Bank and fintech – interaction through corporate venture capital

A case study of the dialogue and expectations between stakeholders in a corporate venture capital investment process

LOUISE VON EULER

CAROLINE WACHTMEISTER
Bank and fintech – interaction through corporate venture capital

A case study of the dialogue and expectations between stakeholders in a corporate venture capital investment process

by

Louise von Euler
Caroline Wachtmeister

Master of Science Thesis INDEK 2017:46
KTH Industrial Engineering and Management
Industrial Management
SE-100 44 STOCKHOLM
Bank och fintech – samspel genom corporate venture capital

En case studie om dialogen och förväntningarna mellan intressenter i en corporate venture capital investeringsprocess

Louise von Euler
Caroline Wachtmeister

Examensarbete INDEK 2017:46
KTH Industriell teknik och management
Industriell ekonomi och organisation
SE-100 44 STOCKHOLM
Abstract
The digital transformation has enabled new players to enter the financial market. New business models and technology have increased the competition, which challenges the incumbent banks. Corporate venture capital activities are one way for large corporations to adapt to the digital transformation. By collaborating and investing in start-ups, banks can increase innovation and get insights in novel technology, while start-ups receive capital and knowledge about the financial market. Investments can be made with strategic and financial objectives. In addition, investors often aim to identify and exploit synergies between the companies. This thesis explores how the type of investment affects the dialogue between stakeholders in a corporate venture capital investment process. The stakeholders investigated are four financial technology start-ups, a corporate venture capital unit and its parent company, a Swedish bank. Their expectations and perceptions have been investigated to increase the understanding of the different perspectives in an investment process. The thesis was conducted as a case study, using qualitative interviews and cross-case analysis. The obtained empirical results were described through a framework of four investment types and analysed through a dynamic capabilities perspective.

The study shows that all interviewed start-ups have been satisfied in general, resulting in few differences in case specific expectations between stakeholders. However, we find that all start-ups want increased interaction with the bank and that the dialogues are mainly affected by the inclusion of a collaboration in the investment deal. The investment process was often perceived by the start-ups to be slow compared to traditional venture capital firms. The evaluation of an investment's strategic benefits is done at the bank, which in terms of speed can be challenging due to its size, historical path, internal processes and regulations. Finally, the study concludes that the dialogue between the corporate venture capital unit and other parts within the bank could be further developed in order to remain an attractive investor.

Key-words
Strategic investment, corporate venture capital, fintech, investment types, investment relationship, dynamic capabilities
Sammanfattning


Studien visade att alla intervjuade bolag generellt varit nöjda, vilket resulterade i få fallspecifika skillnader mellan intressenters förväntansbilder. Däremot fanns det fallspecifika skillnader bland intressenterna kring hur de uppfattade dialogen. Studien identifierade en önskan om ökad interaktion med banken. Vidare fann vi att samarbete, som inkluderats i investeringsavtalet, har stor påverkan på investeringsprocessen och antalet intressenter. Investeringsprocessen uppfattades av flera av de investerade bolagen som långsam jämfört med traditionella investerare. Investeringsarnas strategiska fördelar utvärderas av banken, vilket ofta förlänger investeringsprocesserna på grund av bankens storlek, historik, interna processer och regleringar. Slutligen drogs slutsatsen att dialogen mellan corporate venture capital enheten och andra delar av banken är viktig och att dialogen mellan enheterna skulle kunna utvecklas för att behålla positionen som attraktiv investerare.

Nyckelord
Strategisk investering, corporate venture capital, fintech, investeringsstyper, investeringsrelation, dynamiska förmågor
Contents

List of tables ........................................... 3
List of tables ........................................... 3
Foreword ................................................. 4
Abbreviations ............................................ 5

1 Introduction ........................................ 6
   1.1 Background ........................................ 6
   1.2 Problematisation ................................... 7
   1.3 Purpose ............................................ 8
   1.4 Research Question ................................ 8
   1.5 Positioning ........................................ 8
   1.6 Thesis Disposition ................................ 9

2 Literature and Theory .............................. 10
   2.1 Corporate venture capital .......................... 10
      2.1.1 Investment process ............................ 11
   2.2 Types of investments ................................ 12
   2.3 Dynamic capabilities ................................ 14
   2.4 Coopetition theory ................................ 15

