is required in order to provide more definitive evidence (Zikmund, Carr, & Griffin, 2012).

For the purpose of this study, interviews with experts in the fields of CVC, IVC, and entrepreneurship were conducted.

Entrepreneurship is a dynamic industry, which is difficult to measure from a numerical perspective. Therefore, it was imperative that the researcher engaged with the data sets in order to fully understand how CVCs operate in South Africa. The only way to truly engage with a topic of this nature was to conduct research first hand, in order to gain insight into the actual reality, workings and experiences of the CVCs. The research was cross sectional in that the data collected from participants was at only one period in time, or simply, from a 'snapshot' view (Saunders & Lewis, 2012).

The paucity of literature around CVCs in South Africa presented an exciting opportunity to attempt to understand CVC investing in South Africa. To this extent the researcher examined the strategic objectives, outcomes, limitations experienced during the investment process, as well as what the enablers to this type of investment were.

4.3. POPULATION AND UNIT OF ANALYSIS

CVCs, IVCs who have had experience of working with CVCs, and entrepreneurs in which CVCs have invested were selected. The primary focus was on the CVCs, with the IVCs and entrepreneurs interviewed for purposes of triangulation.

Triangulation is defined by Yardley (2009) in Yin (2010) as the point where "the intersection of three different reference points is used to calculate the precise location of an object" (p. 81). The point of triangulation is to verify events in more than one way, which served as another method in which the researcher could strengthen the validity of the study (Yin, 2010). Furthermore, triangulation was used to provide the researcher with confidence in what was being reported. Triangulation is done by seeking confirmation from three different kinds of sources, namely, direct observations, verbal reports, and documentation, providing the researcher with confidence in their reporting (Yin, 2010).

4.4. SAMPLE SIZE AND METHOD

The importance of the sampling method is highlighted by Cohen, Manion, and Morrison (2011) who stated that the quality of the research depends not only on the methodology chosen, but also on the sampling strategy selected. These authors identified two sampling strategies that can be adopted, namely, probability and non-

probability sampling. In probability sampling, it is generally known what the likelihood is of members of the population being selected. Conversely, when it is not known what the likelihood is of members of the population being selected, non-probability sampling is used.

Cohen et al. (2011) and Yin (2010) are in agreement that purposive sampling is a process whereby samples are chosen in a certain manner, or for a specific purpose, with the goal being that the sample will generate the most 'relevant and plentiful' data.

Based on the above, non-probability purposive sampling was used for the selection of the sample. The researcher selected a sample of individuals with in-depth knowledge of the CVC industry because of their involvement in the industry in an attempt to best answer the research questions and meet the objectives of the study (Saunders & Lewis, 2012; Cohen et al., 2011).

In order to avoid bias, entrepreneurs that have received investment by corporates, and independent venture capitalists that have worked with CVCs were also interviewed. These samples were selected so as to ensure that contrarian views could be provided (Yin, 2010).

Three groups, namely data set 1, data set 2, and data set 3, were created for the purposes of the study.

- Data set 1 included those individuals who are employed by a corporate and who are involved in the CVC activities of the corporate in South Africa. The sample consisted of six CVCs
- Data set 2 included entrepreneurs who were responsible for a start-up business and have subsequently been absorbed into a large corporate in South Africa. The sample consisted of four Entrepreneurs.
- Data set 3 included IVCs who were responsible for investing in start-ups in South Africa, who have had experience with CVCs. The sample consisted of two IVCs

4.5. RESEARCH INSTRUMENT AND DATA COLLECTION

Interviews were conducted in a semi-structured format, allowing the researcher to ask specific questions, while at the same time allowing the interviews to be flexible. All

interviews included a range of probing, direct and indirect, and interpretive questions (Saunders & Lewis, 2012).

Prior to conducting the interviews, respondents were asked to sign informed consent letters that allowed them to withdraw from the research study at any time. Furthermore, the informed consent letters provided the researcher with the necessary consent from the respondents to conduct the interviews, allowing them to be recorded and the information transcribed upon completion of the interviews.

The order of the questions varied from interview to interview, as they depended on the responses of the interviewees, and their willingness to contribute to the discussion, as stated in Saunders and Lewis (2012). Yin (2010) expanded this view by stating that although there is no complete list of questions that the researcher will pose to respondents, the researcher will have a 'mental framework' of questions. The questions posed to the respondents differed based on the way the interview was panning out, with the interview taking the form of a conversation (Yin, 2010).

Yin (2010) highlighted the importance of recording methods other than writing, in that the audio recordings act as "literal replicas" of the interviews. However, in order to ensure that the interviews could be recorded, prior consent was obtained from the respondents. In this study the interviews were recorded, so as to ensure that the researcher had the ability to go back to the recordings, transcribe the interviews, review the transcripts, and extract the necessary information that may have been overlooked during the initial interview process.

Two sets of discussion guides were created, one discussion guide was for the interviewees in data set one, and the other for interviewees in data set two and three. All respondents were asked four general questions, namely:

1. What is your current role, and what are you responsible for?
2. Tell me a bit about your company
3. What are your thoughts on VC and CVC activity in South Africa?
4. What factors do you believe facilitate, or possibly inhibit CVC investments in South Africa?

The discussion guide for respondents that fell into data sets 1 and 3 was as follows:

1. Over the last few years, what types of investments have your company made in start-ups?
2. Based on the research done, factors such as innovation and access to new technologies are some of the strategic objectives people use for CVC investments. What was the rationale for investing in the identified start-ups?
3. In terms of financial and strategic goals, how do you determine which is more important when making investments?
4. What are some of the strategic goals that you consider when making CVC investments?
5. How do you provide assistance to the start-ups post investment?
6. From a before, during, and after perspective, how would you define the relationship between the start-up and the company?
7. Could this relationship be improved, and if so, in what way?
8. After the investment in start-ups, what was expected of the start-up from an operational and financial perspective?
9. To date, what results have been achieved from CVC investments made?
10. Discuss the lessons learnt that could influence future investments.
11. How do external factors play a role in decisions around investing in start-ups?
12. Are there any other comments you would like to add?

The discussion guide for respondents that fell into data set 2 was as follows:

1. Since the corporate invested in your company, what have the results been?
2. From a before, during, and after perspective, how would you define the relationship between the start-up and the corporate?
3. How has it been working with the corporate since they acquired you?
4. Are you involved in the decisions made by the corporate that affect your company?
5. In which way are you involved in the decision-making regarding your company?
6. How does the corporate provide assistance to your company?
7. Describe your company before and after investment by company X.
8. How does the corporate measure the performance of your company?
9. What factors influenced your decision to be acquired by the corporate?
10. Are there any other comments you would like to add?

Prior to conducting the interviews, a pilot interview was conducted. According to Yin (2010), a pilot study assists the researcher in testing and refining aspects of the research instrument. Upon completion of the pilot study, the research questions were refined, as per Yin (2010).

4.6. DATA ANALYSIS

Cohen et al. (2011) described qualitative data analysis as a process that involves organising, accounting for and explaining the data. Qualitative data analysis is a process whereby the researcher makes sense of the data based on the participants' responses.

Due to the large amounts of data obtained through qualitative research, the researcher conducted early analysis on the data, selecting pertinent features, in turn reducing the problem of data overload, as identified by Cohen et al. (2011). This process is defined by Parlett and Hamilton (1976) in Cohen et al. (2011) as progressive focusing.

Qualitative content analysis was used as a method for analysing text data and is defined as a research method for the subjective interpretation of the context of text data through the systematic classification process of coding and identifying themes (Hsieh & Shannon, 2005). These authors furthermore identified three distinct approaches to content analysis, namely conventional, directed and summative.

The researcher adopted directed content analysis as the method of analysis for this study. Directed content analysis is the preferable method of analysis when the aim of the study is to describe a phenomenon that could benefit from further description (Hsieh & Shannon, 2005). This was most applicable in the present case, as the literature pertaining to the CVC phenomenon in South Africa is extremely limited, with the majority of literature focusing on international markets.

The researcher engaged in the data provided by the interviewees with the intention of deriving codes, which were then sorted into categories – an example of the code book is in Appendix Two. Based on existing theory, the researcher was able to identify key concepts that were used for initial coding of categories as defined by Hsieh and Shannon (2005). In order to manage this process identified above Computer Assisted Qualitative Data Analysis (CAQDAS) – software assisting in the analysis of qualitative data was used – specifically Atlas.ti7 (Yin, 2010).

The transcripts of the interviews were imported into Atlas.ti7, followed by the coding of the transcripts, and subsequent identification of themes based on the codes identified. The identification of themes assisted in identifying relevant quotes that the researcher was able to use for the discussion of results – an example of a transcript is in Appendix One.

4.7. RELIABILITY AND VALIDITY

Bogdan and Biklen (1992) in Cohen et al. (2011) considered reliability as the “fit between what researchers record as data and what actually occurs in the natural setting that is being researched” (p. 149). In this case, reliability was achieved through triangulation of the interviews.

Cohen et al. (2011) identified two types of validity, namely, internal and external validity.

Internal validity is validity that attempts to demonstrate that the information obtained during interviews can be defended by the data. In this case, validity was achieved by triangulation of the interviews with respondents from multiple data sets (Cohen et al., 2011).

External validity is the degree to which the results obtained can be generalised to the entire population (Cohen et al., 2011). Yin (2010) argued that research studies will have greater value if the findings can be generalised to other situations. In this case, external validity was ensured by conducting interviews with several CVCs, enabling the researcher to generalise the findings more confidently.

4.8. CONFIDENTIALITY AND ANONYMITY

Due to the sensitivity of the information divulged during the interviews, the respondents have been anonymised and have been given pseudonyms (Yin, 2010).

4.9. RESEARCH LIMITATIONS

In this research certain limitations were evident: The analysis primarily examined the activities of CVCs with limited interaction with IVCs, as such, it could not be used to generalise for the Venture Capital industry in South Africa as a whole.

Furthermore, the research did not attempt to understand the value of investments made by CVCs, but rather, the objectives and outcomes of the CVCs. By doing so, the research did not provide information on the financial costs incurred by the CVCs on investments in start-ups. Due to the cross-sectional nature of the research, the researcher was unable to re-interview respondents after a particular period to confirm the initial findings. Although multiple respondents were interviewed, in order to ensure greater validity, quantitative studies will need to occur.

5. RESULTS

5.1. INTRODUCTION

The purpose of this chapter is to present and discuss the results of the interviews with corporate venture capitalists, independent venture capitalists and entrepreneurs that have received funding from the corporate venture capitalists.

The chapter is structured according to the research questions that the researcher was intending to answer, as identified in Chapter 3.

1. What is the nature of corporate venture capital investing in South Africa?
2. How do corporate venture capitalists make investment decisions in South Africa?
3. What are the factors that enable corporate venture capital investments in South Africa?
4. What are the outcomes of the investments?
5. What factors inhibit corporate venture capital investments?
6. What factors inhibit corporate venture capital investments that are specific to South Africa?

5.2. TABLE OF INTERVIEWEES

Table 1 shows the 12 interviewees, their roles in the respective organisations, as well as the size and type of the organisation. The researcher retained respondents' anonymity, though quoting directly from interviews.

Table 1: List of Interviewees

Interviewee	Role	Type of Organisation	Size of organisation
1	CVC 1	Media and Publishing	±150
2	CVC 2	Media and Publishing	±500
3	CVC 3	Media and Publishing	±150
4	CVC 4	Marketing	±300
5	CVC 5	Marketing	±500
6	CVC 6	Media and Publishing	±300
7	Ent 1	Telecommunications	±5
8	Ent 2	Marketing	±20
9	Ent 3	Digital Operations	±10
10	Ent 4	Digital Operations	±40
11	IVC 1	Venture Capital	±4
12	IVC 2	Venture Capital	±3

5.3. RESEARCH PROCESS

Respondents were contacted to schedule a time for the interviews. A one-hour session was scheduled with each respondent, either at their place of employment, or telephonically.

Prior to each interview, each respondent was requested to sign an informed consent letter that ensured permission was granted for the interview to be recorded. For purposes of anonymity, the respondents have been renamed according to their role, followed by a numeric number, which will be used to identify the quotes of respondents in this chapter.

The interviews were open-ended, allowing the conversation to guide the discussion, whilst obtaining the relevant information from respondents required to answer the research questions.

Upon completion of the interviews, the recordings were transcribed into Microsoft Word format. Thereafter the word documents were imported into Atlas.ti to allow for coding to occur. The coding allowed the researcher to identify the categories and themes in

which the codes would be placed. Prior to coding, a code book was generated that allowed the researcher to identify codes that he thought could be used. Upon commencement of coding in Atlas.ti, more codes were developed.

Once the coding had been completed, the researcher generated reports for each code family with the quotes attributed to the codes in that family. These reports were used to identify the key quotes to highlight the findings in this chapter.

5.4. RESEARCH QUESTION 1: WHAT IS THE NATURE OF CVC INVESTING IN SOUTH AFRICA?

The respondents were asked to provide their views on the funding environment in South Africa, specifically with regard to venture capital and corporate venture capital activities.

5.4.1. The funding environment in South Africa

The general discussion around the funding environment in South Africa focused on traditional venture capital, corporate venture capital, private equity, angel investors, as well as mergers and acquisitions. The respondents were of the view that there was a distinct difference in these constructs and that each construct has unique characteristics in respect of its activity in the funding environment.

One of the major points that emanated from the interviews was that respondents believed that in general, the market is driven by private equity and angel investors as opposed to venture capitalists. The respondents, however, mentioned that within private equity some investments, are unsuccessful due to the fact that the private equity company does not have the requisite understanding of the industries in which they are investing. The complication within Private Equity arises when investors follow the industry trends, investing large amounts of money into these industries without sufficient knowledge of the industries.

“... most of the private equity locally is being funnelled into the digital space, and frankly it’s stupid. 99.9% of the guys put money into it, and lose their shirts.”

(CVC 1)

Respondents highlighted the types of investments made by venture capital and private equity as a key differentiating factor. Within private equity, the respondents were generally of the opinion that they were looking at more established companies.

Conversely, venture capitalists have nothing against which the identified start-ups can be measured.

“With the private equity firm, that’s one thing that people look at, my entry point and my exit point, now tell me if it’s a real, real venture capital, what’s going to be your entry point and your exit point, remember that you are entering at zero value, now as opposed to a private equity, somebody can say we entered at 5 times EBITDA multiples, and then if we exit at 5 times the EBITDA multiple after a period of 4 or 5 years whereby there was some growth and there was some return in the process, yes we have made money and then we can calculate an IRR.” (CVC 3)

“Venture Capital is pure early stage versus early to mature versus, or before that, pre-revenue, imminent revenue, post revenue. Everything is related to a stage. That for me is what venture capital is, venture, the word on its own would mean a journey, and the journey is a journey of growth. If it is not about growth, and it is about tick boxes, then it is not venture capital because we want to capitalise from this journey.” (IVC 1)

Most of the corporate venture capitalists interviewed believed that although there is some form of CVC activity occurring in South Africa, the majority of the investments made by corporates are in more established businesses in the form of mergers and acquisitions (M&A). M&A deals allow the corporates to place a value on their investments as opposed to investing in a start-up that has no previous track record.

“... this is what makes it very different to a M&A deal, where a M&A deal is pretty simple, there’s an income statement, there’s a balance sheet, there’s future liability, you understand a bunch load of stuff, because you actually buying an asset that has value right now. With Venture Capital, it’s venture, you don’t know. You’ve got hypotheses that you testing in a real environment; they may or may not work.” (CVC 1)

“... whereby it’s not going to be more around how much we tell you we are going to make, as opposed to in South Africa, that’s why you would find the biggest part of activity is around M&A activity and everybody starts measuring what’s the uplift if I buy this thing and put it in my entity, what sort of return, what is it going to do with my top line, what is it going to do with my bottom line, that’s basically what it is.” (CVC 3)

5.4.2. Venture Capital Investments in a South African Context

The general feeling amongst corporate and entrepreneurial respondents was that although there is some level of venture capital investments in South Africa, the mentality is not the same as it is elsewhere in the world. In other world markets venture capitalists are willing to invest large amounts of money into start-ups with the potential of the start-up transforming into a large scale operation such as Facebook or Google.

