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Performing Open Innovation through Strategic Venture Clienting: A Guiding Principles Framework

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Abstract: As an emerging form of strategic corporate venturing, equity-free corporate-startup-partnership ("Venture Clienting") aims to enable open innovation for the strategic renewal of established companies. However, empirical research on how to leverage Venture Clienting for strategic renewal is thin. Consequently, the goal of this study is to provide empirical research on organizational characteristics to maximize strategic value contribution from Venture Clienting. To achieve this goal, the study applies a qualitative case-study analysis of semi-structured interviews from eleven managers of Venture Clienting units and comparable subject matter experts. That way, four aggregate dimensions for strategic Venture Clienting are identified for the resulting framework of guiding principles: autonomous entity, ecosystem prominence, problem orientation, and startup autonomy. This provides empirical grounding for strategic Venture Clienting in corporate venturing theory, and helps practitioners in established corporates to better leverage their equity-free corporate-startups partnerships for strategic renewal.

Keywords: Open Innovation; Lightweight Open Innovation; Corporate Venturing; Venture Client; Corporate-Startup Collaboration Startup Supplier Program; Startup Corporate Partnerships; Strategic Renewal; Innovation Strategy; Business Transformation

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1 Problem Definition and Motivation

Today's fast-changing and uncertain business environment puts established companies under pressure to strategically renew their value proposition and competitive advantages. Management teams aiming for strategic renewal must define a business strategy which allows for Open Innovation (OI) to access external knowledge and resources and connect them with internal assets to (continuously) develop new competitive advantages (Barsh et al., 2008; Khajeheian et al., 2018; Mack et al., 2015; Thomas, 2021). To achieve such OI, they can apply so-called strategic Corporate Venturing (CV) activities to invest in, partner with, or build own new startup companies. To enable strategic renewal through OI, such CV activities can be part of the business strategy, drive the business strategy, or even act as business strategy (Covin & Miles, 2007).

Strategic CV goes beyond seeking profitable financial investments: According to today's research, next to Corporate Venture Capital (CVC) funds, CV now includes innovation labs, corporate startups, corporate incubators- and accelerators, venture partnerships, and other new, contemporary modes that may be used to develop new competitive advantages for the parent company (Kanbach, 2015; Weiss & Kanbach, 2022;2023). As a specific CV mode, Venture Clienting has recently emerged to utilize innovative solutions of start-ups by buying their product or service early-on, without equity capital investments (Gimmy, 2018). This CV mode aims to reduce risk and need for financial resources and provides quick tangible results in the context of OI.

Empirical research on the successful organization of Venture Clienting is limited, specifically regarding its potential contribution to strategic renewal. Accordingly, it remains underleveraged for this purpose in practice: Particularly in times of looming recession, organizations including their venturing arms need to function effectively: In 2022, the German "Capital" Magazin interviewed 56 CV entities for the sixth consecutive year and stressed in their Digital Lab study the increasing relevance of well-functioning venturing activities to solve strategic challenges of major corporates to cope with inflation, operational disruptions, or energy deficiency (Kreimeier, 2022). This gap in research and practice leads to the following research question: "What are guiding principles to maximize strategic value from corporate-startup-collaboration in a Venture Clienting model?" Hereby, strategic value is defined as the renewal of existing or development of new competitive advantages ultimately leading to long-term financial performance and profitable growth of an established corporate.

2 Theoretical Background

2.1 Structured Literature Review

While research on the specific Venture Clienting model is limited, purchasing startup solutions without acquiring equity has been practiced and researched already before. To receive a comprehensive picture of the subject matter also literature about strategic CV and classification of CV models has been reviewed. Figure 2 illustrates the search and abstraction process of the literature. Since the Venture Clienting model itself was only defined in 2015, all former publications have been excluded from the explicit search.

