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companies that were finally acquired by a third party company not in the investment syndicate (17.3%). Further, in all cases where the portfolio company was acquired by one of the original corporate investors, the CVC function was legally organized as a subsidiary rather than as an affiliate of industrial corporation or as a corporate partnership (using Venture Economics' classification). Of the investments leading to acquisition by one of the original CVC investors, 41.7% were made at the early stage whereas only 26.8% of the other investments were made at the early stage. This difference may be explained by the CVC's opportunity to see and appraise interesting portfolio firms and technologies more early in the investment process than external potential acquirers. The latter have to wait for the investment syndicate to signal its willingness for an exit.

Table 4 Differences between the CVC investments that were exited via an acquisition by one of the original CVC investors and CVC investments exited via an acquisition by a third party firm

	Acquisition by one of the original CVC investors		Acquisition by a third party company	
	Mean	Median	Mean	Median
Number of investors in the round	5.2	4.0	5.2	5.0
Matching three-digit SIC codes (Y/N dummy)	41.7 %	0.0 %	17.3 %	0.0 %
CVC function is a subsidiary (Y/N dummy)	100.0 %	100.0 %	76.3 %	100.0 %
Early stage investment (Y/N dummy)	41.7 %	0.0 %	26.8 %	0.0 %

It had been hoped to continue the analysis using a multi-variate logistic regression model. However, this avenue did not produce any meaningful (i.e. significant) results. We believe that the limitations on such an analysis were caused by the low sample number (12) of acquisitions by CVCs, the small differences recorded between groups for our identified operational variables, and the binomial structure of many of the salient variables.

5. Discussion

The incidence of CVCs' acquisitions of their own portfolio companies was found to be extremely low. With only 12 investments out of 206 CVC acquisition-exited investments, we conclude that this is a minor activity. Our findings support strongly the earlier results of Hagedoorn and Sadowski (1999) and Laamanen (1999) that prior collaborative arrangements do *not* seem to have a strong role in future acquisition behavior. Furthermore, this paper

contributes to the understanding of corporate venture capital strategies by demonstrating that the frequently reported *ex ante* objective of finding acquisition targets may not be the most important *ex post* logic or rationale for corporate venture capital activities.

For entrepreneurs, the present study suggests that the threat of corporate venture capital investors becoming dominant and subsequently acquiring their companies is very low. This finding may please independence seeking entrepreneurs more than those viewing an acquisition as an attractive exit route.

For corporations, our findings suggest that a corporation's engagement in CVC activities may need to be justified by arguments other than that of trying to find potential acquisition through syndicated investments. However, CVC may have a separate but related intelligence role for the corporate parent. Attractive firms seen by the CVC team in their examination of deal flow may be directly referred to M&A departments or product divisions within the parent company. Indeed, where the CVC sees companies owning highly attractive assets in related industries, immediate acquisition might be a more sensible response than syndicated investment via a CVC channel.

We conclude that although a real option perspective might suggest that CVC investments could be used to build options to acquire, the operational constraints including potential conflicts of interests and agency costs between stakeholders limit the exercise of these options. Incremental learning by the CVC investor throughout the duration of the investment process could also be seen as a factor that similarly reduces over time the real value of the acquisition. Therefore, the empirical results and deductive reasoning both suggest that the majority of portfolio companies will become more valuable to other companies *not* involved in the original investment process.

These findings suggest that a fruitful area of future work might be to substantiate observations that are presently given as plausible interpretations utilizing existing theory. For example, the means and degree by which CVC investors can extract value from or share value with portfolio companies prior to an exit is an area of considerable interest given the contemporary popularity of both resource based and network models of corporate strategy. Furthermore, our description of the alternative acquisition routes which corporations may adopt remain rationalizations rather than empirical fact. The relationship between CVC and acquisition activity within a firm touches of questions of major strategic importance. However, quantitative analyses of CVC acquisitions will need to wait for considerably larger sample sizes.