“... out of the 10 hits, maybe 1 will be fruitful, and that one might be a Facebook or that one may be a Google.” (CVC 3)

“... in general we are very underdeveloped, we are not a gung-ho nation, we are not this lets invest in start-ups and 1 in 10 will work and all that, we are not that country.” (CVC 5)

“... the long and the short of it is, guys have got some money to throw at these things, but if you look at VC like a Silicon Valley vibe, a guy will throw 10 million dollars at something and he knows that you are not going to make a profit for the next three to five years, and that’s his gamble. One hundred million rand – not happening in this place.” (Ent 2)

“... you don’t seem to have the appetite for strong angel investor networks and round A funding that the Americans have spent a lot of time since the .com crash of 2000 kind of working on this, and it’s become an industry on its own, you don’t find it here and it’s also in the UK it’s not as strong as in America. So it’s really a very small market, there is a handful of people that are looking at pure start-ups, there are venture capitalist companies that look to make private equity investments, but they are looking at established businesses, but from disruptive start-ups there is very little in terms of venture capital.” (Ent 3)

From an entrepreneurs' perspective, those interviewed were of the view that the venture capital market in South Africa was still at an infant stage, operated by individuals who are still risk averse, thereby inhibiting the types of investments that they would be willing to make in the start-up. One corporate respondent who started off as an entrepreneur compared this to the chicken-and-egg scenario, in that they had no experience and were asking for funding, with the venture capitalists requiring the entrepreneurs to have a level of experience in order for them to invest.

“A lot of them rejected us outright because we had no experience. It is the chicken and egg scenario, which is what VC is all about. But what I found was, and not that much has changed, I get a bad feeling that it hasn’t, is that there is no planned strategic approach, to how to go about it, how to value it, how to analyse the ideas.” (CVC 4)

5.4.3. Activities of Corporate Venture Capitalists

The underlying theme that seemed evident from the entrepreneurial respondents is that corporates are becoming involved. However, unlike the independent venture capitalists who are looking at investments that would eventually result in an exit, corporate venture capitalists are distinct in that they are seeking longevity and are more focussed on investments that are going to further their strategic objectives.

“That’s their model, so 80% will fail and hopefully 1 or 2 will be big hits and then they make a lot of money in that way, corporate investments don’t like to do that like the venture capitalists. They like to somehow make it a success and those are two different mind-sets.” (Ent 3)

Many of the respondents interviewed had made several investments with some of them succeeding, and some failing. Those that failed have proved to be of value to the corporates in that the failure would prevent them from making the same mistakes in future investments.

Some of the activities in which corporate venture capitalists have been involved include investments in start-ups, licensing agreements with start-ups, and outright acquisitions of start-ups, absorbing them into the corporate. Furthermore, some of the start-ups that received investment funding have reached the point where they too are considering investing in start-ups to help them further the growth of their business. This is done to enable the entrepreneurial businesses to grow at the rates expected of them by the corporate.

It is evident from the interviews that previously corporate venture capital was a slow process, requiring multiple rounds of back and forth between the corporate and the start-up before anything happened. The respondents agreed that the process is more efficient, and that the speed at which these investments occur has increased, to a similar speed than that of IVCs. The increase in the speed of the investment process has therefore allowed CVCs to become more competitive with IVCs.

“Three years ago, you would have found that the corporates would have responded to a particular venture maybe at the same pace as venture capital firms. Maybe a little bit slower but there or there about. I think all of that is starting to change.” (IVC 1)

With regard to corporate venture capital, entrepreneurial and corporate respondents emphasised that the major issue is around corporates investing in more established companies as opposed to taking the risk of investing in a new business. Most corporate and entrepreneurial respondents were of the opinion that based on their experience, corporates are rather targeting the developed businesses that can guarantee them a return. In some cases, the respondents noted that some corporates are investigating investments that would generate short-term returns at the expense of taking a long-term view on investments that have the potential to keep the business going in the long run. Although most of the CVCs interviewed invest with the intention of long-term growth, there were some who invested in businesses with the sole intention of realising quick returns. This was attributed to the board of directors not understanding the need for long-term investments.

“... you are also buying tomorrow, the idea then is how do you buy tomorrow when your attitude is that of making an acquisition, because it says nothing, absolutely nothing about you actually utilising what you have acquired to either grow your core or diversify into what you have bought.” (CVC 6)

This can be attributed to the fact that over and above the business, the corporate wants stability. Consequently those businesses that have stable management teams in place stand more chance of receiving investment funding.

“... from a corporate venture capital point of view, it's better, but because the guys are bigger corporates, the guys that are making the acquisitions, I think they are buying slightly more mature businesses, so maybe not at start-up phase, but give the guys two, three years to get their feet on the ground, then saying cool there is a business, there is a management team, now let's go and buy it.” (CVC 5)

“... some corporates look to buy revenue streams, some corporates look to buy things where they are already at start-up phase, and in our case we probably look for a mix.” (CVC 2)

However, corporate venture capitalists agree that investment trends should move beyond the point of considering established businesses towards looking at investing in new start-ups that have no proven track record.

“... in terms of the corporate venture capital, if you look at it in some of those other markets it's more about, you backing people that might be smart, having an idea, which idea some of it has never been tested and so there are risks and so you have to be able to come to grips and if that does not realise it's okay.” (CVC 3)

The entrepreneurial respondents also believed that there were clearly defined, and different stages of venture capital investments, ranging from early investment through to investments in businesses that have been around for a couple of years. Depending on the type of VC that entrepreneurs approached, they would receive different levels of funding, and different levels of support.

“... and that was more from, we could have done something with him but we were on the cusp of being too big for them getting involved and what's their involvement, they don't put in any money, they give you infrastructure, to me it's like a bloody scheme, they are not giving you VC.” (Ent 2)

Corporate respondents generally agreed that other factors play a role in corporate investments. Some of these factors include: complementary services, extracting value out of the entrepreneurial business, meeting strategic goals outlined by the corporate, and attacking market segments that the corporate has not traditionally been able to. These factors allow the corporate parent to extend their offerings in a rapid manner, avoiding timeous investments in internal processes such as R&D.

The independent venture capitalists and entrepreneurs interviewed agreed that the maturity and mentality of corporates have improved over the years' resulting in successful investments. Mature corporates are able to be more sympathetic towards the needs of the entrepreneur, and willing to alter their initial idea if need be.

“Corporate investors who understand business are, I think they meet quarterly they will review what is happening and they will understand if things aren't going according to plan and they will try and assist them and they will want to get the returns at the end of the day but I think they are a lot sympathetic to the realities

of new businesses more so maybe than the private investors would be....”
(IVC 2)

5.4.4. Summary of Research Question 1

In an attempt to understand the nature of investing in South Africa, respondents highlighted the different types of funding available to entrepreneurs. The discussion focused predominantly on the activity of venture capital and private equity investments in South Africa,

Furthermore, the respondents discussed the venture capital industry in South Africa in which the mentality of venture capitalists was discussed in comparison to other world markets. Entrepreneurs who had received funding from CVCs elaborated on the VC industry as a whole, further adding to the comparisons between South Africa and other world markets.

Finally, the discussion focused on the activities of CVCs, understanding how CVCs are involved in South Africa and how they differ from IVCs.

5.5. RESEARCH QUESTION 2: HOW DO CVCs IN SOUTH AFRICA MAKE INVESTMENT DECISIONS?

The respondents were asked how they make decisions regarding CVC investments. The aim of this discussion was to understand the types of objectives that CVCs believe they will achieve through the CVC investments.

5.5.1. Technology Intelligence

During the interview process it was identified that corporates who make CVC investments would generally do so with the intention of accessing new technologies that they either have not previously considered, or alternatively, do not have the resources to develop internally. The intention behind the investments is that they would increase their product or service offering to a wider audience.

“... it’s some of the things that we want to do and branch out but we could not actually do it ourselves.” (CVC 3)

“... we bought businesses that were not like us.” (CVC 2)

The entrepreneurs interviewed also agreed that they received investment funding from corporates because they provide services within the same space as those corporates, however, the technologies used by them are different and have a competitive edge.

*“From a business perspective, they do what I don’t, and I do what they don’t.”
(Ent 2)*

It would seem though that the rationale for these investments should be identified clearly. This ensures that the corporates invest in the right businesses, therefore addressing those needs that they have identified.

“From a corporate investment, and new ventures especially, what is the idea behind investing in a technology or a particular type of product set that you don’t have, what is behind, what is the thinking behind it?” (CVC 6)

Even start-ups who have received investment funding from the corporates often consider other technologies that they may require in order to be more successful. This is attributed to the fact that the individuals in the entrepreneurial businesses understand that they do not have the capabilities to commercialise every offering. It therefore is more sensible for them to partner with other companies that can provide the offerings they require.

One of the entrepreneurs interviewed believed that based on their strategic objectives and those of the corporates, they make decisions regarding technologies that they need and consider who would be the ultimate partner with which they can align themselves. This emphasises the fact that in some cases, CVC activity is initiated by the entrepreneurial business.

“... from an innovations perspective, driving the business from a strategic point of view, so if we’ve made decisions that we want to align ourselves with certain strategic partners or by technology.” (Ent 2)

However, an entrepreneur emphasised that once corporates invest in the start-up, there is often a lag between investment and advising the market about the investment. This has proven to be problematic. Entrepreneurs require their offering to be commercialised and the delay in commercialisation by the corporate parent could impact on the operations of the entrepreneurial business.

“... when he looked at our stuff, and at some stage he said ‘Guys, this is the world’s best kept secret, you guys have got amazing stuff, why don’t you tell the world about this?’” (Ent 4)

5.5.2. Market Intelligence

A number of corporates stated that they would invest in companies that provide the same offering, yet, they differ in respect of their target markets. By investing in the identified business, they are able to expand their reach within their existing market and new target markets.

“... for example, we invested in another company which is exactly the same as our company but operates in the townships. The reason for that was just to expand our footprint and say we cover Sandton and Hyde Park, and we also cover Soshanguve and Soweto.” (CVC 5)

Corporates also look at the individuals and teams behind the start-up. By doing so, it provides the corporate with an idea of the potential success of the existing technology that the start-up may have. Further, it also provides an indication of the future potential of the individual, and what they can bring to the corporate.

“... there are a million good guys with interesting approaches to business, but ultimately, it will come down to not just the idea, but the capacity of the individual to execute on the idea. Our learnings around this thing is that you don’t invest in the idea, you invest in the management team who has the idea.” (CVC 1)

“Personality does have a significant implication because that’s kind of what you are buying, we are talking about knowledge-based businesses, we are not talking about asset businesses or a brokerage where there is a client base that you are buying. We not talking about, when you are talking about start-ups you are not buying anything but people and some Intellectual Property, that’s really all you are buying so the people are fundamentally important to that.” (CVC 2)

The entrepreneurs who received corporate funding agreed that more than just investing in the initial idea, corporates are investing in individuals who have the ability to recognise that their idea might not be the one that was initially planned, but they have the potential to alter their business idea, and at the same time, originate new ideas.

“... my view is that I think ideas, I think if a team is working in a space, the actual idea, unless it's some patented technology but most often it's not, I think it's a combination of them being passionate about the space and being a talented team. Twitter did a massive pivot in their business, they were trying to do group SMSs so it's related, but the end product often looks different, so I think it's a lot about the team and that's why the team gets locked in so heavily.”
(Ent 3)

5.5.3. Growth of existing businesses

During the Interviews, both independent venture capitalists and corporate venture capitalists stated that it was evident another distinct difference existed in the rationale for investing in start-ups. The independent venture capitalist considers investing in start-ups that will solely provide a positive return on investment (ROI).

“Venture capital exit is based on innovation, based on the ability to innovate and based on the ability to tickle the fancy of further interest with further interest that has bigger pockets. So venture capitalist selling to venture capitalist selling to venture capitalist selling to private equity firm, another private equity firm, and maybe it will go to Initial Public Offering (IPO).” (IVC 1)

“The traditional VC space is where the venture capital company can see if they invest in the traditional IT start-up that has potential to either list or be sold off, where they can see very clear potential exit strategy where there is a huge upside” (IVC 2)

It would seem from the interviews that majority of corporate venture capitalists are focused on investments that will provide the corporate parent with a faster method of gaining market share. Furthermore, it allows the corporate to grow the product offering of the existing corporate a lot quicker than attempting to grow the business organically, where they might not have the necessary resources or knowledge to do so.

“We know we need to change and we are trying to do that, but we know we can't change fast enough so we need people who know how to do that other stuff so we can get that change.” (CVC 2)

Although the corporates are aware that they need to change as identified above, there is an apparent concern that with the saturation of markets, growing organically or

through investments has become more difficult. Therefore it has become even more important to find the right investment that can grow the corporate.

“... we should only be doing things that move the dial, and tempting as it is to get involved with cool guys, and cool ideas, we have got to do things that will make a difference. So finding start-ups that are of an acceptable risk, where you are willing to invest 10s of millions of rands for us as a business is tough. I think the bigger we have gotten the harder it is to move the dial, the greater the level of risk we have to take and the harder it is to find VCs that are big enough to make that dial move.” (CVC 4)

From a growth perspective, it was evident that corporates showed clearly defined growth measurements that impact on the start-ups in which they had invested. One entrepreneur stated that despite corporate funding, they also have to ensure that they grow at the same rate as the corporate parent.

“You need to grow your subsidiary by the same percentage that the group is growing their profits on an annual basis which is generally 25% ... like some of the other subsidiaries here, you hit a saturation point and it becomes very, very difficult, because you need to warrant increased profits on an annual basis in a market, and some of the subsidiaries are fairly saturated, so at that point then, the best thing to do is to make acquisitions in entities that are fairly similar to what you are doing, but may not necessarily be exactly what you are doing in your current subsidiary.” (Ent 1)

5.5.4. Entering new businesses

Although most corporate respondents agreed that they would invest in start-ups with the intention of expanding or diversifying their business offering, there were concerns around the types of opportunities that presented themselves.. While the independent venture capitalists will consider opportunities that are both “white space” and disruptive, the corporates are more selective and cautious in their consideration of intended investments.

Corporates tend to look at different offerings, evidenced in an entrepreneur’s statement. He stated that the corporate that had invested in them initially approached them looking for a disruptive opportunity before investing in their start-up because of the ‘traditional’ offering they could provide to the corporates existing business.

“ABC came about, they found us and not found us because of digital, they found us because they were looking how to brand cars.” (Ent 2)

“BeDone, I think it was more about, this is going to be a new way of looking at things innovatively and it had nothing to do with the existing model.” (CVC 3)

An independent venture capitalist highlighted the lack of corporates' investments in technologies that could disrupt the market. He was of the view that this was primarily because corporates would not invest in a business unless they have made a conscious decision to expand their strategy to provide that offering. The IVC emphasised that the ability to exit investments with corporates acquiring their portion of the investment was something that the IVC considered to be beneficial to both parties. However, the respondent felt that this does not happen as corporates are too focused on their own business and fail to consider any issue except those that concern meeting the objectives.

“We made an investment a couple of years ago in a company that has got a device that plugs into a smart phone that turns it into a point of sale. Number one, the technology that was 100% disruptive, it is 100% something that the banks should want to get their hands on. But they do not.” (IVC 1)

5.5.5. Summary of Research Question 2

In this section, the results of the decisions around investments were discussed. The respondents stated that they were hoping to achieve several objectives through their CVC activities. These objectives were identified as technology intelligence, market intelligence, growing the existing business and entering new lines of business.