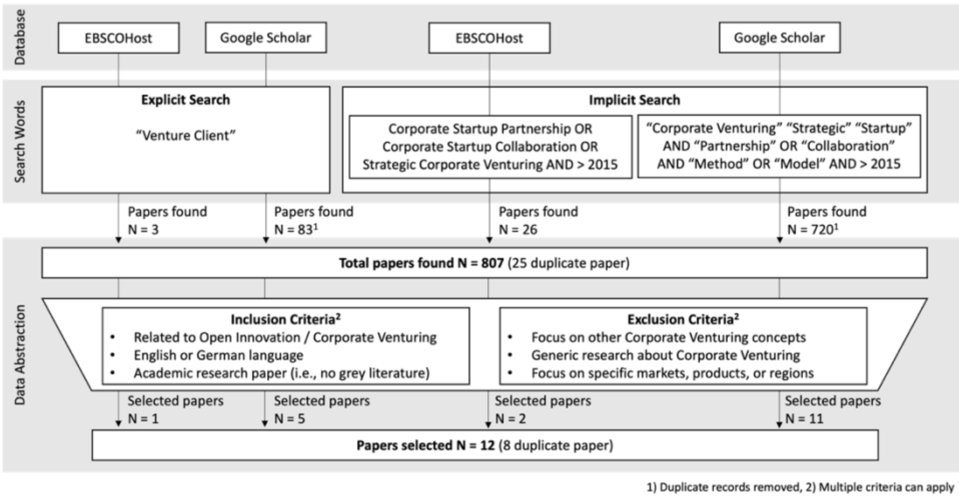

Figure 2 Flow chart of the literature searches and selection of relevant literature

To triangulate the results, both EBSCOHost and Google Scholar (in private mode) were used as databases. With some rigorous manual cleanup i.e., removal of grey literature, duplicates, and unrelated literature, this led to a broad sample of relevant literature. Table 1 shows the selected literature which builds the foundation to conceptualize the current understanding of equity-free corporate-startup-partnerships, and particularly the Venture Clienting model.

2.2 Definition of the Venture Clienting Model

The term Venture Client has been coined by Gregor Gimmy who invented and led the BMW Startup Garage in Munich, Germany between 2015 and 2018 (Gimmy, 2022). While there have been a few research papers about the model in recent years (see figure 1), in 2022, Gimmy published the first book about the Venture Clienting model where he describes the emergence and the benefits of the model compared with the CVC model and corporate accelerators (Gimmy, 2022).

A Venture Client is a company that purchases and uses the product or service of a startup at a very early stage of its development with the purpose to obtain a strategic benefit. The Venture Client does not acquire equity of or close exclusivity agreements with the startup in the first place (Gimmy et al., 2017). Thus, Venture Clienting can be categorized as a mainly strategic, external outside-in, and equity-free CV model.

Certain characteristics of the model emerged from case studies with companies that apply the model. According to the study of Gutmann et al. (2020) at Wayra, the startup program of Telefonicá, the most valued benefit of a corporate accelerator is getting in touch with the parent company to do business. This means, if other benefits of a corporate accelerator such as coaching or meeting other startups are not valued enough, the corporate might focus on engaging with the startup as a client only. As another case example, the Mining Lab of family-owned, Brazil-based Nexa Resources adopted the model starting in 2016 (Roman et al., 2018). According to the authors, the return exceeded the investment 4.7 times.

Since this structured model for equity-free startup-corporate-partnerships is comparably new, but the practice of buying solutions from startups exists already for a longer time, the object of research will intentionally be “Venture Clienting” to include related CV activities.

Table 1 Overview of selected literature about the Venture Client model

Author, Year	*Paper Title*	*Type of Information*
Kanbach, 2015	Corporate venturing activities: a review of typologies and proposed framework.	Comparing Corporate Venturing Models
Bruse et al., 2016	Cooperation between large companies and start-ups: the access to drive disruptive innovation	Comparing Corporate Venturing Models
Gutmann, 2019	Harmonizing corporate venturing modes: an integrative review and research agenda	Comparing Corporate Venturing Models
Steiber & Alänge, 2020a	Corporate-startup collaboration: effects on large firms' business transformation	Comparing Corporate Venturing Models
Weiblen & Chesbrough, 2015	Engaging with startups to enhance corporate innovation	Comparing Corporate Venturing Models
Kurpjuweit & Wagner, 2020	Startup supplier programs: a new model for managing corporate-startup partnerships	Strategic Corporate Venturing
Wikhamn, 2021	Designing lightweight open innovation: a conceptualisation of how large firms engage with small entrepreneurial firms	Strategic Corporate Venturing
Veit et al., 2021	Revising the taxonomy of corporate accelerators: moving towards an evolutionary perspective	Strategic Corporate Venturing
Steiber & Alänge, 2020b	Corporate-startup co-creation for increased innovation and societal change	Strategic Corporate Venturing
Gimmy et al., 2017	What BMW’s corporate VC offers that regular investors can’t	Venture Client Model
Roman et al., 2018	Venture Client: analysis of the mining lab program	Venture Client Model
Gutmann et al., 2020	Startups in a corporate accelerator: what is satisfying, what is relevant and what can corporates improve?	Venture Client Model