3 Method ................................................. 17
   3.1 Research Design .................................... 17
   3.2 Research Process ................................... 17
   3.3 Collection of Data .................................. 18
      3.3.1 Literature study ................................ 18
      3.3.2 Qualitative interviews .......................... 19
   3.4 Analysis and Interpretation of Results .......... 20
   3.5 Limitations ......................................... 21

4 Results ............................................... 22
   4.1 The CVC unit ....................................... 22
   4.2 The parent company ................................ 23
      4.2.1 The parent company’s view on the CVC unit ... 23
      4.2.2 The parent company’s perception of the dialogue with the CVC unit 23
      4.2.3 The parent company’s expectations on CVC invested start-ups .. 24
   4.3 Start-up A ........................................... 25
      4.3.1 CVC unit’s perspective ......................... 25
      4.3.2 Start-up A’s perspective ...................... 25
   4.4 Start-up B ........................................... 27
      4.4.1 CVC unit’s perspective ......................... 27
      4.4.2 Start-up B’s perspective ...................... 28
   4.5 Start-up C ........................................... 28
      4.5.1 CVC unit’s perspective ......................... 29
      4.5.2 Start-up C’s perspective ...................... 29
   4.6 Start-up D ........................................... 30
      4.6.1 CVC unit’s perspective ......................... 30
      4.6.2 Start-up D’s perspective ...................... 31
   4.7 CVC unit’s view on the investment process ....... 32
## 5 Analysis

5.1 Aspects influencing the dialogue between the stakeholders

5.1.1 Coopetition

5.1.2 Collaboration and interaction

5.1.3 Brand

5.2 Investment types

5.2.1 Driving investments

5.2.2 Emergent

5.2.3 Enabling

5.2.4 Passive

## 6 Discussion and Conclusion

6.1 Discussion of results

6.1.1 Interaction between stakeholders

6.1.2 Further approaches

6.1.3 Findings from an investment type perspective

6.2 Summary and conclusion

6.3 Evaluation of the study

## References

## Appendix I

- Semi structured interview template for CVC deal team
- Semi structured interview template for business development unit at the parent company
- Semi structured interview template for start-up receiving investment
List of Tables

1. Overview of differences between CVC and VC .......................... 10
2. Semi-structured and unstructured interviews at case study company ............... 19
3. Semi-structured interviews with start-up companies ................................ 20
4. Factors determining the type of investment ........................................ 38

List of Figures

1. VC investment process ........................................................................... 11
2. Chesbrough’s (2002) framework of four types of CVC investments ............. 12
3. Stakeholders in a CVC investment process ............................................. 22
4. Empirical results from determining the type of investment of four fintech start-ups .... 33
Foreword

This master thesis was written during the spring 2017 as the final step to obtain an engineering degree within the field of Industrial Engineering and Management. We would like to thank the team at SEB Venture Capital for accepting our thesis project and giving us a warm welcome. We greatly appreciate the interviews, lunches and that we were invited to the weekly meetings so that we would get insights in the exciting field of corporate venture capital. As this is a qualitative case study and based on interviews, we would like to thank the start-ups and the interviewees from the bank.

This thesis would not have been possible without our mentors Niklas Arvidsson and Kristina Söderberg who have guided us through our process. Without Kristina’s introductions and recommendations this thesis would not have been finished. A final word of appreciation goes to David Sonnek for expanding our field of, and view on, knowledge.
Abbreviations

The thesis uses the following abbreviations throughout the paper.

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2B</td>
<td>Business to business</td>
</tr>
<tr>
<td>CVC</td>
<td>Corporate venture capital</td>
</tr>
<tr>
<td>DD</td>
<td>Due diligence</td>
</tr>
<tr>
<td>Fintech</td>
<td>Financial technologies</td>
</tr>
<tr>
<td>PR</td>
<td>Public relations</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>VC</td>
<td>Venture capital</td>
</tr>
</tbody>
</table>
1 Introduction

In this section the background of the situation and problem is presented. It is followed by the research questions, which are based on the problematisation. Finally, the positioning and relevance of this study is motivated.