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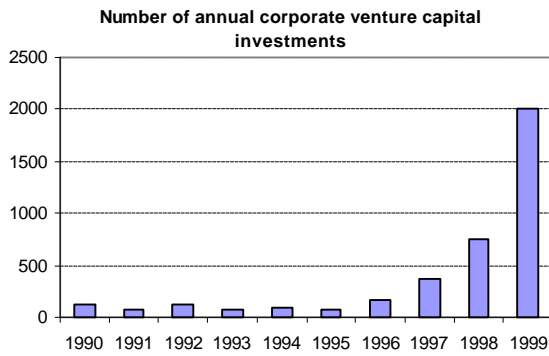


Figure 1 Number of annual investments by corporate venture capital firms in the sample

Table 2 Sample description

Sample description	Number of investments
CVC investments in 1.1.1990-31.12.1999	3 882
Investments that had led to an acquisition	307
Acquirer is known and the acquisition led to a majority ownership (>50%)	206

We recognize some sources of potential errors exist in the data collection. First, the Venture Economics database primarily tracks ‘classic’ venture capital rather than corporate venture capital investments. It has been used extensively in venture capital research by academics (e.g. Gompers, 1995; Gompers and Lerner 1998). Although the Venture Economics database is the most comprehensive database of venture capital investments and contains over 118,000 private equity transactions from 1970 to the present, it does not necessarily include every single investment. Any possible bias or source of error might be higher for acquisition oriented *corporate* investments when compared to information on traditional investments by established venture capital firms. In the Venture Economics data, some of the corporate investors have not allowed their name to be published in the data records. In such cases, Venture Economics usually lists the investors as “undisclosed corporate investors”. We did not have any choice other than to remove these cases from the sample unless the acquirer was another corporate that had also participated in the same investment round. In total, we had to exclude 102 of the 307 investments in the initial sample because we could not determine accurately the investor-acquirer identity. One of the factors explaining this high number is that to get the initial 307 investments, we only required that the status of the portfolio company

given in the Venture Economics database was termed an “acquisition”. In the next phase of the sample selection, we exerted the more strict criterion that the acquirer had assumed ownership of the majority (>50%) of the shares of the portfolio firm, i.e. a controlling interest.

Although we recognize that Venture Economics data does not cover perfectly the corporate venture capital activity, especially regarding CVC investments without syndication, we believe that any possible bias will not materially impact the key results of the study.

4. Results

We find that only twelve of the total of 206 investments in the sample had been acquired by a corporate investor. This figure represents less than 6% of all the identified corporate venture capital investments that had exited via an acquisition over the period. At an acquisition ratio of nearly one in twenty, we consider this a very low share. In 194 of the 206 cases, the syndicate of investors appear to have preferred that an external corporation acquire the portfolio company. Therefore, hypothesis 1a is not supported and hypothesis 1b is strongly supported. Acquisitions by CVCs of their own portfolio companies seem to be a minor and infrequent activity.

This result supports the findings of Laamanen (1999) that collaborative arrangements do not seem to have a strong option role in acquisitions. Our results are also consistent with the related findings by Hagedoorn and Sadowski (1999) that strategic alliances hardly ever lead to acquisition by one of the alliance partners. Table 3 highlights our findings.

Table 3 Acquisitions of corporate venture capital financed ventures

Corporate venture capital investments exited via an acquisition		
	Investments	Share
Acquisitions by original CVC investor	12	5.8 %
Acquisitions by a third party company	194	94.2 %
Total	206	100.0 %

Based on earlier studies (e.g. Hagedoorn & Sadowski, 1999; Laamanen, 1999) we included several variables in the analysis in order to analyze the potential differences in the investments between the two alternative types of acquisition outcomes. Table 4 presents the means of the variables. We found no significant difference in the number of investors in the investment rounds that led to an acquisition by an original CVC investor or by another company (mean 5.2 investors for both groups). These numbers are somewhat higher than the findings Lerner (1994) reported (0.5 - 4.2 in different rounds and by different types of investors). One difference between the two groups in our data set was that the acquirer/target match of the 3-digit SIC codes was much higher among companies that were purchased by one of their original corporate investors (41.7%) than compared to

premium can be also interpreted as the price of the option to acquire.