2.3 Comparison with Startup Procurement

The most similar model is the Startup Supplier Program defined by Kurpjuweit and Wagner (2020). Herby, the authors determine how companies can target the adoption of startup solutions effectively. The inward-looking study concludes that dedicated purchasing processes and direct collaboration with the corporate's core units are needed. The engagement with the startup ecosystem and the selected startups remain uninvestigated.

There are other models like the co-creation model of Steiber and Alänge (2020b) which also describes a mainly strategic, external outside-in, equity-free CV model, but consists of specific characteristics. The co-creation model aims to invent collaboratively, especially in the idea phase which is contrary to Venture Clienting activities since it typically leads to shared IP and legally binding contracts with long-term exclusivity.

Also, some types of accelerators can be considered as mainly strategic, external outside-in, equity-free CV models. There are certain types of strategic corporate accelerators which include Venture Clienting types of partnerships which Veit et al. (2021) describe as "Value Chain Optimizer" or "Value Chain Extender" – depending on the similarity of the startup products to the corporate's core business. Here, governance is predominantly achieved through contractual collaboration in the form of a paid pilot which helps the parties to understand each other's value before engaging in a more binding shareholder partnership. The approach is understood as faster and more flexible than other forms of accelerators.

Wikhamn (2021) outlines nineteen design elements for lightweight OI – where Venture Clienting activities can be associated with – and categorizes them into four themes: Value proposition, localization, participants, and interactions. The described design elements focus on the engagement between corporate and the startup ecosystem and highlight the relevance of similarity of industry and funding source, but without determining organizational characteristics for Venture Clienting units.

3 Methodology

3.1 Research design

Addressing the stated research question requires an empirical examination of the Venture Clienting phenomenon and its use for OI to develop new competitive advantages. Consequently, the goal of this study is to provide empirical qualitative research on organizational characteristics for equity-free corporate-startup-partnerships – specifically Venture Clienting – that perform well as a form of strategic CV. To achieve this goal, the study follows the structured qualitative research approach outlined in figure 1 to develop a framework of strategic Venture Clienting grounded in empirical data with rigorous data collection and data analysis methods (Yin, 2018).

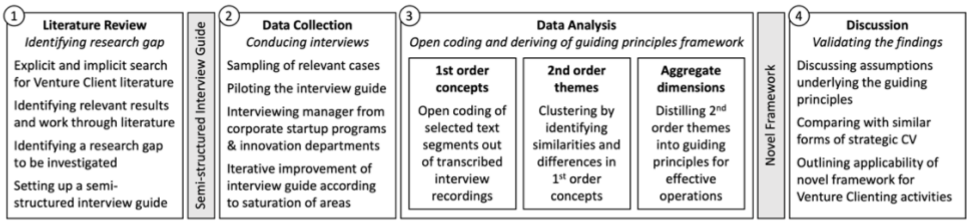

Figure 1 Research design

Following the main themes identified in the structured literature review, relevant empirical data has been collected through semi-structured interviews from a diverse set of eleven informants with experience either in applying the Venture Client model or by engaging with startups to solve strategic challenges (Kallio et al., 2016, Gehman et al., 2018). After the qualitative analysis with multiple-stage coding, the resulting aggregated dimensions have been used as the baseline for guiding principles of Venture Clienting, which are summarized in a framework to explain how established companies organize their Venture Clienting activities (Corbin & Strauss, 1990, Heisig & Orth, 2005, Gioia, 2021). We then compared the resulting guiding principles with existing literature to assess its use for strategic renewal through OI in the sense of strategic Venture Clienting.

