Michael Hilb
(Editor)

Governance of Ventures

The Role of Venture Boards, Entrepreneurs and Investors in Entrepreneurial Value Creation

Haupt

Mastering Corporate Startups – Opportunities and Challenges

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Abstract

The corporate and the startup world are like yin and yang – polarity and attraction at the same time. Being different creates huge learning opportunities but also poses challenges. This article focuses on the challenges in the interaction between a Group that bought a startup or founded its own corporate startup and the startup itself. These interactions are new territory for the managers as well as for the founders. The cultural aspect is likely to be underestimated. This contribution addresses some recommendations based on the recent experiences with buying or founding such startups and should in no way be understood as a conclusive view but rather as a learning journey.

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1 Learning Opportunities

The corporate world can no doubt learn a lot from the startup world and invests, consequently, a great deal of money into it. We can learn in terms of innovation, technology, trends, focus and customer orientation (the “ease of doing business”). And it goes even further, taking into account cultural issues (agility and failing fast) and diversity. Thanks to the startup world, we onboard different talents with diverse backgrounds, which would otherwise have difficulty finding the gateway to the corporate world. In addition, we established many “change of perspectives” where employees from the Group work for a few weeks in the corporate startups. And, last but not least, startups mirror the way we do things and the mirroring quite often leads to questioning our cherished habits. However, in this short article, I have chosen to look at the challenges both managers and founders face in the interactions rather than focus on the obvious: the opportunities.

2 Acquisition and Incorporation of a Startup

Before I tackle these challenges, I will briefly address the topic of how a company can interact with startups.

From a quantitative perspective, the most frequent interaction by far is just to meet, exchange ideas and listen to the pitches. In our case, the first contact results often from fintech incubators and accelerators as well as venture capitalists.

If both sides are interested in pursuing the talks, we realize a small field test, discuss a possible cooperation or try to develop a new product on the market.

Occasionally, we buy participations in order to get a financial return and to learn. For that purpose, we have established our own startup fund with a renowned fintech VC. Sometimes, an investment leads to cooperation, but this is neither required nor forced. Although we have hundreds of interactions with startups every year, we cooperate with and invest only in a few. Even more seldom is the acquisition of a startup or the integration of a corporate startup. The most significant example for an acquisition is the Swiss moving platform MOVU, while the most prominent incorporation is the fully digital insurance company “FRI:DAY”, based in Berlin.

I was involved in both projects, from the very beginning and with many different roles.

In the case of "FRI:DAY", for example, I experienced the whole journey: from the very first brainstorming about the bold initiatives to be undertaken, through the creation of the garage team, overcoming internal hurdles, hiring founders, setting up the "right" incentive structure to the presentations to the Executive Board and the Board of Directors. I learnt a lot from those experiences and would like to share them here.

3 Challenges

In this main chapter, I will primarily focus on the interactions between managers of a Group and founders, in the case where a Group has bought (MOVU) or founded (FRI:DAY) its own corporate startup.

You may argue that a startup that has been acquired by a company or a corporate startup is no longer the "real thing" since it is e.g. financially protected by the Group. From a cultural point, it is nevertheless a startup, and I will use the term startup. Furthermore, behavior and traits of founders do not change overnight.

The term "founder" is applied in a broad sense – to the real founders or to the people who joined the journey early on.

There is no doubt that, once embraced by a Group, the life of the founders changes, but the challenges are also manifold for the managers of the Group. Both are facing terra incognita.

3.1 Provide Entrepreneurial Freedom

When I gave a presentation about FRI:DAY in the presence of former Baloise Board members, Alex Krauer (former Chairman of Novartis and UBS) – over eighty years old – said in a very authoritative tone: "Make sure that FRI:DAY has all the autonomy they need." I very much liked his remark. In practice, this is, however, easier said than done. The managers of the Group should reflect upon why a startup was bought or incorporated; the reason normally does not lie in copying what the Group is already doing.

The most important issue for me is to give the startup sufficient freedom to develop its activities without too much intervention by the Group. The question of entrepreneurial freedom has two very distinct points which are interconnected; one is the way things are generally done within a Group – I call this area "corporate culture". The second one is a more formal area – I will call it "internal rules and regulations".

3.2 Protect the Startup from the Internal Regulation Standards

A Group has many internal rules and regulations. These are most of the time necessary, although a continuous effort must be made to ensure that these rules and regulations are not overstated. Less is often more. This is the encounter of two very different worlds. The lean startup world, which is bound to take risks in order to materialize on opportunities, and the somehow cautious corporate world. A large Group depends heavily on a good reputation and is more likely to be attacked by media and public if anything goes wrong. And it is way too easy just to blame the Group for its cautious attitude; it is important to stress that these two extremely different worlds are suddenly part of the same entity.

I certainly don't advise demanding of the startup to follow the Group procedures. When we founded FRI:DAY, I wrote to IT, Compliance, Risk Management and HR that FRI:DAY must not – as a rule – follow our directives (which is normally the case for our subsidiaries) but we – from the Group – should explain in each case why is it necessary to do so. So, I turned around the rule-exemption policy. This measure increased the support of the Group functions and provided FRI:DAY a sandbox to get the business model right.

The field of "Rules and regulations" alone is a wide field of finding the difficult balance between the legitimate needs of both parties.

3.3 Be Aware of a Different Cultural Mindset and Embrace those Differences

Culture is actually quite a new word in the business context even if it is hard to imagine this today. I refer to culture as the mainly unwritten, sometimes hidden or even unconscious rules pertaining to the way things are done within a Group: How do we make decisions? Who is or expects to be involved in which matters?