5.6. RESEARCH QUESTION 3: WHAT ARE THE FACTORS THAT ENABLE CVC INVESTMENTS IN SOUTH AFRICA?

Respondents were asked to express their views on what they believed enabled the CVC investments that they had been involved in. They named four enabling factors namely partnering, individuals, mentoring and clearly defined goals..

5.6.1. Partnering

Most of the respondents felt that in order for corporates to succeed in their corporate venture capital investments, there may be a benefit in partnering with other corporate venture capitalists, or alternatively, by partnering with independent venture capitalists.

The benefit of the symbiotic relationship could be that the independent venture capitalist provides certain skills that corporate venture capitalists may lack, whilst the corporate would provide the independent venture capitalist with resources required for a successful investment.

“I think it’s even better because what you are doing it’s more to say, that’s why it talks to this whole win-win situation as well, because if you are there with somebody else who is there, they might have certain strengths that you don’t have, but they are going to bring into the party, you are going to bring something else and then if this thing becomes successful both parties are winners.” (CVC 3)

“If they are smart about it, I think South Africa might go a different route to a lot of US based, high investment rate corporates. I think what you will find is that they start to partner with venture capital firms, is that they start to almost outsource their R&D to an extent.” (IVC 1)

A further comment was made by one of the respondents who felt that a closer relationship between corporate venture capitalists and the Industrial Development Corporation (IDC) would benefit start-ups as the IDC has a mandate to invest certain amounts in start-ups. The corporate could then provide additional skills that the start-ups require. Further, the funding rates provided by the IDC are significantly lower than other financial institutions thereby making it more palatable for start-ups.

5.6.2. Individuals

The respondents believed that the successful relationship between start-ups and corporate venture capitalists might be attributable to the individuals and the team who were involved in the start-up from inception. Corporates stated that prior to investing, they attempt to ascertain whether the individuals involved in the start-up would be able to make the necessary adjustments in the start-up progress to a point of success should the initial idea fail.

“... we kind of have always thought that we back jockeys not horses, businesses change over time, situations change over time, good people will make things happen, so we sought out, more importantly people that we like that we believe in and we have looked to back them in their ideas.” (CVC 4)

When investing in a start-up, corporates are aware that it is generally the vision of the individual who has driven the start-up to the point of investment. As such, organisations have to be cognisant of the fact that any changes made to personnel could have an adverse effect on the operations on the business, especially if it is a small start-up.

“Organisations of a certain size, small ones, that have been typically started by an individual and really are that individual to a certain extent then the individual is really, really important, so I think that the people involved are fundamentally important.” (CVC 2)

From the entrepreneurs' perspective, the majority of entrepreneurial respondents felt that the corporates trusted them sufficiently to know that they would do everything possible to ensure that the start-up is successful.

“You want to invest in people who can make their own decisions as long as it's for the betterment of the business, so the guys as I said generally let you run your own show unless it's going horribly wrong and they need to get involved.” (Ent 1)

5.6.3. Mentoring

The respondents agreed corporates could and should provide certain levels of assistance to start-ups and such assistance would contribute to the success of a start-up.

However, respondents raised the concern that although there is an entrepreneurial culture in South Africa, the start-ups require a high level of incubation to ensure that their ideas can be commercialised. The corporate respondents highlighted that although they feel there is an entrepreneurial culture, it is not one that creates innovative solutions. Furthermore, the type of entrepreneurial culture that respondents identified is not one that would lead CVCs to invest in the entrepreneurs.

“We have a very entrepreneurial culture in South Africa, but the entrepreneurial culture translates slightly differently, so what you do is you get two beggars

standing at the robot selling the exact same charger, because what they do is they look around and say who's making money, how are they making money, let me do more of the same. We are not an innovation culture.” (CVC 5)

Respondents believed that in order for South Africa to encourage an innovative entrepreneurial culture amongst individuals, sufficient support facilities should be in place, such as panels of individuals who mentor and assist entrepreneurs. By doing so, it would allow the entrepreneurs to gain access to skilled and experienced individuals and corporates who can assist with all relevant business matters, such as legal and financial issues.

“As an entrepreneur because I've done it often, and you kind of do everything so you have to be the accountant, you have to structure your own legal agreements, you running, you doing the marketing, you doing everything in the start ups because you can't afford to employ specialists to do it for you, so without mentorship and without assistance it's a really lonely space.” (IVC 2)

5.6.4. Clearly defined goals

In order for the investments to be successful, the respondents agreed that clearly defined goals had to be set to assist start-ups in understanding what was required of them from the onset. Further, it would also enable corporates to determine what is required of them in order to meet those objectives.

From the entrepreneurs' perspective, they believed that they would be able to ensure the success of their start-up if the goals and parameters within which the start-up should function, were clearly defined.

“KKW was allowed to do X, basically anything BUT turn-by-turn navigation. You want turn-by-turn navigation that was a CCE function. A couple of small little things like topomaps, military, sort of historical stuff got kept in that world, but we as KKW had the right to, an exclusive right, to go to market with everything else.” (Ent 4)

“They said they wouldn't interfere, but would give us targets for the next five years, and as long as they were maintained, we could do whatever we needed to do.” (Ent 4)

Some corporates felt that the lack of clarity in communicating what was expected of the start-up may have partly resulted in failure of some ventures in which they had invested. Furthermore, the measurements that were put in place were not in line with what was expected of the start-up.

“... make sure that those people are measured and rewarded on their earn-outs for the things, everyone knows what to expect from them and you don't change it all the time.” (CVC 2)

5.6.5. Summary of Research Question 3

The respondents identified several factors that they believed acted as enablers in the CVC investments that they had been involved in. The factors identified by respondents were identified as partnering or syndication agreements with other CVCs or IVCs, identifying entrepreneurial businesses that have the individuals in them to provide the business with a better chance of succeeding.

Furthermore, mentoring was identified as another factor that enabled the investments, whereby the corporates would provide the relevant business skills to individuals. Finally, corporates identified that clearly defined goals that are agreed upon by both the corporate and entrepreneur ensure that all parties are aware of what they are required to do.

5.7. RESEARCH QUESTION 4: WHAT ARE THE OUTCOMES OF THE INVESTMENTS?

5.7.1. Introduction to Research Question 4

Respondents were asked what the results of the investments in entrepreneurial businesses were. These questions were asked to identify the outcomes that CVCs could expect when partaking in CVC investments. The outcomes of the CVC investments were identified by respondents below.

5.7.2. Risk mitigation

By investing in start-ups, corporates are given the opportunity to ensure that their strategic goals are achieved in the cheapest way and with the least risk. Corporates were of the view that diversifying their offerings beyond their traditional offering granted them the opportunity to provide new solutions. These new solutions would have no effect on the core business and that would ensure that they remain relevant within the industry.

“I think for me it starts with the idea that what will your business be like tomorrow? Will it be the same business, what have you thought around?”
(CVC 6)

Furthermore, corporate respondents felt that it was easier to invest in start-ups that would help the corporate alter their perception in the market.

“... if you find a fairly smoke-stack business that is regarded as being old and not innovative and they know that, and either they are listed or are valued in some way in the market, they would probably try and change market perception by buying businesses that would change that perception.” (CVC 2)

5.7.3. Windows on Technology

Most corporate respondents agreed that the outcome of corporate venture capital investing is increased access to new technologies, thus gaining a better understanding of what innovative technologies exist with the aim of furthering the goals and objectives of the business.

“We looked at the gaps and the needs of our clients, where we had to outsource things, or simply were not able to do it because it just didn’t exist, we were encouraged to either identify guys who could make that a reality for us.” (CVC 4)

In most cases, the corporates interviewed knew what they wanted and needed in order to further their strategic goals. These included: technologies, products or services that they either did not have the capability to build or were different to their current offering. As such, the investments in the start-ups enabled them to increase their market offering through the distribution of new products and technologies.

“We’re a big business, it’s becoming quite hard to innovate, and our boat is heavy. We’ve always got the risk of the one man show coming up with one better concept than us, so it’s sometimes cheaper to just buy them out.” (CVC 5)

“If your corporate sits where it sits, it needs to, it does needs to grow, but needs to grow at a rate. It has to at least grow at an increasing rate, grow at a rate that is faster than its competitors. So, if you want to acquire a particular technology, maybe that is the good side of it, that some technologies or some solutions will fit into those strategic gaps a lot better, and have much greater chance of success, had they gone into the open market on their own, they might not have succeeded.” (IVC 1)

5.7.4. Increased demand through complementary products

The majority of respondents felt that after the investments were made, there was a greater access to various complementary products. This assisted the start-up and the corporate in succeeding with their offerings.

The corporate respondents believed that the investments in the start-up enabled them to leverage off the start-ups new technologies and the same time, promoting the corporate’s offering through the start-up. The corporates cited increasing their market share, and attracting new target markets as one of their main reasons for investing in start-ups.

“On the ground there is a black middle class that’s growing, except that they need to be educated on investment training, what happens then is that one needs to go back and say okay what is available, what’s available in the market in terms of mass education.” (CVC 6)

“... they were nimble and agile, smart, knowledge-based not processed-based, all of these things that’s why we bought these businesses, they were start-ups, bootstrapped, smart kind of guys, turn on a dime, quick to market, all of that stuff, that’s everything that we are not.” (CVC 2)

5.7.5. Access to complimentary services

All entrepreneurial respondents agreed that to a certain level, those start-ups that had received investment funding now had access to services that they traditionally were required to perform themselves. Some of the activities that they had to perform were financial management, drafting agreements and operational elements.

By receiving corporate funding, start-ups would potentially have access to distribution channels, business knowledge, new clients, access to key personnel and business support. This, they believed was one of the significant benefits of receiving corporate funding as start-ups provided the access to corporate lawyers, finance experts, operations and administrative support.

“In terms of KPIs and from a humble perspective we have had to learn a fortune, nobody teaches you how to run a business and staff and HR and all this crap that goes along with it, and then you find out that that’s what you spend most of your time on as opposed to doing what you should, so from our business perspective we have taken learning’s from their failures.” (Ent 2)

“If you can do a deal with somebody where the synergies are such where they can assist with marketing, distribution, the access to market, technology the provision of HR, finance whatever, they really can support the new business that’s worth as much especially if it’s access to market and technology that’s as worth as much as the money.” (IVC 2)

Some entrepreneurial respondents further opined that by having access to the distribution channels through the corporate, they are introduced to a wide range of clients that they previously would never be able to access.

“... only now are we getting some good traction and starting to leverage on the distribution platform that the company that invested in me has got.” (Ent 3)

“... we just make a blanket ruling. There’s a new business, we like it, we can help it, the media portion of XYZ have to give it X amount of exposure, and at acceptable rates, there is no discussion, there is no room for negotiation, we have bought this business, it is part of our stream, and we will buy the space if we have to, and then give it back to them. It just has to happen. The corporate

office makes operational space for the new business to get a seat at the table.”
(CVC 1)

Entrepreneurial respondents also felt that by being attached to a bigger corporate, it gave them more credibility in the market, and allowed them to conclude deals.

“In terms of the growth potential, I can ride their coat-tails in terms of getting in to tenders, where previously no chance I would have had a hope in hell.” (Ent 2)

“What corporates have, which is what every start-up dreams of, is a market. If you are looking to scale something, try scale it through a corporate, and try scale it on your own, they are two different things. Corporates, first of all they know how to do it. Second of all, even if they have forgotten how to do it, they did it a long time ago, they have still got a lot of clients that they can pass products and services to, so that is the combination of it, that is what I'm talking about.” (IVC 1)

5.7.6. Rate of innovation

The overarching theme, as noted by most respondents interviewed (particularly the corporates) was that by investing in certain start-ups that possessed innovative solutions, they would eventually promote an innovative culture within the corporate.

“We believed we could inject skills into the group and we could have that kind of cross-pollination, have that injection into the organisation.” (CVC 2)

However, one IVC respondent noted that if corporates wanted to really increase their level of innovation amongst their employees, measures should be built into their Key Performance Indicators (KPIs) that require them to spend a percentage of their time identifying new innovations within the corporate.

“They also support innovation from their employees, similar to the likes, maybe not to the same extent as a Google type strategy where, you know, your X amount of hours a week is dedicated towards some sort of innovative solution, and, if it gets voted for, then that is going to become your job, and Google will pay you for that. I think that that is something that all companies should start to put in play, particularly technology companies.” (IVC 1)

5.7.7. Summary of Research Question 4

The respondents discussed the various outcomes that they had achieved from CVC investments. The discussion focused on the non-financial outcomes of the investments, rather attempting to understand what benefits the investments had on the corporate parent. The respondents identified access to new technologies as one of the main outcomes from the investments.

Additionally, the respondents mentioned that the investments allowed them to undertake new projects in a less risky manner, whilst also providing complimentary services to the entrepreneurs. Through the investments, corporates and entrepreneurs were able to increase the demand for their products by leveraging off one another.

Lastly, respondents stated that having access to immediate innovative solutions allowed them to increase their market share, whilst increasing the innovative stock of the corporate.

5.8. RESEARCH QUESTION 5: WHAT FACTORS INHIBIT CVC INVESTMENTS?

Having discussed the objectives and outcomes of CVC investments with respondents, the next question focused on the factors that could prevent the CVC investments from succeeding. The respondents identified the below factors as being inhibitors to the investments.

5.8.1. Paradox of Disclosure

Even though Non-Disclosure Agreements (NDAs) are signed prior to conversations between start-ups and corporates, entrepreneurs are still concerned that corporates possess a certain financial and economic power, consequently they could potentially 'steal' start-up ideas and market them as their own products.

Some of the corporates interviewed even admitted that the NDA does only so much, and that irrespective of whether it is signed or not, the corporate still has the potential to take the start-ups idea and market its as their own.

"I think that at some point fundamentally corporates buy the idea, and you know what, ideas are funny, as you say how much do you disclose because you have got to show enough to get people hot and ..., and then when you get to NDA

and you are protected by that and they not, they don't mean jack in this market.”
(CVC 2)

Another issue raised by entrepreneurs during the interviews was around the financial power of the corporate. If an entrepreneur were to take the corporate to court as a result of using the entrepreneur's idea, the corporate is likely to have sufficient funds at their disposal to prolong the process. The entrepreneur however, might not be able to fund a lengthy legal battle, leaving no option but to walk away.

“It's very difficult you know when you go to a potential investor, especially a corporate investor and you get them to sign the NDA, if you then going to take action against them because they in breach of that NDA, you need some pretty damn deep pockets and they know that so they – you screwed.” (IVC 2)

The corporates interviewed all claimed that they have not been guilty of such practices, however, they did not deny having knowledge thereof. Corporates may drag out the negotiation process purely to understand the mechanics of the offering, with the intention of eventually taking the idea and marketing it as their own product

“... once you are talking up with some start up and some people are telling you well this idea and whatever and you find that a corporate could go ad nauseum, whereby we have lots and lots of meetings and the reason for this is that they are not only based on assisting, it might be they trying to understand whether that concept that you have, and so that you can provide as much detail and you can evaluate whether can we do it or not.” (CVC 3)

5.8.2. Investing to silence

Most respondents agreed that some corporates would occasionally invest in start-ups purely for the sake of ensuring that their ideas never come to fruition, or alternatively, to prevent competitors from investing in them. One corporate went so far as to admitting that they perform this practice on occasion.

“... some of them are made to get a competitor out the market, so sometimes we just buy businesses and close them to stop bothering us.” (CVC 5)

It was noted that such investments occur when the corporates perceive the new start-up to pose a threat to their existing market share and in order to maintain their market share, they would rather invest in the start-up. In their opinion, it proves to be a

cheaper way of attacking the start-up versus increasing the corporate marketing and awareness campaigns to maintain or increase their existing market share.

However, some start-ups that have been identified as competitors and received investments are absorbed into the company. They are provided with support from the corporate, ensuring that their offering is made available to the market under the corporate's identity.