3.2 Data sampling and collection

The funnel of informants specifically did not only include people who have been working with the Venture Client model but considered corporate managers from different industries or service providers who have extensive experience with related setups in a B2B context. To get in touch with the informants, two ways have been chosen – either by finding intermediaries to get introduced virtually or during a visit to Silicon Valley. Table 2 shows the companies of the selected informants, their roles, and the lengths of the data collection phase. Herby, based on pre-alignments, informants with a different focus been excluded.

Table 2 Overview of selected cases for interviews

Type of Case	*Company / Program*	*Informant's Role*	*Interview Length*
Venture Clienting	Lufthansa Innovation Lab	Senior Partnership Manager	38:25 min
Venture Clienting	BSH Startup Kitchen	Venture Partner	30:43 min
Venture Clienting	Bosch Open Bosch	Founder, Senior Manager	13:16 min
Venture Clienting	Siemens Mobility StationX	Founder	28:34 min
Venture Clienting	Holcim MAQER	Head of Digital Partnerships	56:54 min
Venture Clienting	DB Schenker	Head of Global Startup Mgmt.	27:18 min
Venture Clienting	Börse Stuttgart Fintogether	Founder, Co-Head	25:47 min
Startup Collaboration	Kuehne+Nagel	Head of IT Product Portfolio	52:26 min
Startup Collaboration	SAP Corporate Development M&A	Senior Director	19:56 min
Venturing Service	GlassDollar	Venture Analyst	26:55 min
Venturing Service	Plug&Play Tech Center	Director Corporate Partnerships	28:15 min

A semi-structured interview guide served as the basis for the data collection. The guide has been developed based on the five-step framework of Kallio et al. (2016) for the collection of qualitative data from interviews. Since the data analysis took place in parallel to the data collection phase, the gaps to answer the research questions could be identified more precisely and addressed during the following interviews. Possible further informants have continued to be approached until saturation of information had been noticed i.e., no new findings in the latest interviews. The data collection phase lasted from April 12 to May 23, 2022.

3.3 Data analysis

After collecting the data as recordings, they had been transcribed to be used as artifacts for the subsequent coding. The data analysis followed a case-study approach and evaluates perspectives from different cases by pre-defined methods (Yin, 2018). The grounded theory is based on principles that emerge with progressing data collection (Corbin & Strauss, 1990).

Relevant summative segments have been marked with new codes or linked to codes created during the analysis of previous interviews. To set up the codes, knowledge gained from the literature review as well as from preceding interviews has been used. The process has been supported by notes which have been made during the interviews. After a batch of interviews had been analyzed, the entire set of interview transcripts had been reviewed once more to ensure the knowledge gained in sequentially later interviews got used for finding accordance in earlier interviews as well (Gioia, 2021).

In the second part of the analysis, the summative statements got distilled to aggregated dimensions. In total, 336 unique summative statements have been collected from the eleven interviews with a total duration of five hours and 48 minutes. The statements have been categorized in 48 first-order concepts with at least two statements assigned to avoid drawing conclusions based on unique opinions. Those first-order concepts got categorized into 13 themes which ultimately led to four aggregated dimensions.

Figure 3 shows the data structure of the above-described process towards aggregated dimensions which can be seen as guiding principles for performing strategic Venture Clienting and will be explained further in the following chapters.