Corporate venture capital and exercising the options to acquire

Based on the stated objectives of corporations to use CVC in order to find suitable acquisition targets (Siegel, Siegel, and MacMillan, 1988; Sykes, 1990) and the premium they pay for their investments (Gompers & Lerner, 1998), we make an assumption that corporates use corporate venture capital to build options to acquire. Making this assumption raises an immediate and highly pertinent question: *how successful are companies in exercising their options to acquire?*

Taking the view that corporate venture capitalists actively build options to acquire, it can be argued that the most likely exit route of successful investments will be via the acquisition by the corporate controlling the CVC rather than some third party purchaser. This leads to our first hypothesis.

Hypothesis 1a: For CVC investments which have exited via an acquisition, the acquirer is most often the CVC investor.

Conversely, we can see several reasons why corporate venture capitalists might not exercise their options to acquire. First, based on the logic of agency theory, CVCs might not seek to acquire portfolio companies because of the existence of significant agency problems. Other investors in the syndicate may contest the CVC's right to purchase and/or strive to drive up the purchase premium. This would be particularly the case if the other investors believed that insider knowledge reduced the final purchase price. Second, it may well be that the investing corporation has already learned all it can from the portfolio companies since first becoming a co-investor. In this circumstance, there would be little logic for the CVC to expend additional money to acquire the company when it already had gained access to key information assets. Therefore, the portfolio company might be more valuable as a purchase for some other corporation which has not yet got access to the rent producing assets of the young firm.

The effect of the above arguments would be strongest when combined: a corporate investor would value of the portfolio company less because it had already extracted value by learning the unique competencies of the portfolio company. Accepting that other venture capitalists in the syndicate are looking to maximize the value of their own investments, they would not accept the lower valuation/offer price of the corporate investor. The syndicate would seek some other buyer candidate with a higher valuation driven by the fact that it would gain greater technology advantage from acquiring the portfolio company. This leads to our second hypothesis.

Hypothesis 1b: For CVC investments which have exited via an acquisition, the acquirer is most often not the original CVC investor.

3. Data and Methods

The data was obtained from two sources: the Venture Economics database and the Mergers & Acquisitions database of Thomson Financial Securities Data. The former database is comprised of venture capital investments. In this database, one company may have received several investment rounds consisting of investments by one or more syndicating VC and/or CVC investors. Only investments by CVCs were included in the sample. The two data sets were combined to derive the sample for the study. We selected CVC investments from subsidiaries and affiliates of industrial corporations and corporate partnerships (categories defined by Venture Economics) over the ten-year period 1990-1999. All firms included in the sample had been exited via an acquisition before 15th May 2000.

We built a database in order to integrate the two sets of data. First, all the corporate venture capital investments during the sample period that had been exited via acquisition were identified. This resulted in 307 CVC investments. Then, each company was searched in order to find comparable records from the Mergers & Acquisitions database. Thereafter, investors and acquirers were matched manually based on their names. We considered that the company was acquired by one of its original CVC investors if the name of the investor was the same as the name of the acquirer. We further deemed that a company was acquired by some other company than its CVC investor if the name of the acquirer did not match with any of the investors. In cases where the name of the investor was not known (marked as "undisclosed corporate investor" in the Venture Economics database) and no other CVC investor were found to have invested and subsequently acquired the company, the investments were excluded from the sample. Accordingly, for all the investments remaining in the sample, the acquirer is known. It is also known whether or not the acquirer was a CVC investor in the company prior to the exit.