"If we believe that there are these small competitors, what we do is we give them a purchase price of say a PE of 2 or 3, so we pay them 6 million, and then they go out and they win or don't win tenders. The thing is we just get them out of the way so that the road is clear for our next thing, so we make our money back through the contracts." (CVC 5)

Entrepreneurs and IVCs admitted that they have been privy to such practices, therefore they regard investments from corporates with scepticism.

"... they invested, they controlled the company they turned off the taps, they basically killed his product and they killed him, and I'm sure it happens from time to time where strategically it's cheaper than going out to the market and unnecessarily fight the new product." (IVC 2)

"Now they are pushed aside either because they want to keep them away from competitors, or because going ahead with them or not going ahead with them, will have some impact on governance." (IVC 1)

5.8.3. Success limited to vertical investments

The general feeling amongst respondents was that the corporates' boards of directors play a major role in the decision around investments. The board's possible lack of specific knowledge around certain industries in turn affects the outcomes of the investments. Those involved in structuring the deal will spend significant amounts of time working on the deal, often to be informed by the board that the investment lacks commercial sense, and they should cease further activity with the entrepreneur.

"I think a lot of it is about the ignorance around technology, from the executive, the board, the risk of ignorance in that space always comes back as a multiple of 10, loss or a re-investment that is outside the curve of balanced and steady investment in technology, keeping with or ahead of the curve, but ignorance and

complete, complete, I don't want to have anything to do with it by boards and executives.” (CVC 6)

In order to ensure the success of investments outside the core business of the corporate, it often depends on the ability of the individuals in senior and executive positions to sell the idea, coupled with an entrepreneurial mind-set to ensure that they succeed.

“...for a HCT perspective, you are dealing with entrepreneurs, so guys like Joe are heavily invested in their own business but with all these opportunities coming that are non-telco related, they look to invest.” (Ent 1)

Moreover, corporates are generally uncomfortable in making investments that stretch beyond the realm of their existing operations. In their opinion, it firstly becomes difficult to justify the strategic benefits attached to the investment, and secondly becomes an issue of Corporate Social Investment, as opposed to Corporate Venture Capital. This means that corporates investing beyond their realm of expertise believe there is no value-add, therefore it is purely for the betterment of the entrepreneurial business.

“... it has got to add value to the value chain offering, it has got to feel, I need to be able to explain in one line, to explain what we do and explain why we did it.” (CVC 4)

“If you take a normal corporate, a corporate for them to be involved in any VC type of activity, it's got to say what is going to be the benefit for them, if it's no benefit, now you are talking about CSI, about the social contribution.” (CVC 3)

Entrepreneurs and IVCs who have had experience in dealing with corporates further validated the sentiments echoed by corporates. They stated that those start-ups providing an offering far removed from those of the corporate are more likely to fail.

“I think that you've got to make sure that from a strategic perspective, it makes sense and then financially it obviously has to stack up but when corporate is chasing something which is completely outside their realm of expertise or comfort zone they only chasing the potential return. I have seen them come short because they don't understand the market, they don't understand the reality.” (IVC 2)

“I think they look at, again for me it comes down to these people need to be on a mission, the start-ups right, and you can’t be on a mission about everything otherwise, so if it doesn’t work, I haven’t known of anybody that invests in a start-up and allows them to try lots of different things, I think they want to see it can be different iterations, but not like completely different.” (Ent 3)

The general consensus amongst all respondents was that when corporates made CVC investments in industries in which the corporate had extensive knowledge it would lead to greater success of the investment.

“... while generically we play in the same kind of industry, we play in very different markets, and methods, so that’s why we look for the other.” (CVC 2)

Corporate respondents were of the opinion that if corporates wish to succeed in the long run, the mentality behind the CVC investments had to change. This is evidenced internationally where the likes of Google are starting to invest in projects outside of their core business.

“I don’t need to mention Google but you can see the types of companies and investments it has made, sometimes they look very, very dodgy because it seems very far away from the core, except later on you see why a wind-farm in the Atlantic for electricity generation is such an important part of the future, what board would actually invest 5 billion dollars in that, that you are only going to reap the benefit in 15 years’ time.” (CVC 6)

5.8.4. Lack of absorption

As raised by most respondents, the inability of the corporate to absorb the start-up was another reason for failure. The issue around absorption is further exacerbated by the existing culture within the corporate, which could be markedly different to that of the start-up that has been invested in.

Those start-ups that begin operating out of the corporate’s premises are exposed to certain rules and regulations that they have not necessarily been exposed to before. Such rigidity might potentially stifle the innovativeness and creativity of the start-up.

“... there is a complete difference in culture, the complete difference in things, corporate is a whole other game, people are still trying to leap frog the dead to try and climb up some nebulous ladder to keep the corner office, that is

completely antithetical to what you are trying to achieve with buying a start-up, who are fearless, and who are experimental and iterative and all of those good things.” (CVC 2)

“You cannot tell an entrepreneur that have put their heart and soul on the line, to say where are the numbers, start doing this, that kind of thing, we had to quickly learn that very important to find people of the same culture the same fabric.” (CVC 4)

Further, those already in the corporate may feel threatened by the new start-up, and in turn will attempt to sabotage the operations of the start-up.

“... they will look at it and realise that this person is going to take some of the sunlight away from my existing business. That’s just the way some things are. At first they will be welcoming, but will then find ways to ankle tap them, and then ultimately an intervention will show them what they can achieve collectively.” (CVC 1)

The general feeling amongst the entrepreneurs was that being absorbed into the corporate is not necessarily a bad thing, however, complying to corporate policies and procedures was one of the biggest obstacles, as the freedom they used to have was no longer there.

“Frustrations that come with it as well, like the whole IT control thing, so if I want something changed in sales force, it gets put in the queue, and maybe in six weeks I’ll get it, where before, we were always just doing our own thing.” (Ent 4)

Conversely, entrepreneurs believe that in order for the corporate investment to succeed, the entrepreneurs should be allowed to have the freedom outside of the corporate. The corporate should understand that the investment made was around the belief in the start-up and the talent associated with it. Therefore, the entrepreneur should be allowed to carry on in a space that is conducive to growth and optimisation of the start-up.

“... because a large amount of the investment is around the talent, then the counter to that is to say well you have got to let this talent have its space to do what it needs to do.” (Ent 3)

The above sentiment was echoed by one of the corporates interviewed.

“... as soon as you start coming up with some rules and then the lights get switched on at this time and lights get switched off at this time, and whatever, you are going to stifle them, they are better off in their garage, rather rent them out a bigger garage somewhere....” (CVC 3)

Where corporates did recognise the value of absorbing start-ups was in cases where efficiencies had to be extracted.

“If you are buying businesses that do same or similar functions, you would want to extract efficiencies about the same functions being executed on both sides, you would want to try and get efficiencies of scale etc., it doesn't make sense to have 3 HR departments, it doesn't make sense. You would want to look for those efficiencies but that's typically when you are buying slightly bigger organisations.” (CVC 2)

5.8.5. Summary of Research Question 5

The respondents discussed several factors that they believed had inhibited previous investments. The inhibitors to CVC investments were identified by respondents and can be summarised as the paradox of disclosure, corporates investing in entrepreneurs to silence them and prevent them from commercialising their offering, investing in horizontal businesses and finally, attempting to absorb the human capital into the corporate.

5.9. RESEARCH QUESTION 6: WHAT FACTORS INHIBIT CVC INVESTMENTS THAT ARE SPECIFIC TO SOUTH AFRICA?

Building on from the inhibitors identified above, the researcher attempted to understand if there were any inhibitors that respondents felt were uniquely South African. Based on the questions that respondents were asked, the below factors were identified as South African inhibitors.

5.9.1. Access to funds

Most respondents agreed that access to funds is problematic and expensive in South Africa. It was felt that for the creation of a true entrepreneurial culture start-ups required access to a greater pool of funds at cheaper rates.

The access to funds was compared against developed nations such as the United States of America where it was easier and cheaper to access funds, specifically bank capital.

“Capital is quite expensive here, I mean bank capital is quite expensive compared to a developed country. In the States you’re borrowing dollars, you borrow at 2% or 3%, here you borrow in rand, you borrow at 9% or 10% plus plus plus for risk factor, etcetera.” (CVC 5)

The other issue regarding access to funds was based on the size of investments. An IVC stated that the management time required to manage a smaller investment outweighs the costs involved in the actual investment.

“... there are very few players in the market willing to look at an investment in anything under about R20 million because it takes a huge amount of management time and resource and effort and legal fees and analyses to invest in anything so if you in the market for just one or two or three million it’s almost impossible to find that kind of money without going to family and friends and individual investors, because the more formal players whether it be venture capital or private equity are not really interested in anything under about 20 bar and that’s the sort of issue in this country.” (IVC 2)

5.9.2. Aversion to risk

Respondents raised a particular issue several times during the course of the interviews, namely the aversion to risk within South Africa from a corporate perspective. The aversion to risk stems from the fact that those involved in the investment making decisions generally have failed before and therefore, they are hesitant to consider investing again.

“... we have burnt our fingers, we have become a lot more risk averse as we have matured.” (CVC 4)

Individuals that perform CVC investments in the corporates are sometimes hesitant to take the risk for fear of failing, knowing that ultimately, they will bear the brunt of the failed investment.

“... corporate investments and corporate ventures is a space where, sometimes it’s very protected, except that when it does go pear-shaped, somebody is going to take the fall.” (CVC 6)

“... their managers and their sort of loan officers are on the line for anything which might go wrong they are completely risk averse.” (IVC 2)

Furthermore, the culture of the country, and the fact that South Africa is perceived to not be as innovative as other countries, dictates to a large degree the level of risk that corporates are willing to take. Based on this, the aversion is deemed to be a larger-scale issue than just being at a corporate level.

“... ask us to behave iteratively, what is the appetite for personal risk in this organisation, and in most corporates, it’s virtually nil.” (CVC 2)

“I think we are a very risk-averse country when it comes to that, and I think we’re a risk-averse country because we are not a very ground-breaking country as such.” (CVC 5)

During the interviews IVC respondents felt that risk aversion was more focused around the corporates, whereas the entrepreneurs are more willing to take the risks required to get their start-up operational.

“I’ve got no doubt that there are a few entrepreneurs that I know about right now that can do what they want them to do, but they have also thought of things that they have not. Purely because they are not in, they are not, say guarded by the constraints of where the market is. They are also more risk seeking, where the corporate is going to be more risk averse.” (IVC 1)

5.9.3. Black Economic Empowerment Issues

Corporate respondents were divided on the issue of BEE in South Africa. Some viewed it from the perspective of the investments being made, whilst others considered it from an innovations and entrepreneurship perspective.

Those who viewed it from an investment perspective felt that it would not have a major effect on investments, primarily due to the size of the start-ups being invested in. However, corporate respondents felt BEE was influencing the types of investments that corporates made, potentially leading to them invest in the wrong types of businesses.

“I think the single biggest enemy to VC or to innovation in this country is called BEE.” (CVC 5)

“The BEE is not going to change things really because when you are buying start-ups they are too small to make a meaningful effect to your, in fact when you buy them they are not going to make meaningful effect to your bottom line, they not going to make meaningful effect to your BEE status or to your tax, it’s not going to actually do any of those things.” (CVC 2)

“I think a big part of it has to do with BEE, and with AA, and specifically that right now corporates are very burdened by massive tax, that is sapping them of their ability to invest in the right things, at the expense of investing in the wrong things.” (CVC 4)

Some corporate respondents felt BEE had created a new market of entrepreneurs who left their jobs because they were no longer able to progress their careers in a corporate. Some respondents felt that BEE is creating a culture of complacency in the knowledge that in all likelihood there would be jobs available to individuals once they had completed studying. By doing so, it removed the desire or desperation that some respondents felt was required for a true entrepreneurial spirit in South Africa.

“I think what creates amazing thing is desperation. Desperation, people do amazing things when they are desperate. I started this business, and I’m not saying it’s an amazing thing, but I started this business when I was desperate. I was insolvent, I hadn’t worked for a year, I had no confidence, and it was literally do this or go bust.” (CVC 5)

“Unfortunately what the BEE thing does, is it takes the majority of the people and makes them less desperate. So what it says is, don’t be desperate, because you will get a job, because you will go further and higher up the line.” (CVC 5)

“We’ve got other problems in this country as well, you know, the difference between this country and other countries, you look at Israel, the States, the UK, they are not fighting a previously disadvantaged BEE problem. So our focus is currently, listen we’ve got 30 million previously disadvantaged people, start getting them advantaged.” (CVC 5)

5.9.4. Tax issues

Respondents agreed that the tax structure in South Africa might have an inhibiting effect on the levels of investments corporates and individuals make. Most respondents conceded that to a certain degree, there should be some form of rebate from the investments made as they were increasing enterprise development within the country.

“I think the tax structure is very keenly geared towards the small and micro industries, and what we need in addition to that opportunities to grow out medium sized enterprises, where the guys can feel comfortable that their investment of 10 to 15 million rand annually is protected and they get some kind of rebate back based on the societal good that they are doing.” (CVC 1)

Corporate respondents believed that there should be a structure in place that allowed corporates to place a certain percentage of their profits into a fund that would be used in assisting start-ups that traditionally do not have any access to funds. In return, the corporates would provide the assistance that the entrepreneurs required to get their businesses running.

“If there were tax breaks, incentives for the right type of enterprise development etc., then I would have no doubt that we could do a lot more because there is a need for it, we as a company have a need for it.” (CVC 4)

“... tax breaks for sort of entrepreneurs investment or institutions having to have a certain amount of prescribed assets, assets which will go into entrepreneurial start ups and so on. That’s really what the government probably has to do.” (IVC 1)

On the opposite end though, there were some respondents who felt that tax and BEE issues were not relevant as the investments being made were primarily focused on the achievement of certain strategic objectives. By identifying the start-ups that could assist in achieving those objectives, the tax and BEE issues played no role.

“I don’t think the motive becomes about dealing with tax issues or you know regulatory compliance whether it’s BEE, for us when we did that it was more how this thing could enhance our strategic objectives as opposed to all these other compliance issues or benefits from tax breaks and that.” (CVC 3)

One of the independent venture capital firms in South Africa recently launched a new

fund. This fund is modelled on the Venture Capital Trust in the UK, which allows companies, trusts and individuals to invest in the fund, providing them with a tax incentive.

“... how that is translated in South Africa is that Grovest is a Section 12-J fund, which allows individuals, companies, and trusts to invest, all at different sorts of rates and benefits. So the high-level of it is, from the individual perspective purely because they all pay different levels of tax.

So if you are at the highest threshold of income then you are at the highest threshold of tax. So, take a hundred thousand rand of your pre-tax money, you get a 60% tax deduction for investing in the equivalent of a VCT, which is called VCC, Venture Capital Company in South Africa. 60% tax deduction but full enjoyment of 100% of the asset that it is going into, provided you are going into this particular fund.

This fund gives you a tax certificate, which basically says that you are exempt and you are exempt. It gets built into the IRR so it is growing, you are starting with a return before something has really worked; you have already got a return for it, because in a typical circumstance of 100 000 rand, you will be able to invest 60 000 rand of that. This is allowing you to pay tax on 40 000 rand of that, but invest in 100% of the worth.

It works the same way for companies and trusts, the only thing that differs is the levels of tax incentives or tax benefits or all of that, but ultimately for companies, trusts and individuals, they are able to get tax incentive to invest in 100% of an asset without having to pay tax, which is great.” (IVC 1)

The issue with the Section 12-J is that it has only recently been launched and not enough awareness has been created around it.

5.9.5. Regulatory Issues

Corporate and entrepreneurial respondents stated that numerous regulatory issues such as company registration, labour policies, and compliance issues hamper corporates' levels of investments. Consequently corporates are now looking more actively at investments outside of South Africa with the intention of circumventing the various regulatory issues.