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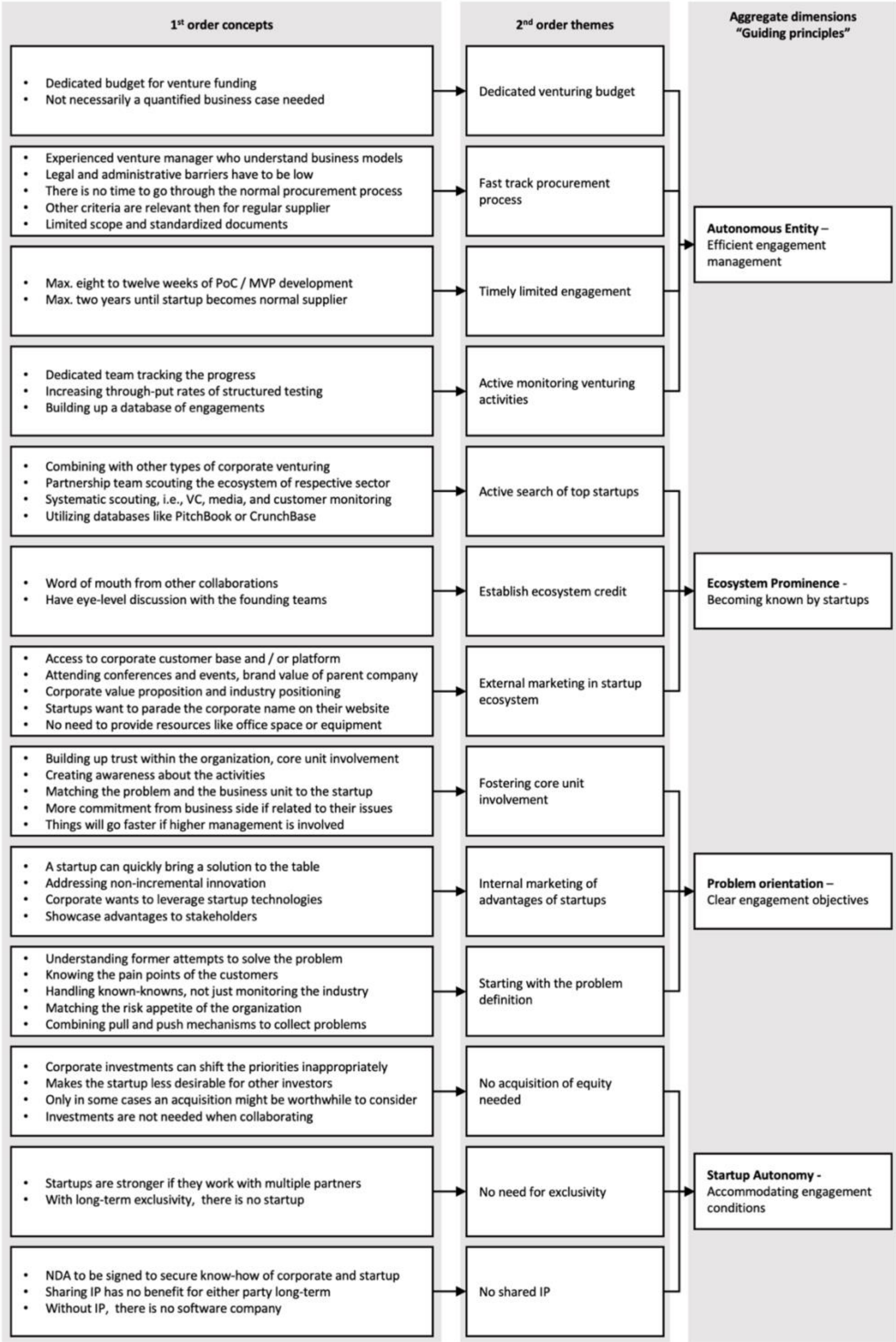

Figure 3 Research data structure according to Gioia research method

4. Findings

4.1 Dimensions and Clusters of the Framework

The guiding principles have been organized along the locus of effect as dimension since the corporate and startup ecosystem are the areas the guiding principles will become effective when applied and to outline the areas to be addressed for maximizing value for strategic renewal. As visualized in figure 4, herby the Venture Client unit is treated as an intermediate between the two areas and as a separate entity to the corporate. Still, the bonds with the parent company dominate the relationship with the startup ecosystem. The startup ecosystem is considered as one entity while there are independent entities with different characteristics.