The founders need to have at least one highly placed person who can provide insights and suggestions on how to move in this swampy territory. That said, allow the startups to do things differently and protect them from the corporate influence, while encouraging the founders to get to know the Group culture. Being aware of it provides at least the chance not to fall into any trap.

An example: Our corporate culture suggests that we have a broad consensus-driven approach when we choose a brand name. As executives, we therefore communicated early on – that in the case of a mobile insurer – this does not pertain to our responsibility. As a result, we ended up with the name FRI:DAY created during a – from a corporate perspective – very lean process.

3.4 Be Strict on Behavioral Values

As previously mentioned, a startup needs entrepreneurial room to maneuver. For me, a common understanding of corporate values represents a kind of countervailing power. I personally would not compromise on those. Values can provide many helpful boundaries while allowing freedom of action. I don't mean the values regarding business attire and more formal things; it is about behavioral issues – it is about being a good citizen – about respect, fairness, courage, sensitivity and inclusion. But in order to ensure freedom for a corporate startup, they are essential for survival. It is therefore important to make sure that the managers and founders take their time to talk about their expectations regarding values. Values align different interests and bring the people together.

3.5 Be Humble towards the Core Business

Humbleness is always a good attitude, but I will be more specific here. At least in the insurance industry, the innovation brought by the interactions with the startup must reach the core business. The core business suffers a lot of pressure to reach its profit and growth targets; all the reasons why it may be skeptical towards the startup world that gets money and attention from the top management. Managers who try to push startup's ideas within a Group and founders are well advised to act as humble advocates for their purpose. I keep advising founders to ask questions regarding the core business, to show that they are willing and interested to learn also from them. If I recommend a humble attitude, it should not be confused with just being nice. You must be willing to fight for your cause, to be persistent, otherwise the core will put you in a corner where you don't want to be. Being humble, for example, means also sharing the success or better leave the spotlight to the core business. This may not always be easy, but I think it is a mature attitude, which hopefully makes sustainable success more likely.

3.6 Consider Your Very Different Roles as a Manager

As outlined at the beginning, I had and have very different roles in the corporate startups. But I have also a role towards the core managers. They will watch closely if I am being too lenient towards the founders and if they are being included when needed.

If you like the startup world and human beings in general, it is only natural that you get a certain attachment to the projects and the people involved. I think that is needed and basically very positive. On the other hand, you have also a control function, and the core may look at you in a skeptical way. Finding the right balance between being an initiator of a startup idea, a sparring partner or even a coach for the founders and a board member for the corporate startup is not an easy task. It helps to acknowledge that there is a certain tension and conflict of interest between these very different but also overlapping roles. It is necessary to be aware of the need to ponder these extremely different functions. I strongly encourage the founders and the managers to reflect together on these issues, which should provide transparency and, hopefully, trust.

3.7 Act as a Coach

The founders find themselves in a very difficult and different role; suddenly, they are projected in a corporate world, which is often unknown to them. They need, therefore, trusted people who can act as a coach and a "door-opener" to them. This is an onboarding process, which is much more complex than the ordinary integration process of a senior executive.

My recommendation would be: try to be close but don't look for closeness; provide advice when asked but don't push advice; talk about the concerns of the startup founders without being too hasty in your judgment but express also your concerns. Help them solve their problems by asking good questions to enable them to navigate in the corporate world.

3.8 Have Simple Incentive Programs

Aligning the success of the startup and founders with the success of the Group is crucial and overall not disputed. I personally struggle with the practice, because the startup world is simple and lean except in one aspect: the incentive programs. This is also somehow in contradiction with our corporate incentive programs that we tend to simplify. Our Board of Directors has more discretion, and we have more open terms in our bonus programs than in our corporate startups. It is certainly not fair to compare, but I am a convinced supporter of the old and very pragmatic Swiss legal culture not to define everything because this approach is cheaper, leaner and probably fairer. In my experience, the startup world is not moving in respect to bonus programs in this simple and lean direction.

4 Conclusions

We can learn so much from the startup world. We can get simpler and more customer focused. We can learn to adapt, to decide faster and work in new and different ways. Therefore, we should not assess startups purely in respect to the financials. Generate something which is great for the customer and scale and grow. Profit should follow. Such an attitude needs a somewhat long-haul approach. Of course, this does not mean to keep startups alive just because you are learning. It is, here too, a question of balance.

I am convinced that if a Group manages to provide the startups with entrepreneurial freedom and supports the founders to navigate in the corporate environment, the likelihood that also a financial return will follow increases.

The prospects of success increase too if we are aware that both worlds are very different and if we learn to talk about the respective challenges and support each other. I personally think that the cultural dimension is often underestimated since the business world is still struggling in acknowledging that we are human beings with all our basic needs and flaws at the same time.

In times of disruption, venturing becomes a key source of value creation. As new opportunities emerge and existing models fade, entrepreneurs, corporates and investors are eager to explore and exploit those opportunities. Venture governance, i.e. defining, implementing and following a fit-for-purpose model to provide direction and control in the best interest of all stakeholders, plays a crucial role in enabling and ensuring entrepreneurial value creation.

This book presents twelve perspectives on the governance of ventures, bringing together viewpoints from both practitioners and academics. It provides practical insights, introduces new perspectives and invites the reader – whether a member of a venture board, an entrepreneur or an investor – to reflect on their own approaches to venture governance.

ISBN 978-3-258-08165-6
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