The final sample included 206 investments in which it was possible to identify whether or not the acquirer was one of the original CVC investors. Figure 1 presents the annual number of corporate venture capital investments in the sample between 1990 and 1999 based on Venture Economics data. Table 2 describes the composition of the sample.

investor time for learning (via direct experience and/or greater access to new information) to take place before making larger commitments such as an outright acquisition of the company. Sahlman (1993) identifies three types of real options related to staged investments in venture capital: 1) the option to abandon the investment, 2) the option to re-value the investment, and 3) the option to increase capital commitment. However, for a corporate venture capitalist there might be one more option not normally available to the traditional, exit-focused venture capitalist: namely, the *option to acquire the exclusive ownership of the portfolio company*.

Agency theory and the options to acquire in corporate venture capital

We also apply agency theory (Jensen and Meckling, 1976; Eisenhardt, 1989; Sahlman, 1990) in our analysis of the acquisitions of their own portfolio companies by corporate venture capitalists. According to agency theory, principals and agents may have incentives to act selfishly and against the interests of other contract partners. The control of these private activities generates agency costs in the form of governance mechanisms needed to prevent such private actions (Sahlman 1990). Amit et al. (1990) have used agency theory to understand the relationship between venture capitalists and their portfolio companies. They suggest that the highest potential entrepreneurs will seek to avoid sharing their investment with a venture capitalist if at all possible. Van Osnabrugge (2000) has similarly employed agency theory and incomplete contract theory (Hart 1995) to distinguish between the governance practices of formal venture capitalists and business angels. Relander et al. (1994) suggested that agency theory would be an applicable perspective in the examination of trade sales as an exit route for venture capital investments. Similarly, we also find that there are many levels at which agency theory might also explain the potential use by large firms of corporate venture capital in building options to acquire.

Firstly, agency theory suggests that a corporation aiming to monopolize and privatize benefits via an acquisition might reduce the overall value of the venture to other investment partners. As the interviewees of Sykes (1990) noted, the new technology-based companies' recognition of the existence of hidden agendas by their corporate investor partners is likely to create a poor working atmosphere. Even if the acquisition objective of the CVC was known beforehand, the reduction of alternatives to one dominant mode of exit might not provide the optimal value for the entrepreneur(s).

Secondly, venture capitalist co-investors participating in the investment syndicates with CVCs are interested in maximizing the internal rate of return (IRR) of each of their portfolio investments in order to gain the highest aggregate fund performance. Syndication is very common in all stages of the

financing of venture backed firms (Bygrave, 1988; Sahlman, 1990; Lerner, 1994; Chiplin et al, 1997). Again, acquisition by one of the original corporate investors might not always be economically optimal for the other syndicating venture capitalists. It is unlikely that the other venture capital investors would wish to grant a right of first refusal to the corporate investor or to limit the range of potential exit opportunities in any other way. Therefore, theory suggests that we would expect to see the likelihood of a CVC's acquisition of a portfolio company increase when two conditions are fulfilled: 1) The number of syndicate members is small, and 2) The portfolio company is strategically related to the product/market interests of the CVC investor (Rumelt, 1991).

Corporate venture capital and building options to acquire

Using the logic of real options, it would seem attractive for corporations to use CVC as a tool to build options to acquire. There are at least two levels on which corporations could use CVC for this purpose.

First, corporations could view the whole CVC function as a mechanism to create options to acquire because CVC activity, like venture capital activity, involves scanning and screening numerous companies in the field (Tyebjee and Bruno, 1983). Simultaneously, when looking for investment targets, corporate venture capitalists could also identify targets for eventual corporate acquisition thereby combining both financial and strategic goals in their operating remit.

Second, corporations could use specific corporate venture capital investments as individual options to acquire. The concept of 'staged' investment is an interesting idea in this respect. Corporations interested in making acquisitions could first make a minority investment and wait and see whether an acquisition would be justified at a later stage when first hand experience had lessened information asymmetries.

If corporations were able to make a contract that allowed them the choice of acquiring the company at a later stage, they would essentially own a 'call option' on the company. However, it is unlikely that new ventures would willingly grant such a right at the stage of first investment. None the less, by already being investors, corporations might still have an advantage in initiating such negotiations at a later stage.