1.1 Background

Disruption is a process through which a smaller company with fewer resources successfully challenges established incumbent businesses, often through a different business model (Christensen et al. 2015). Recently, there has been an increase in internet penetration and in the use of digital technology. For example, some companies have used big data to better understand the information about their customers and used those insights to tailor their products or services to meet and create new demands (Capgemini 2011). Digital transformation is not directly linked to implementing or creating new technologies, but rather transforming current organisations in order to capture the benefits of new technologies (Westerman 2011). It can be defined as “the use of new digital technologies to enable major business improvements” (Fitzgerald 2013, p. 2). Embedded devices, social media and big data are examples of new digital technologies that, if used correctly, could improve businesses by establishing new business models, enhancing user experience and integrating operations. Therefore, digital transformation is an important aspect to consider in future business and strategy plans for companies worldwide (Fitzgerald 2013).

In many industries traditional products and services does not fully utilise the needs of the more digitalised driven customer needs (Dapp 2014). As a result, companies with novel technology have entered the market to capture the gap between traditional companies and new customer demands, which has increased the competition (Accenture 2014). In addition to the change in customer behaviour, technological transformation has also changed how companies can use and integrate new technology in the organisation itself to become more efficient, innovative and competitive. Competitive advantage can be gained for companies that quickly are able to transform (Dapp 2014). Thus, industries in high technological change and competition require organisations to adapt to the transformational environment. Today many large corporations are elaborating on how they will respond to the disruptive change and innovation that many markets have undergone (Accenture 2014).

Since technological structural change is occasionally underestimated or not realised in time, long-term incentives should be prioritised in order to keep up with new technology and competition. For large companies innovation, new market insights and strategic renewals could be reached with both internal and external activities. The internal processes could include the company’s own research and development (R&D) and business development units (Basu et al. 2011). External approaches could be seen through company acquisitions, partnerships, collaborations and different types of investments (Dushnitsky & Lenox 2006). One approach for large corporations to cope with technological structural change is to invest in early-stage companies and start-ups. These investments could return strategic growth to the company if identified and monitored correctly (Chesbrough 2002). Investing in start-up companies along with an exit plan is called venture capital (VC) investing. VC investments are a type of private equity financing that typically invests in early-stage and high growth companies. There are different types of VC investing and this thesis will focus on corporate venture capital (CVC) investments. CVC investing is made by a CVC unit, which is a unit that is set up as an independent investment arm within a larger corporation (Cumming 2010). In industries where innovation cultivates from entrepreneurial ventures, CVC activities are a tool for companies in organisational renewal and innovative power (Dushnitsky & Lenox 2006).
Regardless of industry, CVC investments can be made with different objectives in new ventures with or without operational similarities to the investing company. Consequently, there are different criteria, aims and outcomes between different types of investments. Contrary to independent VC firms, that solely invest to benefit from financial returns, CVC investments are often made with strategic objectives as well. Although most strategic investments are made with expectations on financial returns, they also seek to identify and exploit synergies between the invested and investing company. Thus, strategic CVC investments either advance or complement the current business of its parent company, depending on the alignment of companies’ technologies. Moreover, CVC activities are also a way for companies to hedge for the future and to replace or complement R&D activities (Chesbrough 2002).

1.2 Problematisation

As in many other markets disruptive technology and digitalisation have also entered and influenced the financial markets, especially the traditional retail banks. As a consequence, financial technology (fintech) companies have entered the market to fill the gap between traditional bank services and more digitalised driven customer needs (PwC 2017). The traditional banking industry has immense challenges ahead due to the implications of the digital transformation. New fintech players could potentially erode the bank’s traditional businesses and their brand equity and take market shares. On the other hand, the new innovative landscape provides the banks with an invitation to embrace fintech and subsequently incorporate new channels for businesses to yield new revenue streams. Furthermore, there are more regulations endorsing fintech in the near future. For example the PSD2 legislation initiated by the European Commission, which aim to make banking data more transparent and accessible. Blockchain technology is a disputed example of a disruptive technology within the financial market, which could potentially challenge the business for traditional banks. It is a novel technology that facilitates secure online transactions, which crypto currencies such as bitcoin is based on (Chishti & Barberis 2016).