“I think that the amount of bureaucracy around creating a new business and managing a new business is insanely high....” (CVC 1)

“...uncertainty around certain things in our market, labour uncertainty, inflation uncertainty, regulatory uncertainty, things like that so I think that is my understanding and it’s not ours because we have very much anchored ourselves in the territory, but chatting to others, I know that others are very aggressively looking for corporate activity, ex-border.” (CVC 2)

“... currently some of the regulatory environment is punitive, you understand, it does not encourage that whole hand holding and assisting, and ensuring you have a successful venture capitalistic model. So because we over-comply, we always asked to complete 120 forms so you start thinking about if I bring even this, is it a burden onto my life or is it going to enhance it so I am saying that’s where I am saying that’s where some of the regulatory regime is where it’s not helping.” (CVC 3)

5.9.6. Cultural Limitations

Respondents identified a major theme around cultural limitations which was focused around the fact that South Africa has a relatively shielded environment, although this acts as an enabler, it is simultaneously perceived to be more of a limitation, purely because of the effect it has on the mind-set of the country.

“...from our perspective, we have built a business over here off the back of coming up with technology and being shielded from a million and one other guys trying to compete as you would in Silicon Valley, you would get despondent, what’s it all about ... you don’t have the position to make those kind of monumental losses but at the same time it’s hard.” (Ent 2)

“... where the real cash is, is in expanding, now here is the catch, there is a massive drive for African expansion globally, we are the most perfectly positioned country and people to get into Africa, and yet the Chinese are beating us to it. It is a ludicrous thing, the guys that are 10 000 km away, with a different culture and different language, different everything, are getting it more right than what we are, because we have got such an insular culture, and an insular mentality.” (CVC 4)

Additionally, respondents in the different geographic regions, felt that investments fail as a consequence of certain cultural limitations.

“Cape Town has a different work ethic, they deliver slower. They deliver, but they deliver slow. We killed them, we killed them, I mean we killed the poor guy, guy couldn’t work anymore. We used to have meetings, give the guy to do lists of 900 thousand things, come back the next board meeting he hadn’t achieved anything, completely overwhelmed. Different culture, different culture of person.” (CVC 5)

5.9.7. Structural limitations

To a degree, respondents felt that the state of the market, the economy, and timing of the investment affected the types of investments made.

“The economic environment, whatever is happening globally or, I think they do, in the environment of certainty whether from the economic point of view and the confidence level in the country, if it’s at the highest level, it actually becomes easier for you to invest in those things because when there is uncertainty as corporates you tend to say let’s forget about anything outside what we do on a day to day and let’s focus on a day to day operations.” (CVC 3)

“Unfortunately macro economic factors have deterred us from venture capital, for a variety of reasons, BEE being one of them, lack of stability, the lack of easy capital, and also just generally very weak skill sets, hard to come by the skill sets, so you have the entrepreneurial spirit, which I think is ample, without the backup of skill sets, so you often have to educate a lot.” (CVC 4)

5.9.8. Summary of Research Question 6

The respondents identified several factors that they believed were unique to South Africa, or alternatively, were exacerbated in South Africa. The factors identified by respondents were identified as lack of access to funds for entrepreneurs, the risk aversion of corporates in South Africa, BBEE issues, Tax issues, regulatory, structural and cultural limitations.

6. DISCUSSION OF RESULTS

6.1. INTRODUCTION

In chapter 5 the results from the interviews conducted were presented as they relate to the research questions. In this chapter, the findings are discussed and compared against the literature. The findings will either confirm, contradict, or complement the previous research conducted and identified in the literature review.

The six research questions that are covered in this chapter are:

1. What is the nature of corporate venture capital investing in South Africa?
2. How do corporate venture capitalists make investment decisions in South Africa?
3. What are the factors that enable corporate venture capital investments in South Africa?
4. What are the outcomes of the investments?
5. What factors inhibit corporate venture capital investments?
6. What factors inhibit corporate venture capital investments that are specific to South Africa?

6.2. RESEARCH QUESTION 1: WHAT IS THE NATURE OF CVC INVESTING IN SOUTH AFRICA?

The nature of CVC investing in SA is discussed in two sections, namely the funding environment, venture capital investments in a South African context and activities of venture capitalists.

6.2.1. The funding environment

According to the literature, Wong et al. (2009), Gaba and Meyer (2008), Bent et al. (2004), and Ojah and Mokoaleli-Mokoteli (2010) emphasised that entrepreneurs have access to several forms of funding depending on the 'life-stage' of their business. High net-worth individuals make angel financing available to businesses generally in a very early stage of the business, whilst both forms of VC is provided to businesses once they are set-up, and finally private equity is provided to businesses with a proven track record.

Based on the interviews conducted, it is evident that all forms of funding are present in South Africa. However, it seems that private equity investments are more prominent than CVC investments, primarily as they invest in businesses that have a past track record and therefore, can be measured accordingly.

6.2.2. Venture Capital Investments in a South African context

Dushnitsky and Shaver (2009) identified two types of VCs, namely IVCs and CVCs. According to these authors, the CVCs operate with the intention of achieving financial and strategic objectives. This is in contrast to IVCs who invest with the intention of exiting the venture and realising a profit, as highlighted by Sahlman (1990), and Park and Steensma (2012). Furthermore, Chesbrough (2002) states that CVCs will take a minority equity stake in the company in return for the innovative idea of the company.

Two types of venture capital were identified by the corporate respondents, namely IVCs and CVCs that are in existence in South Africa. A detailed breakdown of the characteristics of the types of venture capitalists was discussed in Chapter 2. In a South African context, CVCs will take an equity stake, either a controlling stake, or minimal stake with the option to increase this based on the success of the start-up. Further, CVCs tend to invest in businesses that will assist the corporate parent in achieving both their strategic and financial goals. However, more emphasis is placed on the strategic goals.

The operations of corporates interviewed confirms the research of Dushnitsky and Shaver (2009). Furthermore, respondents in the study confirmed that CVCs in South Africa operate in a similar manner to that characterised by Dushnitsky and Shaver (2009), Chesbrough (2002), and Dushnitsky and Lenox (2006).

As evidenced by the work of Fried and Hisrich (1994), Proimos and Wright (2005), and Yang et al. (2009), it was found that CVCs are more risk averse than their IVC counterparts. This is primarily due to their lack of appetite for risky investments. One of the major concerns of corporate respondents is that should the investments fail, those responsible for motivating the investment will ultimately be accountable for the failures. These failures could potentially have a negative influence on their job.

CVCs in South Africa do not traditionally make investments in start-ups that operate in different industries to the corporate parent. Horizontal investments make it more

difficult for the CVC to manage the investment as it may have lack of knowledge in the relevant industry, confirming the work of Chesbrough (2002).

It could be argued that due to the nature of CVCs, their appetite for risk would be less than IVCs due to the different objectives that CVCs are attempting to achieve. Consequently, their investment decisions will differ, therefore more focus is placed on vertical investments versus horizontal investments.

6.2.3. Activities of Corporate Venture Capitalists

The activities of IVCs internationally as discussed by Dushnitsky and Shaver (2009), Sahlman (1990), and Park and Steensma (2012) seem to mirror that of IVCs in a South African landscape. This is based on the fact that their main objective is to invest in companies with the intention to exit at some stage and realise a profit from their investment.

Moreover, the activities of the CVCs interviewed align with those identified by Dushnitsky & Shaver (2009), and Chesbrough (2002). This is illustrated by the fact that South African CVCs are also conducting investment activity with the aim of furthering their strategic objectives.

However, it is evident from the respondents interviewed that South African CVCs are more inclined to make investments in companies that are slightly more established as opposed to new start-ups.

In their research Fried and Hisrich (1994), Proimos and Wright (2005), and Yang et al. (2009) found that investment decisions for corporates are slightly more difficult for CVCs than those made by IVCs. This may be attributed to the lack of information about the start-up. The reason that South African corporates are investing in later-stage companies could be as a result of a high-level of uncertainty and risk attached to investments in early-stage start-ups.

When South African CVCs invest in companies, they tend to consider those that have existed for a few years with an established and proven management team, as well as with fairly sophisticated offerings. CVCs lack assurance on the returns they may receive when they invest in start-ups with no proven track record. Moreover, they lack certainty whether the start-up will add any value and generate revenue for the corporate. The CVC investment has to be calculated and justified, as those responsible

for the investment are answerable to a board of directors who would just as easily place the blame on those individuals should an investment fail.

This highlights the weight of expectation on executives within corporates, and the value they place on their own position versus the achievement of objectives of the corporate.

Based on a review of the literature in chapter 2 and the findings in chapter 5, it is evident that South African CVCs subscribe to the CVC definition as defined by Yang et al. (2009), and Keil (2004). Beyond pure equity investments in start-ups, South African CVCs have attempted to advance their strategic goals through the use of licensing agreements and joint ventures.

6.3. HOW DO CORPORATE VENTURE CAPITALISTS MAKE INVESTMENT DECISIONS IN SOUTH AFRICA?

From the literature it is evident several objectives influence the decisions of CVCs. These objectives were identified by Dushnitsky (2006), Basu et al. (2011), and Markham et al. (2005) and can be summarised as follows:

1. Technology intelligence
2. Market intelligence
3. Growth of existing businesses
4. Entering new businesses
5. Access to complementary products
6. Exposure to entrepreneurial thinking and culture
7. Developing strategic relationships.

The respondents reiterated these objectives to an extent during the interview process; however, some of these objectives were defined as outcomes of respondents' corporate venture capital investing, namely: access to complementary products, exposure to entrepreneurial thinking and culture, developing strategic relationships.

This discussion focuses on objectives 1-4:

6.3.1. Technology intelligence

Markham et al. (2005), Dushnitsky and Lenox (2005) and Yang et al. (2009) highlighted the underlying advantages to technology intelligence which include gaining access to early and novel technologies as well as new ideas that the corporate does not have to explore emerging technologies and to solidify the corporate's advantage over its competitors.

The CVCs interviewed confirmed that one of their main objectives for investing in new ventures was to gain an understanding of new technologies in the market. They highlighted that in some cases, they might have the knowledge to build the technologies, however they lack the necessary resources. Therefore, the lack of resources brings about that CVCs search outside the corporate for companies with the desired technologies. In respect of exploring emerging technologies, the entrepreneurs validated that this was another objective for the corporate investor.

In addition to the investment in the entrepreneurial company, corporate respondents stated that the expectation is that the company will continuously grow and assist the corporate in providing the required technology. In some cases, for the entrepreneurial companies to continue adding value and providing a superior technological edge, they should also investigate other technologies in order to ensure that they remain relevant to the corporate.

The corporate respondents further highlighted that investment decisions are made with the intention that the corporate will gain an understanding of such technologies that had not necessarily been considered internally. Alternatively, the corporates might have some knowledge the technologies, yet do not have the capabilities to develop them internally.

Although these investments are often made by corporates with the aim of gaining or maintaining their competitive edge, it was raised during the interviews that in practice this is not always the immediate effect. The corporates will make the investment, but there would often seem to be a delay between the investment and the subsequent launch of the new product.

Complementary to the research conducted by Markham et al. (2005), Dushnitsky & Lenox (2005) and Yang et al. (2009), the entrepreneurs interviewed highlighted that in the corporate's pursuit to grow, a further objective of CVCs is to enable the

entrepreneurial businesses to become an additional vehicle for future CVC investments.

6.3.2. Market Intelligence

Markham et al. (2005) identified several factors under the heading of market intelligence. These factors include identifying new markets, anticipating competitor moves, identifying any new entrants into the market space, and opening windows of opportunity. Based on an analysis of the interviews conducted, most of these factors were not raised by CVCs in South Africa.

The CVCs interviewed were however confident that they were able to identify new markets, and simultaneously find an opportunity for market opportunities. This would allow them to gain access to new markets. Further, it allowed the corporates to expand their reach in their existing market.

From a South African perspective, it could be argued that the operation of CVCs contradicts the research conducted by Markham et al. (2005) with regards to market intelligence. This is due to the fact that for corporates interviewed, several of the factors identified by Markham et al. (2005) are not viewed as core reasons to invest in companies.

6.3.3. Growth of existing businesses

It is evident that in the current economy corporates have to remain relevant, competitive and dynamic to ensure they remain at the forefront of their particular industries. It was highlighted in both the literature by Markham et al. (2005) and by the respondents that one of the best ways to ensure rapid growth is through CVC investments.

Another issue raised by respondents pertained that due to the CVCs expectation, the start-ups that received investment funding were expected to show dynamic growth as a result of market saturation. In order for this growth to occur, the entrepreneurial businesses have to engage in their own form of corporate venturing as mentioned above.

Because of the corporate investment the entrepreneurial business has access to a large amount of capital, over and above the investment they received. Should they be

able to justify the need for their corporate venturing activities, the corporate parent would be willing to provide the additional funding required, ensuring that in the long run their strategic objectives are met by the corporate venturing activities of the entrepreneurial business.

The findings are in contradiction to the work of Markham et al. (2005) who did not find that companies that received investments become an additional vehicle for CVC investments, unlike those interviewed in South Africa. Markham et al. (2005) focused on the corporate undertaking CVC activity, with no identification of the entrepreneurial businesses becoming additional vehicles for CVC investments.

6.3.4. Entering new businesses

Markham et al. (2005) focused on two forms of new business opportunities, namely 'white space' opportunities and disruptive opportunities.

Although the respondents acknowledged these two opportunities, it was clear that corporates would not invest in businesses too far removed from their existing line of business. Corporates in South Africa remain conservative and are hesitant to invest in disruptive opportunities because of the risk attached to such investments. Therefore, they would rather opt to focus on white space opportunities as opportunities for investment.

6.4. WHAT ARE THE FACTORS THAT ENABLE CVC INVESTMENTS?

From the interviews it was determined that CVC investments are enabled by four main factors, namely partnering, individuals, mentoring, and clearly defined goals.

6.4.1. Partnering

Matusik and Fitza (2012), and Yang et al. (2009) identified that through partnerships, CVCs would be able to manage investments more efficiently. This could be attributed to the investment of more partners who are able to add specialised expertise skills that the lead CVC might be lacking. Partnering with others who have different expertise is extremely beneficial to the CVC. It is much more cost effective as the CVCs would not have to spend money on the acquisition of expert human capital with the relevant skills.

Through the interviews, it was found that it could at times be beneficial for CVCs to partner with other CVCs or IVCs when investing in a new venture. It was however

mentioned that in order for the relationships to be beneficial to both parties, they should have a clear understanding of each other's requirements . If not, one of the partners might benefit from the investment, while the other could suffer negative consequences. This complements the findings of Anokhin et al. (2011) who stated, "information exchanges within CVCs must, somehow be both and closed at the same time. Corporations must try to appropriate the knowledge championed by their investees and fellow-investors but also protect their own know-how from leaking to competitors" (p.134).

6.4.2. Individuals

The work of MacMillan et al. (1986), and Colombo and Grilli (2010) concentrated on VCs, specifically IVCs, and the importance they place on the individuals in the start-up.

Although CVCs seek entrepreneurial businesses that will further the strategic goals of the corporate, they also place emphasis on the individuals who are involved in the entrepreneurial business. The CVCs will aim to establish that in the event that the initial idea of the business fails, those individuals in the business would have the abilities required to turn it around and create new solutions that fit in with the corporate's strategic goals.

Adding to the findings of MacMillan et al. (1986), and Colombo and Grilli (2010), based on an analysis of the interviews conducted, it is evident that like IVCs, CVCs place similar value on the individuals in the entrepreneurial business.

6.4.3. Mentoring

Consistent with the findings of Hsu (2004), entrepreneurs believe that the mentoring they received from CVCs outweighs the equity portion lost in their start-up.