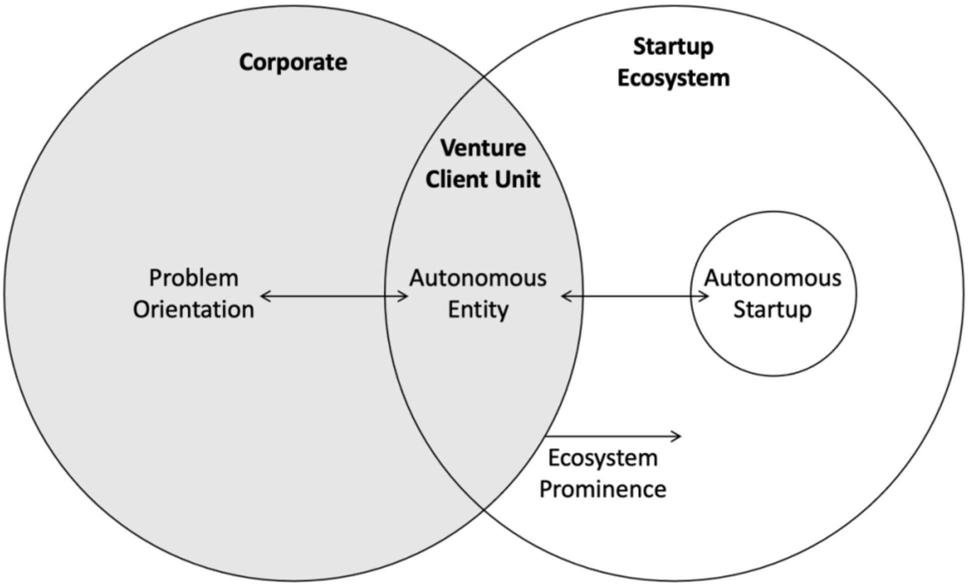

Figure 4 Guiding principles framework for strategic Venture Client

Four guiding principles of organizational characteristics for Venture Clienting activities to perform well as a form of strategic CV to achieve OI have been derived from the data and will be explained in detail below and discussed with existing literature to provide the best possible explanations for strategic Venture Clienting

- *Autonomous Entity:* The corporate Venture Client as an autonomous entity is supporting the core business while equally advocating for the startup ecosystem
- *Problem Orientation:* Being known by the corporate's key stakeholders and assessing the startup ecosystem with a clear orientation towards known problems of the business' core units
- *Ecosystem Prominence*: Ensuring prominence within the startup ecosystem to gather the interest of top startups and earn credibility as a reliable partner for growth
- *Autonomous Startup:* Treating the startup as an autonomous entity and having eye-level discussions about the purchase of goods – not equity shares

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4.2 Autonomous Entity – Efficient Engagement Management

Critical for the performance is the financial, procedural, and organizational independence of the Venture Clienting activities. While corporate procedures are often aiming for control, stability, and safety, the interaction with the startup ecosystem needs to be agile and fast. Overall, it became evident during the interviews, that a fast-track procurement process is needed. One interviewee said:

"[…] which typically means that they have created a sandbox environment where the procurement process, the legal process, all of that is really shortened and streamlined."

Figure 5 illustrates the commonly applied selection criteria weighted according to the number of interviewees who mentioned them during the data collection phase. The selection criteria are largely different from those applicable when assessing established suppliers. Typically, the interviewed corporate managers would refrain from very early prototypes and startups in early funding stages.

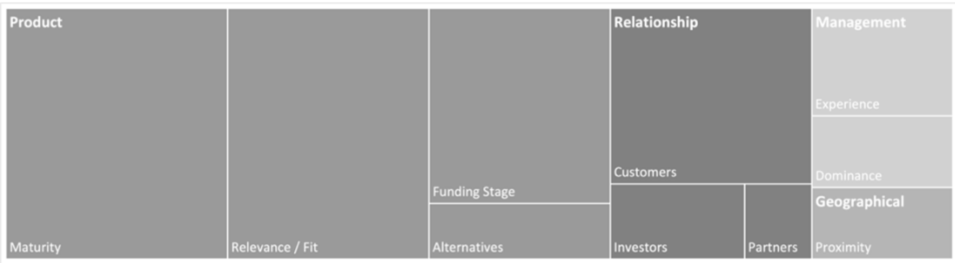

Figure 5 Startup selection criteria (weighted)

Efficiency is key since time is the most critical asset of a startup. One interviewee referred to a situation with corporate managers as follows:

"[They] want to see pitches, and this is entertaining, and then they waste the entrepreneur's time because for a young company the most important asset is their time. And they need to really invest that wisely."

The main objective of the Venture Clienting activities is to increase the throughput rate and product adoption rate of pilots by precise upfront filtering of potential startups. The respective team must actively maintain a catalogue of relevant startups in the ecosystem and a database of the engagements to allow to improve the process. Standardized piloting processes, tracking reports, as well as evaluation sheets are needed to continuously reduce the transaction costs of the individual engagements. The interviewees agree that the involvement of venture managers is timely limited even if the ideal period varies: The venture managers shall hand over after the Proof of Concept (PoC) has been completed which shouldn't take longer than eight to twelve weeks.

