

This is the second in our Ask Adam series where venturing expert Adam Caper, managing director of Synchrony Venture Management, answers the industry's questions. To comment or ask further questions, anonymously if required, email: jmawson@globalcorporateventuring.com and adam_caper@synchronyvm.com

The measures to fit the game

Q My company is close to launching an initiative to make strategic venture capital investments as part of a broader “open innovation” programme, and we are trying to figure out how to measure our performance. Although many companies talk about their funds having strategic rather than financial goals, there does not seem to be much we can find on how they measure that strategic piece. We are also trying to figure out a compensation scheme that makes sense, and of course this issue plays into that as well.

A Historically, many companies have been reluctant to establish outcome metrics – and compensation schemes based on such metrics – for a number of reasons. For one thing, just as there is no such thing as a “standard” strategy, there is really no such thing as an objective set of metrics – they will inherently vary from company to company, and even over time. As a result, there is no well-validated model.

For another thing, trying to set specific goals, which is a necessary first step of mapping tactics to strategy, is a bit of a black art, full of subjectivity, judgment calls and moving targets. So tying compensation to a specific set of actions can risk distorting incentives and producing unintended consequences. Without a well-regarded model, many firms “punt” on the strategic piece and default to VC return on investment measures, essentially throwing out the baby with the bathwater.

As a proxy, some corporate venturing programmes instead measure activity – number of deals looked at, number of boards served on, patents produced, deals struck and so on. While this can certainly be useful as a means of making sure people are breaking a sweat, it does not really speak to results.

More recently, some firms have created shadow compensation schemes which use the increase in the value of the portfolio, or individual companies therein, as a proxy for success. Unfortunately, this approach has its own set of problems. One is that there is a mismatch between corporate compensation cycles and investment exits – how do you pay people the quarterly or annual bonuses which are central to management-by-objective when exits are inherently lumpy? But a deeper problem is the Catch-22



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of using highly-illiquid private company shares as a long-term retention strategy for people who have been trained to manage their careers to achieve financial stability. Eventually they notice that their bank accounts are much smaller than they had expected and start to rethink their choices.

Even when it does work, measuring success by return on investment entirely misses the point of strategic investing, which is to provide competitive advantage in the firm's core business. What you really want is a system of identifying the value that a corporate venturing group creates and attaching compensation to its ability to create that value.

Happily, there are emerging frameworks for measuring the contributions of corporate venturing programmes. As part of its broader framework for managing venturing and innovation process, Bell Mason Group (www.bellmasongroup.com/framework/) has developed a framework that combines strategic, business and financial performance measures to assess both venture and portfolio impact on the prerogatives and core business objectives of the parent company.

Synchrony Venture Management (www.synchronyvm.com), has developed an approach called Total Innovation Capital Returns (TICR) – composed of financial ROI (fROI), strategic ROI (sROI) and intangible strategic ROI (isROI), where sROI consists of quantitative results and isROI of qualitative results. The “intangible” in isROI refers to the lack of direct, trackable financial returns, not measurable results – as with any standard performance scorecard, its components can still identified and assigned values.

Both these approaches aim to create meaningful levers and a level of granularity more familiar to HR groups – a huge boon to making the corporate venturing team fit into the broader corporate culture.

The real goal – and challenge – of building your performance-tracking mechanism is to hold fast to the goal of creating meaningful tactical advantages for your firm while also respecting the business model of your co-investors and other portfolio company stakeholders, who live and die by the exit. Striking the right balance is not always easy, but is certainly doable. And it is not overstating the case to say that doing it successfully is one of the most important elements in the sustainability and long-term health of your corporate venturing practice. ■

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