Entrepreneurs who have some business knowledge learn more from the CVCs than if they were to continue operating individually. This finding shows that although CVCs invest in start-ups with innovative ideas, and in some cases, proven management teams, they are able to impart general business knowledge that the start-ups might not necessarily have had before the investment.

However, in some instances where investments failed, it was evident that when CVCs become too involved in the day-to-day running of the start-up, the start-up may lose the

autonomy or locus of control as identified by that has enabled them to successfully commercialise their product (Luiz & Mariotti, 2011).

Therefore, the views shared by the respondents are consistent with the findings of Bonnet and Wirtz (2011), Croce et al. (2013), and Hsu (2004). However, these findings are contrary to the views of Jones and Mlambo (2009), who proposed that CVCs invest in the start-up and its individuals in the belief that such individuals possess the relevant skills required to commercialise the offering. Respondents often believe that start-ups merely require some coaching on business knowledge in order to forge ahead.

6.4.4. Clearly defined goals

Based on the results of the interviews, it is evident that corporates concurred with Hechavarria et al. (2012) in terms of defining goals. According to Banduru (2001), entrepreneurs would work towards their goals with greater efficiency and independence when such goals have been set clearly.

In those investments that had failed, it was clear that the lack of communication and goal setting had a negative impact on the success of the start-up as identified by Shane and Delmar (2004).

Wiese et al. (2002) stated that the entrepreneur will set goals, with the more difficult goals resulting in greater progress. Contrary to Wiese et al. (2002) view, the corporates interviewed indicated that they and the entrepreneur would develop the goals for the entrepreneurial business together, as opposed to expecting the entrepreneur to do so individually. This is aligned with the findings of Kaplan and Stromberg (2004).

Moving beyond the literature and unlike VCs (Kaplan & Stromberg, 2004), CVCs have had to realise that the goals they set for the start-ups could not be the same as goals set for their existing operations due to the fact that the start-ups are not the same as the existing operations.

From the interviews it is evident that the goals CVCs set should firstly be quantifiable in order to effectively measure the outcomes. Secondly, these goals should be aligned to the start-up, as opposed to traditional measures that corporates typically use to measure their operations.

6.5. WHAT ARE THE OUTCOMES OF THE CVC INVESTMENTS?

The outcomes of the various CVC investments were established and are discussed in five sections, namely risk mitigation, windows on technology, increased demand through complimentary products, access to complimentary services and rate of innovation.

The research question attempts to establish the outcomes from the various investments made by the CVCs.

6.5.1. Risk mitigation

As discussed by Keil (2002) in Williams and Lee (2009), Hayton (2005), Matusik and Fitza (2012), and Dushnitsky and Shaver (2009), the purpose of investing in start-ups external to the corporate is to allow the corporate to mitigate various risks that are involved with setting up a new venture internally. It is evident from the interviews that CVCs invest in start-ups in the safety of knowing that it carries lower risk versus attempting to create the start-up internally. This confirms the work of the above authors.

In contrast to Dushnitsky and Shaver (2009), in an attempt to diversify their offering, corporates interviewed may occasionally attempt to invest in horizontal entrepreneurial businesses. By investing in these start-ups, the risks of setting it up internally are minimised, therefore, mitigating the risk of attempting to diversify should the new venture fail. It could therefore be argued that should the investment succeed, it would allow corporates to alter the perception of the corporate parent in the market, with the least risk attached to the re-positioning.

6.5.2. Windows on Technology

Many authors agree that one of the most beneficial reasons for CVC investments is for corporates to obtain a window on technology. (Dushnitsky & Lenox, 2005a; Dushnitsky & Lenox 2006; Siegel et al., 1988; and Maula & Murray, 2001)

From a South African perspective, corporates invest in start-ups in order to gain access to new technologies in the marketplace. Respondents stated that it is cheaper for corporates to make investments in start-ups than to build the technologies in-house. Furthermore, the time involved in developing the new technologies is bypassed,

avoiding the need to develop the capabilities internally. It has become increasingly difficult for corporates to grow organically. Therefore investing in new technologies would enable them to grow and remain relevant in the face of changing business.

It was discussed during the interviews that some corporates make the investments as a defensive mechanism. This has allowed them to take the new technologies in-house thereby leveraging their existing products off the new technology. By doing so, it also prevents competitors from gaining access to the new technologies and maintaining or increasing the competitive edge the corporate holds over other corporates in the industry.

These findings are mostly in line with the research done by Dushnitsky and Lenox (2005a), Dushnitsky and Lenox (2006), Siegel et al. (1988), and Maula and Murray (2001). The major area of difference is that corporates in South Africa have the potential to become too involved in the decision-making of the start-up. This involvement hinders the start-up from running their operation in the most effective way and inhibits them from providing the technology that they received investment for initially.

6.5.3. Increased demand through complementary products

Corporates interviewed are aware of the technologies required to penetrate new markets. However, in order for the corporates to penetrate the new target markets as identified by Lai et al. (2010), they need to have the relevant technologies or products in place. Corporates therefore invest in various start-ups that have the desired technologies or services which enables them to gain access to the relevant markets.

There is a level of synergy between the corporates and the start-ups who have received investment funding. The corporates are able to increase the awareness of the start-up by combining it with their existing products. Furthermore, the corporates are able to create awareness for their existing products to new target markets by combining their existing product with the start-up's product.

The access to complementary products has resulted in corporates increasing or maintaining their existing market share.

The findings above are consistent with the findings of Nalebuff and Brandenburger (1996), Dushnitsky and Lenox (2006), Dushnitsky (2006), Riyanto and Schwiendbacher

(2006), and Lai et al. (2010). However, there was no mention of the 'not-invented-here' syndrome highlighted by Katz and Allen (1982), and Cassiman and Veugelers (2006). In contrast to the 'not-invented-here' syndrome, the concern from a South African perspective is more focused on individuals that might feel threatened by the new entrepreneurial business rather than the corporate itself having to adjust its mind-set.

6.5.4. Access to complimentary services

Dushnitsky and Shaver (2009) highlighted that start-ups are able to make use of the corporate's value chain. A reason for the symbiotic relationship that both corporates invest and start-ups accept the investment, is centred on the access that the start-up has to services they never had before. Beyond distribution, start-ups are able to access key personnel, and receive business support previously not available to them.

Conversely, corporates identify the potential of the start-up, and realise that with such assistance, they are able to provide the start-up with a better chance of success.

Consistent with the findings of Dushnitsky and Shaver (2009), corporates in South Africa provide the start-up with access to various parts of the value chain. However, as mentioned above, the corporates also provide the start-ups with general business management support and assistance.

6.5.5. Rate of innovation

South African corporates view external start-ups with innovative solutions as their primary source of research and development as it is cheaper than conducting R&D internally. By investing in start-ups, an innovative solution already exists which is more cost-effective in the long run. This is in line with Dushnitsky and Lenox (2005b), who stated that the expected output of the start-up should be perceived to generate greater returns than internal R&D.

Corporates in South Africa are investing in start-ups with the intention that the innovative nature of the start-ups will have a spill-over effect within the corporate. The intention therefore is that individuals within the corporate would start becoming more innovative as well through 'osmosis' with the new entrepreneurial business. The intention behind investing in innovative start-ups was that it enabled the corporates to remain competitive in their industries whilst simultaneously growing their offering with new solutions.

Contrary to Dushnitsky and Lenox (2005b), it would appear that South African corporates are making use of CVC investments as a substitute for R&D, as opposed to complement internal R&D. This could be attributed to the fact that South African companies spend relatively little on R&D and contradicts the findings of Gaba and Meyer (2008).

6.6. WHAT FACTORS INHIBIT CVC INVESTMENTS?

CVC investments are inhibited by four major factors, namely paradox of disclosure, investing to silence, success limited to vertical investments and absorptive capacity.

6.6.1. Paradox of disclosure

As highlighted by Dushnitsky and Shaver (2009), start-ups have to disclose their intellectual property to corporates at a certain point in order to receive funding. By doing this the start-ups could run the risk that the corporate could copy the idea presented by the entrepreneur and market it as their own innovation.

This view is shared by entrepreneurs in South Africa who are wary of disclosing their ideas to corporates. However, if a start-up wants to have a greater chance of commercialising their idea, ensuring that they have access to the relevant complementary services, it is necessary for them to disclose information, as discussed by Stuart et al. (1999).

The Paradox of Disclosure does not seem to play a major role in the relationship between start-ups and CVCs in South Africa. However, there have been cases where the corporate has taken the ideas presented by start-ups and developed it themselves. Two cases mentioned by respondents were the case of FNB and their inContact service, and Vodacom and the Please Call Me offering.

There was no indication that South African entrepreneurs interviewed have suffered due to their alliance with corporates, as identified by Yang et al. (2013). This could be attributed to the fact that the corporates in South Africa are more reliant on the start-up to ensure that the offering is successful. Alternatively, there is a chance that due to the infancy of the relationship in some cases between the start-up and the corporate, this cannot be measured yet.

6.6.2. Investing to silence

Confirming the research undertaken by Chesbrough and Tucci (2004), in some cases South African corporates invest in start-ups to prevent them from taking their idea to the corporates' competitors, or alternatively to market.

Furthermore, it is evident that some corporates will invest in start-ups to bully them out of the market. Firstly, the start-up is absorbed into the corporate, and then their product or offering is distributed under the corporate's brand. Many of the corporates interviewed claimed that this is not something that they practice, but are aware of it.

It was obvious from the discomfort some corporate respondents showed that even if they were involved in such practices, they would not be open to discussing them due to the 'unethical' nature of this behaviour.

6.6.3. Success limited to vertical investments

Investments far removed from the activities of the corporate parent will stand a higher chance of failing as the corporate often lacks knowledge in areas not core to its own business and would therefore be unsure of how to manage the investment (Dushnitsky & Shaver, 2009; Gompers & Lerner, 2000; Ernst et al., 2005).

Corporate respondents have been predominantly successful in the investments in the same or similar industry to the corporates. The further away from the core business or industry that the corporates venture, the harder it becomes for them and the start-up to succeed. Those investments that have been successful outside of the core business were championed by corporates exhibiting an entrepreneurial mind-set, allowing them to be more open to different ventures.

The above findings are in line with the findings of (Dushnitsky & Shaver, 2009; Gompers & Lerner, 2000; Ernst et al., 2005).

6.6.4. Absorptive capacity

It was evident that respondents viewed absorptive capacity in a different way and defined absorptive capacity in terms of human capital. Contrary to respondents' views, absorptive capacity is identified in terms of knowledge and technology being absorbed into the organisation (Ernst et al., 2005; Dushnitsky & Lenox, 2005a; Cohen & Levinthal, 1989; Escribano et al., 2009).

The findings from this research complement the work of Ernst et al. (2005), Dushnitsky & Lenox (2005a), Cohen & Levinthal (1989), and Escribano et al. (2009), with respondents adding that beyond knowledge and technology being absorbed into the corporate, absorption is viewed as the ability to absorb human capital as well. The reason for investments failing was because individuals from two different cultures converge.

From the interviews it was found that in the cases where the corporates expected the start-ups to move into the corporate offices for the sake of becoming part of the corporate culture the start-up stood a greater chance of failing. However, where corporates expected the start-ups to move into the corporate office merely because it occupied a large space, and were thus able to utilise this space more efficiently, the start-up was afforded a better chance of succeeding.

Exposure to corporate rules and regulations could potentially have a stifling effect on start-ups and could consequently lose their spirit and freedom that they possessed before the investment. Furthermore, individuals already in the corporate could feel threatened by the new start-up, often attempting to sabotage the operation of the start-up. This could be attributed to the fact that individuals in the corporate perceive seniority to equate to longevity. Any new potential or perceived threat could therefore pose a risk to the start-up and the corporate who made the investment.

6.7. WHAT FACTORS INHIBIT CVC INVESTMENTS THAT ARE SPECIFIC TO SOUTH AFRICA?

Access to funds, aversion to risk, BEE, tax and regulatory issues as well as cultural and structural limitations are major factors that inhibit CVC investments specific to South Africa.

6.7.1. Access to funds

The major issue for entrepreneurs in South Africa is gaining access to funds that will assist them to continue operations. Investors would often regard such funding to be risky because the start-up would not have proven itself, and would therefore not have a previous track record (in the form of company financials).

The findings build on the work of Mazanai and Fatoki (2011), who emphasised the difficulty in accessing funds from banks. The findings of this research paper also indicate that even if entrepreneurs were successful in obtaining funding from banks, the costs attached to the loan would impede the operation of a business. Furthermore, the lack of access to funds discourages individuals to become entrepreneurs and form start-ups.

The above findings confirm the research by Turton and Herrington (2013), and Rogerson (2008). Due to the lack of funding options available to entrepreneurs in South Africa, CVCs are willing to invest in start-ups, knowing that apart from all the other assets available to the entrepreneur, funding is critical in order to commercialise their product, as stated by Lerner et al. (2005), Da Rin et al. (2006), and Van Deventer and Mlambo (2009). This emphasises the fact that CVCs understand the constraints in the market and are willing to provide the funds required, provided the entrepreneurial business aligns with the strategic objectives of the CVC.

The IVCs in South Africa that are currently in the media only provide a maximum of R100 000. For most entrepreneurs this fails to provide the adequate capital required to operate their business. Conversely, CVCs in South Africa are willing to provide the required capital to entrepreneurs. However, they will do so only if there is a strategic fit with the corporate parent and if all the additional criteria are met.

6.7.2. Aversion to risk

The respondents' views concur with those of Raynor (2011), and Masulis and Nahata (2011) in that the culture within the corporate influences and affects the culture of the CVC. Furthermore, corporate correspondents stated that when an investment fails, they become risk averse, and would approach future investments with caution to avoid mistakes made in previous investments. This corresponds with the findings of Raynor (2011).

Gaba and Bhattacharya (2012) reasoned that CVCs are less risky than their IVC counterparts. According to these authors the real benefits of CVC investing are only realised in the long-run. Based on the research conducted, it seems that in certain cases, the work of Gaba and Bhattacharya (2012) was contradicted by some respondents. It was identified that some respondents will invest in companies for the purpose of short-term financial gain over long-term strategic gain.

Moreover, from the interviews it was evident that entrepreneurs are more willing to take risks than corporates. This aligns with Raynor (2011) who states that individuals making the investments could just be less willing to take risks than the entrepreneurs they invest in.

From these findings it could be deduced that although aversion to risk seems to be a world-wide phenomenon, in South Africa it appears to be higher due to the number of recognised corporates operated by risk-averse individuals. If individuals with entrepreneurial mindsets become part of decision-making around certain investments, this situation could be alleviated.

6.7.3. Black Economic Empowerment Issues

Although the work of Jones and Mlambo (2009), and Alessandri et al. (2011) focused on the issues of BBBEE, CSR, and the drawing away of investments in early-stage start-ups, the respondents interviewed were of the opinion that they did not have a major impact on the investments. Respondents felt that the investments made by CVCs in South Africa were too small to have any meaningful impact on the corporate's BEE scorecard. If the investments in start-ups are being made to further the strategic objectives of the corporate, the impact of BEE is not a consideration of the corporate.

While Alessandri et al. (2011) discussed the growth of black-owned businesses in South Africa, the perceived increased entrepreneurial activity of white-owned start-ups was not mentioned. During the interviews it was raised that because BEE has resulted in employment equity, some white individuals have consequently left corporate environments to start their own businesses as they feel there is a lack of growth opportunities for them in the corporate environment. The above finding complements the work conducted of Alessandri et al. (2011)

Some of the respondents felt that employment equity could create a culture of complacency in some individuals who might expect that completion of their tertiary studies would secure employment in a corporate. Respondents were of the view that such complacency has a negative effect on the entrepreneurial culture of the country as individuals lack the hunger to succeed, knowing that they will be placed relatively easily in companies.