In this research, we do not seek to determine the extent to which corporations are actually using corporate venture capital as a means to build options. However, empirical evidence by Gompers and Lerner (1998) indicates that corporations do pay significant premiums for their CVC investments measured in pre-money valuations when compared to investments by independent venture capitalists. One of their explanations for the existence of this premium is the potential additional benefits or synergies corporations might be able to generate from ownership when compared to independent venture capitalists. This

Although options to acquire have not yet been researched in the context of corporate venture capital, some related research has been conducted on the probability of acquisitions taking place following the establishment of joint ventures.

Hagedoorn (1990) analyzed various modes of cooperation between companies, including joint ventures and research corporations. He found that in all forms of joint agreements, (regardless of the bilateral or multilateral character of cooperation) it is possible that one partner has a hidden agenda to acquire either the technology involved or its partner.

Kogut (1991) sought to explain the logic of such actions by using a real option perspective in the analysis of joint ventures. He investigated the premise that joint ventures would be created as real options to expand in response to future technological and market developments. Kogut hypothesized that the timing of the acquisition should be triggered by a product market signal indicating an increase in the venture's valuation. He tested this hypothesis with a sample of 92 manufacturing joint ventures by estimating the effect of product market signals on the 'hazard rate', i.e. probability of the event of acquisition. His results indicated that unexpected growth in the product market, and hence the value of the company, increased the likelihood of acquisition. Conversely, unexpected shortfalls in product shipments had no effect on the likelihood of dissolution or project abandonment. Kogut explained that this asymmetry in the results strongly supported the interpretation of joint ventures as options to expand. The same interpretation of a real option as used by Kogut can effectively be employed to understand the behavior of corporate venture capitalists.

Bowman and Hurry (1993) developed an idea of the "option lens" to analyze the sequential choices in incremental options that allow companies to make first a small investment and thus postpone a more absolute decision. These authors argued that this action is analogous to the striking of an option, e.g. through an acquisition. They hypothesized that organizations that enter new businesses and markets by linking investments - so that small option payments are followed by large commitments - will perform better than those entering by either discrete small, or large, investments.

Laamanen and Autio (1996) studied the evolution of the size distribution of firms in different industries. They hypothesized that, at the early stage of an industry's development, new entries into the industry take place via the establishment of independent firms. As time passes, the existence of dynamic complementarities draws these small and large companies together in order to collaborate in the commercialization of innovations. The collaboration between small and large firms gradually increases and the large companies are hypothesized to acquire finally the small companies. The logic of the acquisition is that it occurs in order to internalize the competencies of the small, technology-based company (a transaction cost argument), and to prevent competitors from

replicating these competencies via similar alliances (a monopolistic advantage argument).

Hagedoorn and Sadowski (1999) researched transitions from strategic alliances to mergers and acquisitions. They examined whether inter-firm alliances employing different modes of organization, such as contractual agreements and equity sharing agreements, change over time as companies that were previously cooperating at arm's length become more closely integrated. In their research, Hagedoorn and Sadowski limited their sample to one specific group of alliances, i.e. those for which the sharing or joint development of new technologies and the joint undertaking of R&D is a central logic of the alliance. They divided their sample into joint ventures and contractual alliances. As their most important finding, Hagedoorn and Sadowski reported that only 2.6% of the strategic alliances in their sample had led to a merger or an acquisition by one of the alliance partners.