To foster independence, a dedicated budget needs to be available for Venture Clienting activities as well as legal and administrative barriers must be low. Freeing up resources for experimentation provides an advantage to companies who fund via regular investment budgets with lengthy due diligence processes including IP negotiations and business case calculations. A best practice example is to set up a separate legal entity that engages with the startup and a master service agreement that defines the partnership with the corporate. This way, the liability is limited, and lengthy risk assessments with every possible startup can be avoided.

4.3 Problem Orientation – Clear Engagement Objectives

In an empirical study on more than 30 multi-national corporations, conducted by Steiber & Alänge (2020a), it was identified that collaboration with startups on solving core issues has a positive impact on the corporate's business transformation. Herby, both the outcome as well as the general capabilities have been assessed by the researchers. Startup engagements can have an impact on the corporate's culture and innovation power (Böhm et al., 2019) since the mindset and agility the young companies bring along might be adapted by the core unit employees to some extent. One interviewee said that collaborating with startups even increases the employer's attractiveness and appeals to talent. Even unsuccessful ventures can support the exploration agenda and serve as an indication of industry trends.

The interviewees agree that the core function of the Venture Clienting activities must be to serve the corporate's innovation agenda and to solve known problems that exist within the organization. Herby, it doesn't matter if the company already knows how to possibly solve the problem (known-known problem) or if the company just understood that something is not working as it should (known-unknown problem). Important is, that the venture managers understand the situation and what has been done already to solve the problem. Monitoring the startup ecosystem, forecasting the future, producing market intelligence reports, and bringing innovations into the organization – meaning aiming to solve unknown problems – is only a secondary activity.

To collect problems "bottom-up", different channels need to be established: This can be an internal survey, a use case submission form, or conducting workshops with senior managers to get to know the most important problems. Anchoring the innovation unit cross-functionally to the operational level of the corporate is vital to ensure access to and buy-in of the relevant stakeholders (Sauberschwarz & Weiss, 2022). The decision on which startup to proceed with needs to be made jointly with the core unit. Their employees can judge best on the technological and procedural fit and if there is a cultural fit.

The venture manager shall advocate to collaborate with the startup ecosystem and convince them to give it a try in case of doubt. In case of software solutions, startups often compete with internal IT departments. Here, proof of agility and speed is needed. Homfeld et al. (2019) compared 314 supplier and startup ideas and identified that startup ideas are characterized by a higher degree of novelty than supplier ideas. Furthermore, the venture manager shall support the startup to navigate through the organization and demonstrations.

The interviewees agree that it makes sense to start with operational problems before aiming to contribute to the business transformation. To establish trust, the venture managers should be present at the corporation's headquarter as well as on branch level as an effective service unit. To improve commitment during the engagement, senior management needs to sponsor the Venture Client activities and every problem needs a problem owner from the core unit who contributes with own resources in terms of time and maybe even budget.

Startup collaboration is less capital intense than investments. One interviewee compared the needed budget with CVC:
"On average, a pilot project costs us 14,000 […], that was kind of the rate last year that we paid on average. […] I mean, for 1.5 million, you do 100 tests. That's pretty amazing. And then, you know, how far 1.5 million takes you if you go with venture capital?"

4.4 Ecosystem Prominence – Becoming Known by Startups

To attract the most interesting startups, the corporate needs to be known as a trustworthy partner in the startup ecosystem. The interviews conclude that the more known the brand of the parent company is, the higher the willingness of a startup to work with the corporate. In the long run, the word-of-mouth from startups, who have been working with the corporate needs to be positive since the ecosystem is well connected. Corvello et al. (2021) identified relevant factors for startups when considering collaboration with corporates which can be categorized into three groups: Antecedents, characteristics, and outcomes. Antecedents describe the simplicity of getting in touch, characteristics the appearance and features, and outcomes the (non-financial) short- and long-term benefits for the startup. An analysis of Simon et al. (2019) shows that particularly reputation, market access as well as relational aspects influence the willingness of a startup to collaborate with a corporate.