From the perspective of the creation of an entrepreneurial culture, it seems that there needs to be a greater push from various institutions to promote the benefits of entrepreneurship which may have a greater impact in the amount of start-ups in which CVCs can invest.

6.7.4. Tax issues

In line with Da Rin et al. (2009), the perception exists that tax rates do inhibit the amount of investments that CVCs and IVCs will make from a South African perspective. Further, the findings are in line with research conducted by Jones and Mlambo (2009), in that respondents felt that the government should be doing more to incentivise investments in start-ups, such as providing rebates to CVCs that provide these investments.

Although the perception existed that government was not doing enough to incentivise investments, the creation of the Section 12J fund as mentioned by Mahlutshana (2013) should alleviate a lot of these issues. This was further raised by an IVC interviewed whose company was responsible for managing the fund.

6.7.5. Regulatory issues

During the interviews, respondents mentioned that the regulatory climate in South Africa precluded them from making investments in start-ups. As a result of regulatory requirements some of the corporates interviewed started investing in start-ups outside of South Africa.

Based on the interviews, it is clear that the issues identified are in agreement with the findings of Booyens et al. (2013), and Olawale and Garwe (2010). However, contrary to Mollentz (2002) in Rogerson (2008), and Christianson (2003) who stated that the implementation of regulations are time-consuming and that entrepreneurs consider them troublesome, corporates interviewed were of the opinion that the regulatory issues in South Africa affected them as much as they do start-ups. One corporate went so far as to define the regulatory issues as punitive in comparison to other nations.

From the interviews and the literature, it could be argued that regulatory issues are clearly outside the control of corporates. Should corporates wish to undertake investment activities, it should be done with a full understanding of the regulatory issues that will be encountered. By planning for regulatory issues corporates could circumvent any possible penalties due to non-compliance (Rogerson, 2008).

6.7.6. Cultural limitations

As identified by Hofstede (1980), Mueller and Thomas (2001), and Kreiser et al. (2010), the regulatory structures within a country result in individuals exhibiting higher levels of uncertainty avoidance.

Corporate and entrepreneurial respondents felt strongly that the culture of the country was preventing start-ups from flourishing, whilst at the same time, afforded those who have started businesses with a better chance of success. The size of the country and the market was mentioned by respondents as a positive aspect as they were facing less competition than elsewhere in the world. However, the size of the country was also perceived to be a negative factor as it was easier for individuals to be affected by different mindsets.

Furthermore, respondents felt that the cultural mindset was different depending on the geographic area that individuals came from. However, the common thread identified

was that the cultural mindset across the country was not the same as in other world markets.

Therefore, the findings of the research confirm the work of Hofstede (1980), Mueller and Thomas (2001), and Kreiser et al. (2010) on the one hand, but contradict them on the other. This is primarily based on the fact that the authors did not discuss the effects of culture based on geographic regions in a country.

6.7.7. Structural limitations

Although macro-environmental factors are beyond the control of individuals and corporates, it is evident that these factors, such as inflation, exchange rates and economic uncertainty affect the level of investments that the corporates are making in start-ups.

In line with the findings of Lamprecht and Swart (2010), it is evident that the activity of VCs and CVCs interviewed is correlated to the state of the economy. Although Lamprecht and Swart (2010) identified exchange control regulations as a limitation from a structural perspective, this was not raised by the respondents. Therefore, it could be reasoned that CVCs are not considering 'globalisation' of their technologies, possibly because they are still ensuring that the technologies or start-ups that they invest in are achieving the strategic objectives of the business. This again shows that CVCs are not making investments with an exit strategy in mind, but rather, investing with the growth of the corporate in mind.

6.8. SUMMARY OF DISCUSSION OF RESULTS

The purpose of CVC investments is to enable the corporate parent to undergo renewal and remain relevant in the changing business environment. CVC investments are often cheaper than undergoing internal R&D. Furthermore, it is often a more efficient option than R&D as the corporates are investing in businesses that have already undergone the relevant R&D. The investments therefore provide the corporates with access to new technologies and innovative solutions that allow them to expand their product offering and increase their reach, accessing new markets.

The outcomes from CVC investments are increased market share complemented by access to new technologies that increase the awareness of the corporate parents brand.

However, there are limitations that are evident in CVC investments. From an entrepreneurial perspective, corporates could possibly invest in businesses that in principle could assist them in achieving their objectives, but the individuals in the business could lack the relevant drive, resulting in failure of the investments. Additionally, the corporate mentality could result in the investment failing as corporates attempt to absorb the business into the existing corporate offices. The merging of two different corporate cultures result in incompatibilities that cannot be circumvented.

Moreover, corporates in an attempt to increase their market share, could invest in the businesses merely to silence them and prevent them from entering the market as a competitor. Alternatively, corporates could attempt to pass entrepreneurial business' ideas off as their own, resulting in entrepreneurs becoming reluctant to share ideas with corporates.

In order for the investment to work, corporates must be willing to provide a level of mentorship to the entrepreneurial businesses which would allow for the creation of a symbiotic relationship between the two parties. Furthermore, corporates should move away from their traditional goals, understanding that the goals of entrepreneurial businesses are different to those of established businesses.

In South Africa, certain limitations have to be considered when undertaking CVC investments. Issues around tax and BBBEE can prove to be problematic, however, there are interventions in place that could circumvent such issues and allow the corporate to convert these limitations into enabling factors.

7. CONCLUSION

This chapter provides a conclusion to the research that was conducted on CVCs in South Africa. It highlights the key findings according to the research questions identified in Chapter 3, concluding with recommendations for CVCs and entrepreneurs. Recommendations for future research are proposed based on the findings of Chapter 5 and Chapter 6. Lastly a conclusion to the research report is provided, highlighting the objectives and intentions of the research report.

7.1. FINDINGS

The findings were based on the research conducted in which CVCs, IVCs and entrepreneurs were interviewed. The results of the interviews were then analysed against the literature in an attempt to answer the research questions identified. This chapter provides a summary of the findings, as well as key findings that the researcher identified through the research.

7.1.1. What is the nature of CVC investing in South Africa?

Although the purpose of this research project was to focus on Corporate Venture Capitalists operating in South Africa, it was important to understand the funding environment in general. It was found that several forms of funding are available to entrepreneurs in South Africa namely, angel financing, venture capital and private equity.

Despite the investments of angel investors and venture capitalists, including CVCs, , the findings highlight that the most prominent form of financing in South Africa is Private Equity. The dominance of Private Equity as the major source of financing could be attributed to the risk factor involved in investing in early stage start-ups. Because many start-ups do not have any proven history of returns, investors are wary of large-scale investments with no guaranteed return.

The risk aversion of corporates is highlighted by the fact that CVCs initially provide small investments in return for equity due to the uncertainty of the success of the entrepreneurial business. Based on the success of the start-up the CVC will increase their investment, whilst increasing their equity in the business.

It was found that interestingly, CVCs interviewed gave a different definition of start-ups than that of Xavier et al. (2013). Based on the definitions provided by Xavier et al. (2013), in some cases, established businesses are still defined as start-ups by CVCs. It seems that CVCs were of the opinion that companies that are still small in terms of turnover and size, attempting to generate sustainable profits, irrespective of their age, are start-ups. This leads CVCs to look more favourably at established businesses that have had the chance to formalise processes, offerings, and management structures, whilst still being small enough for CVCs to classify them as start-ups.

Unlike IVCs who invest in start-ups with the intention of realising a return within a defined period of time, CVCs invest with the intention of assisting the company so as to ensure that the corporates strategic goals are met. Although CVC investments are occurring in South Africa, they are not as formalised as in other markets, such as the United States of America and Europe. Whilst corporates in these markets will start specific CVC funds, the operation of CVCs in South Africa is more informal, with corporates identifying companies that they feel could further their objectives, followed by a motivation to the board of directors for the investment to occur. The CVC operations adopted by South African corporates is more informal, signifying the fact that there is no defined strategy that corporates follow. Were a defined strategy to be developed, it could ensure that all stakeholders are aware of the direction taken by the corporate with regards to the investments made.

The research reveals that as most corporates have no defined strategy, individuals within the corporate champion the investments. The individuals are answerable to the corporate's board of directors, therefore the investments have to be calculated and justified. Should the investments fail, the board of directors would usually place the blame on those individuals, resulting in reputational damage to the individuals. This further adds to the risk aversion displayed by corporates and individuals operating within the corporates.

7.1.2. How are the investment decisions made by CVCs in South Africa?

Corporates in South Africa, although operating within a developing economy, operate similarly to their international counterparts. Through the interviews, the findings generally confirmed what had been identified in the literature. However, there were several characteristics of the CVC investment decision-making process that appear to be distinctly South African.

Unlike the research conducted by Markham et al. (2005) where several elements were identified within market intelligence, South African corporates do not view all of these elements as being key to their investments. Due to the insular and competitive mentality of South African CVCs interviewed, the major objective of CVCs is to increase the market share of the corporate. Additionally, CVCs source entrepreneurial businesses that allow them to expand their offering to new markets in turn providing the corporate with new marketing opportunities. However, characteristics such as anticipating competitor moves, and identifying new entrants are not core to the investments being made.

Furthermore, the CVCs interviewed do not believe that all the factors identified by Markham et al. (2005), Dushnitsky (2006) and Basu et al. (2011) are objectives. Certain objectives are viewed as complementary outcomes of the investments. This could be attributed to the fact that CVCs in South Africa are more focused on investing in businesses that increase their market share, with any additional objectives being considered outcomes or benefits.

The expectation of entrepreneurial businesses to assist in the growth of the corporate requires them to form partnerships, joint ventures, and licensing agreements that will enable them to grow quicker. Therefore, those companies that have received investments from CVCs have in some instances formed their own corporate venturing arms and are consequently able to make investments in other start-ups. It should be noted though that the investments are made with the corporate parent's money, based on the motivation put forward by the entrepreneurial business.

Furthermore, the research points to a lack of investment in disruptive opportunities by corporates. This is primarily due to the fact that risk aversion and the fear of failure coupled with the influence on future investments of corporates prevents them from taking a chance to invest in certain businesses. The lack of a defined long-term strategy could have an impact on the future investments of corporates, as corporates would appear to be unsure of exactly in what they should invest to further their goals. Therefore, they seem to opt for safer investments in companies that are similar to them.

7.1.3. What are the factors that enable CVC investments in South Africa?

Contrary to Matusik and Fitza (2012), CVCs interviewed are not making extensive use of partnerships or syndication agreements in structuring their investments. As highlighted by McHugh (2013), one of the trends is for corporates to provide IVCs with investments. In return, the corporate has the ability to screen start-ups that will assist them in achieving their objectives. A possible explanation for the lack of partnerships in South Africa could be attributed to the insular and competitive mentality of corporates. As a result they tend to operate their businesses in isolation from other funding entities, possibly for fear of divulging their core competencies to other partners.

It could therefore be argued that by partnering with IVCs, CVCs would have a better opportunity to leverage off start-ups that are perceived to be more risky. Traditionally, IVCs are more inclined to invest in risky start-ups with the potential to provide greater returns upon exit. In this case, IVCs could approach CVCs who have the complementary assets required to ensure that the start-up which aligns with their strategic goals, is provided with the relevant resources required to commercialise their offering. Once the start-up has reached maturity and an exit strategy has been devised, the CVC would then have the opportunity to acquire the IVC's stake.

If partnering or syndication relationships are the selected choice of CVCs, it is imperative that they identify the skills they require upfront. This will enable them to determine the best partner and therefore ensure that the investment has a better chance of success.

Furthermore, the CVCs interviewed subscribe to the idea of 'backing the jockey' (individual) and 'not the horse' (idea) as identified by MacMillan et al. (1986), whereby the CVCs consider the capabilities of the individuals involved in the entrepreneurial business, rather than the idea in isolation. It was discussed that talented individuals probably have the ability to alter their business plan should the initial idea not be successful. By doing so, they would remain relevant to the corporate and the achievement of the corporate's strategic objectives even if the initial idea fails. It could be argued that such failure could be ascribed to the absence of a clear strategy, with corporates instead hoping that the individuals would provide further ideas as opposed to the corporate having to invest in other businesses.

It is essential for CVCs to gather sufficient information on individuals in order to make sound decisions around their investments. Beyond the due diligence conducted on the

start-ups, thorough investigation should be conducted on the individuals to ensure that their track record is credible. It was noted by the respondents that in some investments the failure was attributed to investors not spending sufficient time on getting to know and understanding individuals

Although corporates invest in individuals, the success of the investment would rest on the corporate's ability to allow the entrepreneur to maintain levels of autonomy existent pre-investment. Should the corporates become too involved, those individuals in the start-up would easily lose their locus of control (Luiz & Mariotti, 2011). This could result in the failure of the investment.

In setting goals and objectives for start-ups, corporates cannot rely on their traditional goals. It is impractical to measure a start-up on revenue and profit generation whilst they are still commercialising their offering. As stated by Hechavarria et al. (2012), the goals have to be quantitative and furthermore realistic. These are more suited to an entrepreneurial business, providing them with the relevant drive to achieve the goals.

Furthermore, those individuals who have been involved in several entrepreneurial ventures will more than likely display a higher level of self-efficacy, enabling them to strive to achieve the goals that the CVC and the entrepreneur agree upon.

7.1.4. What are the outcomes of the investments?

From the research it was evident if the investments are managed correctly, based on the enablers identified namely partnering, individuals, clearly defined goals and mentoring, the outcomes of the investments are in line with those identified within the literature.

It seems that the mitigation of risk could potentially tie in with the lag identified in technology intelligence, for fear that should the venture fail, the brand could suffer damage. However, by delaying an announcement about and commercialisation of the investment until the corporate is satisfied it is ready, the risk of failure is again mitigated.

Successful investments are a cheaper form of marketing and advertising for the corporate parent. Should investments succeed, the corporate parent is able to leverage their brand off the start-up. However, should the investment fail, the corporate parent is able to remain silent regarding the start-ups affiliation to the brand.

CVC investments have acted as a substitute for R&D in South Africa, primarily due to the high costs involved in R&D. Furthermore, by investing in the businesses; the corporates gain access to an established business. This ensures that no lags are experienced between idea generation and commercialisation of the offering. Additionally, the investment in innovative solutions has a spill-over effect. In this case, the innovation exhibited by individuals in the entrepreneurial business resulted in increased innovation within the corporate parent.

Moreover, as much as there is an investment in the innovative technology offered by the start-up, the investment is also focused on the individuals within the start-up. Corporates make these investments with the intention that such individuals will be able to produce more innovative ideas over and above the one they received investment for.

For the corporate to enjoy maximum benefit from its investment the entrepreneurial business should be allowed to make decisions regarding their own business. The investment is often weakened when the corporate exerts pressure on the entrepreneurial business in terms of the boundaries within which they are allowed to function. Corporates should be cognisant of the fact that they invested in the start-up for their technology and should therefore allow the start-up to have free reign in order to get the technologies to market.

In some cases, the investments were made as a defensive strategy. This prevents competitors from gaining access to the new technologies and ensures that the corporate parent maintains its competitive edge. Moreover, this form of investment activity could highlight the short-termism of corporates, whereby the investments are reactive rather than proactive.

Corporates in South Africa have a tendency to be myopic in that they are willing to go to any means necessary to remain an industry leader, which allows them to overcome the 'not-invented-here' syndrome (Katz & Allen, 1982; Cassiman & Veugelers, 2006). However, when individuals feel threatened they could attempt to sabotage the activities of the entrepreneurial business. Traditionally, position was correlated to longevity in a corporation, and as such, when individuals would perceive the investment to be a threat to their position, they may attempt to sabotage the investment.

7.1.5. What are the factors that inhibit CVC Investments?

The paradox of disclosure has made it more precarious for entrepreneurs to disclose their ideas to corporates when seeking investments. Several high-profile cases in which individuals claim corporates stole their ideas have made entrepreneurs more cautious when seeking investment.