The findings of Laamanen (1999) are also relevant to the present study. Using a sample of 111 Finnish acquisitions, he examined collaborative arrangements as options to acquire and acquisitions as options to enter new business or technology areas. Only in 9% of the acquisitions in his sample collaborative arrangements were found to have had any option role. Laamanen concludes that collaboration does not seem to be used extensively as a means of option creation in order to acquire small, technology-based companies. However, he found support for the view that acquisitions were used as options to enter new markets or emerging technology areas. Instead of making large investments (managerial time and strategic uncertainty are major costs for a large and established firm) in collaboration with small companies owned and controlled by entrepreneurs, Laamanen posits that it is more rational to acquire the companies immediately and start investing only after the companies have been bought outright. One intuitive argument supporting this view is that it could be economically irrational for a corporation to invest in small technology-based company. This action could both increase and signal the investee firm's value and thus make a later acquisition more expensive. This argument would be strongest for corporations considering investments in interesting but very small companies. Indeed, the mere interest of a large corporate is likely to raise the owners' and others' expectations of the small company's value.

However, for uncertain or expensive potential acquisition targets, there are reasons why collaboration could be used as an option to acquire. Corporate venture capital investments can be seen as staged investments if the corporate is aiming at an eventual acquisition of the portfolio company. Staged investment options have been analyzed in traditional venture capital (e.g. Sahlman, 1990 & 1993; Gompers, 1995; Seppä and Laamanen, 2000). They reduce the risk to the buyer by giving an option to re-evaluate the situation later before making new and additional commitments. Staged investments also give the

subsequently in exercising their options to acquire. Are they able to leverage their 'related' industry assets (including knowledge) to accelerate and amplify the commercial success of their corporate venture capital investments? Conversely, do these firms pull back from a full acquisition as they learn more about their intended target firms?

Applying real option theory and agency theory to a large sample of corporate venture capital investments, we review conceptually the applicability of this type of investments being treated as 'real options' to make acquisitions. We then look empirically at what extent, in practice, CVCs have gone on to acquire a majority ownership of their portfolio companies

The rest of the paper is organized as follows. Section 2 reviews the literature related to options to acquire in CVC; Section 3 presents and discusses the hypotheses to be tested; Section 4 describes the sample, its selection, the operationalization of the variables, and the empirical results of the study. Finally, section 5 presents the conclusions of the research, reviews the possible interpretations of the findings, and discusses their theoretical and practical implications.

2. Theoretical frameworks and hypotheses

Acquisitions as an objective in corporate venture capital

Large technology-based corporations often use acquisitions as a mechanism to acquire new skills sets, or to enhance their existing competencies (Laamanen, 1997). In their research, Siegel, Siegel & McMillan (1988) found that finding acquisition targets was an important objective of corporate venture capital programs. This finding was supported by Sykes (1990) who also examined the strategic objectives of corporate venture capitalists based on a sample of 31 American corporate venture capitalists. For CVC investors investing directly in companies, finding potential acquisition targets was the third most important objective. Table 1 presents the objectives of corporate venture capitalists in ranked order. Separate rankings are given for corporations making *direct* investments in new ventures and for corporations making investments *indirectly* via the agency of funds managed by venture capitalists (Sykes, 1990). In the former case of direct investment, the CVC may be equated to an analogous role as the managing partner of a traditional limited liability partnership, independent venture capital fund. In the latter case of indirect investments, the CVC assumes the more passive role of the single limited partner investor to a specialist fund (See Fenn et al, 1995 for a description of fund structures in private equity). For both types of CVC activity, the three most popular objectives are each related to the acquisition of new skills and organizational capabilities consistent with resource

based explanations of firm behavior (Kogut and Zander 1996; Teece, Pisano and Shuen 1997)

Table 1 Objectives in corporate venture capital (Sykes, 1990)

Strategic objective	Mean priority ranking*	
	When investing in ventures	When investing in funds
Identify new opportunities	2.0	2.9
Develop business relationships	2.4	2.7
Find potential acquisitions	3.3	3.8
Learn how to do venture capital	-	4.0
Change corporate culture	4.2	-
Assist spin-outs from the corporation	4.7	4.7