Commonly, the interviewees agree that hiring people, which are known to the ecosystem – such as business angels or venture capitalists – brings trust and allows to collaborate with top startups. Market access can be quite challenging for startups, hence providing access to the network of a market incumbent can be a valuable intangible asset to consider (Geibel & Manickam, 2015). Furthermore, it is important that the startup founders feel treated respectfully at every stage and have eye-level discussions with the corporate.

The interviewees agree that no frills like office space or tools are required to provide. Only financial support for certain developments or engagement confirmation letters for potential investors as well as allowing the startup to use the brand's name and logo is typically important for the startup. The corporate should serve with honest feedback based on their industry know-how.

The ecosystem became more transparent to outsiders given open databases. Almost all interviewees referred to use open databases – still, teams of experts structurally scout the market. In some of the cases underlying this study, corporates combined Venture Clienting with other forms of CV to engage with the startup ecosystem more strongly. Herby, using CVC or accelerators act as a runway to find startups.

4.5 Autonomous Startup – Accommodating Engagement Conditions

A startup can only prosper when preserving its autonomy. The interviewees agree, that neither acquisition of equity shares, nor enforcing exclusivity or sharing IP has a positive effect on the objective of solving strategic business problems – in certain cases it can even have significant negative effects. Polidoro & Yang (2021) assessed 132 biotech startups that had received corporate investments. They identified that the startups which received corporate investment started to gain patents in the same fields as the corporates which can be interpreted as less innovative. Before the corporate investment, only 15% of the startups were positioned below the threshold defined for originality of their patents and a certain time after already 26% fell behind the threshold.

Since investors still need to purchase the product, investments do not solve the strategic problem of the corporate (Gimmy, 2022). Corporate investments can shift the priorities of a startup inappropriately given the specific interests of a corporate. An incumbent’s name on the capitalization table can limit the scalability since it might be an exclusion criterion for other incumbents and hence less desirable for private investors. Only in rare cases it makes sense, some interviewees said, to invest to get a strategic competitive advantage.

Similar effect on scalability as outlined above have exclusivity clauses on a startup: With long-term exclusivity, as some corporates tend to enforce it by paying a high price, there is no startup. Since exclusive cooperation takes away a large share of the existing or potential market, large amounts of capital need to be provided by the corporate to build the product and to make it economically viable for the startup (Kinski, 2021). But since it means, the corporate would need to stem the cost which otherwise would have been borne by the market, the investment will most likely not turn profitable for the corporate anymore. Utilizing swarm intelligence of the market is important since it allows the startup to improve the product based on multiple use cases than just one. It also comes at an advantage for the corporate since with a higher number of purchases come economies of scale and ultimately reduced costs.

Since Venture Clienting refers to the purchase of goods, traditionally there is no shared development, and every party is keeping their IP. Exchanging know-how is a mutual advantage since both parties have know-how the other doesn't have. The improvement of a startup's product is a consequence of the engagement must belong to the startup.

5 Conclusion

It can be concluded that the applicability of the guiding principles for mainly strategic, external outside-in, equity-free CV models has been proven in the discussion as long as the characteristics of a supplier-like partnership are given, and the collaborating parties operate independently.

Both academically and practically, this study contributes to the understanding and definition of the organizational characteristics of Venture Clienting and helps to differentiate it from other CV modes. Based on empirical research, selection of representative cases, and review of academic literature of prestigious researchers, the study contributes to the ongoing discussion of a possible strategic use of CV as it takes a strategic perspective on corporate-startup collaborations. That way, the study builds upon related studies on non-equity-based partnerships and provides space for further research alongside the novel framework of derived guiding principles. The theoretical implications should help to better understand and position (strategic) Venture Clienting as an important tool for OI, and ultimately strategic renewal.

5.2 Limitations and Further Research

The applicability of the findings is limited when it comes to drawing conclusions for non-European-based companies since the underlying sample mainly comprises cases from central European managers. Furthermore, the academic definition and differentiation of the Venture Client model as a form of strategic CV is not mutually exclusive, so the case sampling process lacks precision.

Further research will be needed on how to engage with startups in the first place and how to quantify the strategic impact of Venture Clienting activities. This study addresses the selection criteria of startups as suppliers only peripherally so further research is needed to provide a reliable understanding of the important characteristics of startups to solve strategic problems of established corporations. Furthermore, more research can be conducted on each of the outlined guiding principles to contribute to the discussion and further validate the applicability of the novel framework.

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