Although not a practice employed by those interviewed, the possibility does exist that corporates would attempt to steal ideas from start-up, if they could develop them internally. However, the reliance on start-ups to further the objectives of the corporate results in those interviewed shying away from these tactics. In many cases, the infancy of the investments makes it more difficult to measure this in South Africa.

As a result of their competitive nature, corporates occasionally invest in businesses with the sole intention of preventing them from commercialising their offering. Furthermore, when a corporate invests in an entrepreneurial business without the intention to commercialise its offering, their competitors are precluded from gaining access to solutions that could benefit them. This practice benefits neither party, and creates long-term damage as start-ups become more hesitant to approach CVCs for investments.

When board members exhibit a lack of horizontal business knowledge investments alien to the core of the business are less likely to succeed. Therefore, if corporates consider horizontal investments, there should be champions in the organisation who will be responsible for the success of start-ups. Should the horizontal investments succeed, it would provide the corporate with opportunities to expand its business model beyond its core business.

Even though there could be potential long-term strategic benefits associated with investments outside the corporate's core business, the corporates seemingly find it difficult to comprehend a corporate's success with longer-term ventures that are removed from its core business. It could therefore be argued that even though it might not make business sense at the time of the investment, if corporates want to remain relevant they should consider various options, including horizontal investments. If these prove to be successful, the corporate could change its business model to accommodate such options.

Unless the intention is to maximise efficiencies, absorbing start-ups and imposing corporate rules and regulations upon them results in stifling the entrepreneurial business, and also inhibiting their entrepreneurial spirit. As a result, the chances of failure are increased when start-ups are absorbed into corporates for the sake of becoming part of the corporate culture.

7.1.6. What factors inhibit CVC investments that are specific to South Africa?

Several of the factors that inhibit CVC investments in South Africa are outside of the control of corporates, namely the regulatory, cultural and structural environment. However, in order for CVCs to ensure their investments are successful, they have to take cognisance of the external factors and the impact that these can have on the investments.

CVCs identify start-ups that will further their objectives, therefore, they do not publicise their CVC operations. Consequently, start-ups with innovative ideas that are not core to corporates' existing operations will struggle to obtain funding. CVCs that are typically risk averse will not stray too far from their core operation, therefore excluding a wide range of start-ups that require funding to further their operations.

It could be argued that in South Africa, most corporates are operated by professionals such as accountants or lawyers who by their nature, are risk averse individuals. The mentality of the owners will ultimately seep down to all other levels in the corporate, which would influence their appetites for risk. Furthermore, the risk aversion displayed by senior level employees in corporates influences the corporate culture, resulting in riskier investments with greater benefits being avoided. Raynor (2011) stated that entrepreneurs are more willing to take risks than those making the investments. Therefore, to rectify the risk aversion exhibited by corporates, individuals with entrepreneurial mind-sets have to become involved in decision-making around certain investments.

The lack of tax incentives for corporates investing in start-ups has an impact on the amount of investments that CVCs will make. The recently launched Section 12J fund has to be publicised to corporates. However, corporates intend to keep investments in-house, therefore partnerships should be entered into. By corporates investing in the fund, they should then have opportunity to become involved in the investment decisions that would be most beneficial to them as highlighted by (McHugh, 2013).

BBBEE did not play a role in the investment decisions of corporates as they felt that the investments they were making were of too small a nature to be impacted by BBBEE factors. However, as with the Section 12J fund from a tax perspective, by investing in BBBEE businesses, it would benefit the corporate. As noted by Alessandri et al. (2011), by investing in BBBEE businesses, the corporate would have access to new markets, with the additional potential of accessing government contracts, as well as an increased reputation with the black majority. Furthermore, the investments would impact on the BBBEE scorecard of the corporate parent, improving their ratings, in turn acting as an enabler when dealing with the government (Varriale, 2013).

It seems that a change in the cultural mindset of the country relies on a change in the regulatory environment, which to date has seemed to be prohibitive. The development of a stronger entrepreneurial culture in South Africa requires the re-examination of, regulatory and legal policies. The increase in entrepreneurial culture could therefore lead to an increase in CVC activity in South Africa.

In the long run, it could be argued that corporates and government have to work closely to remove the barriers identified from a regulatory perspective, benchmarking against international practices.

7.1. RECOMMENDATIONS TO STAKEHOLDERS

In terms of the findings above, the following recommendations are proposed relating to CVCs and Entrepreneurs respectively.

7.1.1. Corporate Venture Capitalists

With regards to CVCs, the following recommendations are made:

CVCs should consider creating formalised CVC funds, allowing the CVC to operate independently of the corporate. Furthermore, by creating a formalised fund, CVCs would be able to develop a defined strategy for their CVC activity which could then be approved by the board of directors. Such approval would therefore ensure that all stakeholders are aware of the activities of the CVC. The development of a CVC investing strategy would further assist corporates in attempting to diversify their product offering, creating possible opportunities for horizontal investments.

Should CVCs consider horizontal investments, there has to be champions in the organisation who will be responsible for the operation and eventual success of the start-up.

Greater awareness around CVC operations should be created, ensuring that entrepreneurs are aware of CVCs providing funding. Furthermore, CVCs should employ risk-taking individuals who are able to identify disruptive opportunities to enhance the corporate parent's operations.

Avoid defining unrealistic goals for entrepreneurs. Post investment in the entrepreneurial businesses, the goals that are defined for the entrepreneur have to be more realistic and suited to an entrepreneurial business, providing them with the relevant drive to achieve the goals.

A fail-fast mentality has to be adopted, ensuring that CVCs are not averse to investing in start-ups that could possibly fail.

CVCs should explore the possibility of partnering with other CVCs and IVCs. By doing so, the costs involved in attempting to build up the required capabilities internally would be alleviated. Furthermore, it provides a window on opportunities that might not necessarily have been considered if the CVC were to operate individually. A further option for CVCs is to explore the possibility of setting up their own Section 12J fund. Alternatively, they could invest in the existing Section 12J fund with the ability to partake in the selection criteria of start-ups, as highlighted by McHugh (2013)

7.1.2. Entrepreneurs

With regards to entrepreneurs, the following recommendations are made:

Non-disclosure agreements should be drafted and signed prior to engaging with CVCs, so as to protect the entrepreneurs from any possible exploitation that could occur.

In order for the entrepreneurial business to thrive, entrepreneurs should remain in the environment where they are currently operating from. Furthermore, unless it makes sense logistically and from an operational perspective, the entrepreneur should avoid moving into the corporate's premises.

When seeking access to finance, identify corporates operating in a similar industry so as to ensure that the corporate understands the industry and the business. If

entrepreneurs were to approach CVCs in industries far removed from the entrepreneurs' business, the chances of obtaining investment would be minimised.

7.2. SUGGESTED FRAMEWORK FOR CVC INVESTMENT DECISIONS IN SOUTH AFRICA

In the light of the findings in Chapters 5 and 6, the researcher saw fit to suggest a framework (Figure 2) to guide CVC investments in South Africa. The framework is built on the three pillars of regulatory, cultural, and structural environment that all funding providers in South Africa should be cognisant of.

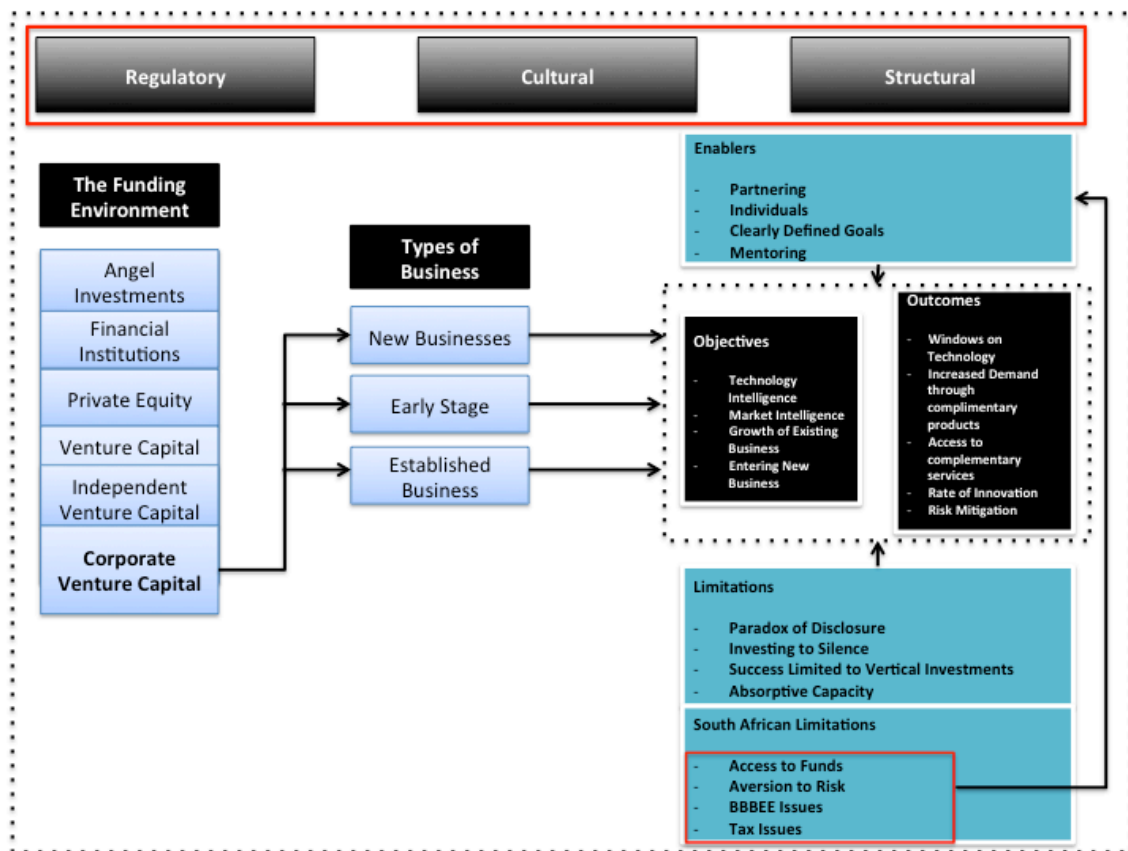


Figure 2: Suggested framework for CVC investments in South Africa

Several options available to entrepreneurs with regards to accessing finance for their ventures are emphasised. The different funding options to entrepreneurs are identified as angel investments, financial institutions, private equity and venture capital – divided into Independent Venture Capital and Corporate Venture Capital.

The option of CVCs is then expanded to highlight the types of businesses that CVCs will invest in, as identified by Xavier et al. (2013), namely new businesses, early stage businesses and established businesses.

Post investment, the objectives and outcomes of the investments are identified. This would enable corporates to develop a long-term strategy understanding what the benefits of the investments are. The framework groups the objectives and outcomes of CVC investments due to the complementarity between the two.

Through the process, the enablers and limitations are identified that could have an impact on the objectives and outcomes. In order to ensure that the objectives and outcomes are achieved, corporates have to be cognisant of the external factors that can impact on the investments. This should allow for contingencies to be developed to circumvent any possible issues that could be encountered.

The framework highlights the South African limitations - separated from the limitations encountered by all CVCs - that were identified through the research. The framework further takes into consideration that by making use of various initiatives identified in the research paper, such as the Section 12-J Fund, CVCs are able to convert the South African limitations into enablers of CVC investments, assisting the corporates in furthering their strategic objectives.

7.3. CONTRIBUTION AND RECOMMENDATIONS FOR FUTURE RESEARCH

The findings of this research paper are based on interviews with a small sample of CVCs, IVCs, and entrepreneurs in South Africa. Future research could expand on this research paper by attempting to quantitatively examine the findings identified. Furthermore, due to the exploratory nature of the research, future research could focus on specific elements identified, validating the findings of this research paper.

The following areas of research could be explored:

- The impact of the paradox of disclosure on future CVC and entrepreneur relationships
- The role corporate venture capital plays in creating an entrepreneurial mind-set in a country
- The factors involved in South African corporates that could lead to them being averse to risk
- The effect that founding individuals who leave the start-up have on the long-term outcome of the start-up, based on the importance of individuals in start-ups
- How investing in innovative start-ups impact on the innovation of individuals in the corporate parent

- The benefits of syndication relationships between CVCs and IVCs
- The outcomes of horizontal investments by CVCs

7.4. CONCLUSION TO RESEARCH REPORT

This research paper examined the outcomes, objectives, limitations, and enablers of Corporate Venture Capital Investments in South Africa. Due to the paucity of literature focusing on CVCs in South Africa, this research paper aimed to contribute to the body of knowledge in South Africa.

CVC investments in South Africa are less formalised than in other parts of the world such as the United States of America, and Europe. However, the research shows that CVCs in South Africa undertake investments for many of the same reasons, focusing primarily on the achievement of strategic objectives versus financial objectives.

Unlike elsewhere, several factors unique to South Africa impact on CVC investments, such as the risk aversion of South African corporates, Broad Based Black Economic Empowerment issues, Tax Issues, Regulatory Issues, and Cultural and Structural Limitations. These factors should be considered before CVC investments are made in South Africa to better ensure their success. With a greater awareness of these factors CVCs will be able to work around them, instead of attempting to circumvent them, which could result in failure of the investment.

The creation of the CVC investment framework could prove a valuable tool in assisting future CVC investments. The framework highlights the various options for the corporate parent in line with its proposed objectives to facilitate greater success in the investment process.

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APPENDICES

APPENDIX ONE: EXAMPLE OF TRANSCRIPTS

So there was definitely an idea of what was to be achieved out of this?

Yes, there definitely was.

Maybe while we are on that, what results have been achieved from both of the investments made to date?

Okay the jury is still out on the latest one, on the Centipede which was GetIt, there was a bit of a fail fast approach with that one and it did, but now we are at the pivot phase, at the moment it has actually been rolled out for our sales channel, so the jury is still out on that one, it's really fundamentally too early to tell with that one, but on it's first mandate they executed on the fail fast well, they tried, it didn't work, they pivoted so that kind of worked.

If you say did we derive what we thought we would out of the agency that we bought, we would have to say no we didn't, I think that things are in place now that we believe will probably get us a better chance of success, at least on the first of those 2 goals, the 2nd one has become something of a moot issue

APPENDIX TWO: EXAMPLE OF THE CODE BOOK

Theme	Category	Code
Deconstructing Venture Capital		Activity of IVC
		Personality/Character of Corporate Individuals
		Activity of CVC
		Difference between the two Objectives
Strategic Objectives of CVC	Windows on Technology	Market Share
		Innovation
		R&D
		New Offering
	Change Business Model	
	Complementarities	Competitive
		Key Resources
Investing to Silence	Distribution	
	Knowledge	
	Brand Association	
Strategic Renewal	Access to new clients	
	Bullying	
Talent Acquisition	Increase Market Share	
	Eliminate Competition	
	Take Credit	
Intelligence	Take certain technology for own use	
	Prevent other competitors	
Limitations of CVC Investing	Paradox of Disclosure	Growth
		Remain Relevant
	Conflicts of Interest	Rejuvenate Business
		Diversification
	Absorption	Individuals
Ideas		
Risk Avoidance	See innovation that exists	
	Cost-effective	
	Expand company horizons	
South African issues	Paradox of Disclosure	
	Conflicts of Interest	
	Absorption	
	Risk Avoidance	
Failure of CVC	Idea theft	
	Culture	
Outcomes of CVC	Interests	
	Cannibalisation	
Enablers of CVC	Business Alignment	
	Rigidity	
	Cultural Issues	
	Risk Aversion	
	Uncertainty	
	Board Expectations	
	Corporate Culture	
	Tax	
	Lack of entrepreneurial spirit	
	BEE	
	Setting up a business	
	Mentorship	
	Impatient Shareholders	
	Entering new lines of business	
	Innovative Start-ups	