1 is the highest value of the ranking

Sykes also noted that his CVC respondents made the observation that the owner managers of entrepreneurial portfolio companies were antagonistic to the practice of corporate investors using CVC activities as a means of gaining an option for future acquisition. The more experienced and more informed entrepreneurs have a strong view as to the potential market value of their companies. They are also aware that a controlling interest seized by one corporate investor may pre-empt the opportunity for an attractive IPO. Their concern is that in these circumstances the enterprise maybe seen by potential, future buyers as *de facto* already owned by its major investor. This may diminish the interest of other corporates, which occupy a similar or related technology or market space, in acquiring the firm, because its intellectual assets are no longer unique. In most cases, experienced, well-informed and ambitious entrepreneurs will not want to lose the option of taking their venture public at some future date (Sykes, 1990). There is also the additional point that entrepreneurs are known to value strongly their independence even if they are prepared to take on a more powerful partner and co-investor. Myers and Majluf (1984) termed the preferences of small businesses for the avoidance of external interference or equity dilution as a 'pecking order hypothesis'. Thus, a corporate partner that has interests that are inimical with those of the entrepreneur is likely to be a major source of potential conflict.

Real options perspective and the options to acquire in corporate venture capital

To date, very little contemporary research has been undertaken on corporate venture capital. Specifically, the authors were not able to identify any research that had applied real option theory in order to explain the logic of corporate venture capital strategies. None the less, real options have been addressed to traditional, early stage venture capital activity (Sahlman, 1990 & 1993; Gompers, 1995) However, we believe that real option theory can provide an interesting and insightful perspective in the analysis of corporate venture capital investments particularly in the context of staged and contingent, technology investment behavior (McGrath, 1997).

Corporate venture capital and the exercise of the options to acquire

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Large technology based corporations have become increasingly active in corporate venture capital (CVC) in order to gain strategic insights into the development of new technologies, markets, and business models. One commonly cited objective for corporate venture capital is to find potential acquisition targets. In earlier research on acquisitions, large technology-based firms have been found to make acquisitions in order to fill gaps in their existing competencies and to leverage their own internal R&D. In this paper, we analyze over 200 corporate venture capital investments that have been exited via an acquisition. Applying the alternative models of real options theory and agency theory, we analyze the potential use of corporate venture capital in building and exercising options to acquire. We find that the subsequent acquisition of portfolio companies by one of their original corporate investors is extremely rare. We posit that, although CVC might be considered as building options to acquire, these options are not often exercised for two primary reasons: firstly, because of the learning that has taken place by the CVC during the investment process making the ownership of the assets redundant, and secondly because of the possible conflicts of interests engendered between the corporate acquiror and the value-maximizing co-investors.

1. Introduction

There has been a very significant increase in the popularity of corporate venture capital programs at the end of the 1990s. Corporate venture capital has become an increasingly utilized tool for major corporations seeking to accelerate the development of new business areas and/or rejuvenate existing core businesses. Discovering and learning about new technologies, emerging markets, and nontraditional business models through a close association with young and dynamic enterprises are among the key objectives for corporations in the current rapidly changing, knowledge intensive business environment.

In addition to a more contemporary focus on tacit knowledge and learning, large firms traditionally have employed corporate venture capital as one operational means of identifying acquisition targets (Siegel, Siegel & McMillan, 1988; Sykes, 1990). Large technology-based corporations have traditionally used acquisitions

as one important mechanism to acquire new skills or to strengthen existing competencies (Laamanen, 1997). This external seeking for, and acquisition of, companies with a strategic fit to the existing or emerging core competencies of the parent business is particularly practiced by technology based corporations seeking a 'window on technology' within volatile and uncertain environments (Rind, 1981). By such means the acquiring organization expects to support, leverage, and possibly substitute, some of its expensive and time-consuming in-house research and development activity.

The objectives of corporate venture capitalists have been researched since the early 1980s (Rind, 1981; Hardyman et al, 1983; Siegel, Siegel & McMillan, 1988; Sykes, 1990). In each of these studies, finding potential acquisition candidates was deemed to be a major objective of the corporate. However, no research study has to date examined the question of *how successful are corporate venture capitalists*