Banks are facing challenges on how to respond to fintech innovations. Additionally, the public trust of the financial institutional have been affected by financial crises, which have made banks more vulnerable and dependent on their brand (Chishti & Barberis 2016). The challenges are applicable to many banks including this thesis case study company, a Swedish bank. This case study will be performed at the a bank’s CVC unit, SEB Venture Capital (SEB VC). The case study company recently decided that their established CVC investment unit would only invest in fintech or areas relevant to the companies business. Before the same CVC unit existed but had mandate to invest across all industries, similar to a VC unit as they only had financial objectives. A CVC unit investing in areas within the field of its parent company enable investments to be made spanning from strategically to clearly financial. The mandate to only invest in fintech closely related to the bank’s business put other demands on the CVC unit from both fintech start-ups and the CVC unit’s parent company. The studied CVC’s shift in investment strategy has increased the number of stakeholders involved in some of the investment processes.

The type of investment made by the CVC is essential for the overall aim of the existence of a CVC unit (Anokhin et al. 2016). Often a large corporation and its CVC unit invest in start-up companies but fail to generate the full potential of the investment. Therefore, it is important for CVC units to identify investments that will return strategic growth. These investments must be assessed and categorised in order for companies to first gain an understanding of the benefits from a considered investment (Chesbrough 2002). In some types of investments the number of stakeholders in the investment process has increased because of the strong connection with the parent company. The insights are insufficient with regard to how and if expectations differ between the start-up, CVC unit and parent company, the bank, during an investment process. As the type of investment affects the influence among stakeholders, the dialogue could be affected as well. This cause the CVC unit to wonder if some opportunities
1.3 Purpose

The purpose of the study is to investigate how the type of investment affects the dialogue between stakeholders in a corporate venture capital investment process. A better understanding of the differences in perceptions and expectations between corporate venture capital unit, parent company and start-up can contribute to improve the dialogue in future investment processes and to improve the utilisation of current investments for the corporate venture capital unit.

1.4 Research Question

This thesis' research question is: How does the type of investment affect the dialogue between stakeholders in a corporate venture capital investment?

In order to answer the research question we will investigate the following subquestions:

- How do the expectations and perceptions differ between stakeholders?
- What are the characteristics of different types of corporate venture capital investments?

1.5 Positioning

Due to digitalisation and the transformation of many industries, CVC activities are increasing as a way for large corporations to adapt to the changing climate and to get insights in novel technology (Kar 2014). To reach the full potential of an investment a good dialogue between the parties involved is needed. However, the difference between types of investment made by CVC is limited in literature and research (Anokhin et al. 2016). This study wants to discover if there is a connection between the objectives of the investment and the expectations and perceptions between the parties. Therefore, we will explore the investor/start-up dialogue and the patterns connected to the type of investment. In literature, CVC investments are often generalised and defined as either strategic or financial. In order to add more nuance to different types of investments, we have chosen to adapt a framework developed by (Chesbrough 2002), which in addition to the objective, adds another dimension, link to operational capabilities. Thus, the framework can be used to shed light on the interaction and linkage between investor and investee. Since the CVC investment process is complex depending on stakeholders and characteristics of the companies, we want to add many perceptions and dimensions in this study.

The empirical results and framework will be investigated from the perspective of dynamic capabilities, as it is particularly useful in markets with rapid change in technology, like the financial market that is the setting of our thesis. The perspective refers to a firm’s capacity to face change by gaining new types of competitive advantages from combining, developing and protecting firm-specific competences and resource (Teece et al. 1997).

This study explores how the dialogue between stakeholders, identified as start-up, CVC unit and parent company, is affected by the type of investment. The study will focus on the differences in dialogue and expectations, thus identifying areas of improvements in the dialogue for the CVC unit. Therefore, the positive aspects of the dialogue and aligned expectations between stakeholders will be less
emphasised. It does not advise on best-practises or recommend ways to improve the dialogue between investor and investee. We have chosen the word dialogue, as it is the CVC unit’s way to describe the communication, interaction and relationship between the different stakeholders. When we write about the dialogue between stakeholders, we refer to the stakeholders interpretation of the interaction and how they perceive the underlying motives and objectives through the dialogue. We do not use the word dialogue to refer to, or investigate, which words the stakeholders use in their communication.

This study will be performed as a case study at a Swedish bank. Therefore, the study will be influenced by the technological transformation phenomenon that is affecting the financial industry. It is also limited geographically to the Swedish market and to the Swedish banks. Since this is a case study, the focus will be on the case company and start-ups that have received investment and are active in the financial industry. Thus, investments made by the CVC unit in start-ups that are not considered to be in the broad definition of fintech will be excluded. Although, this thesis focuses on the financial industry, digitalisation and new technology is also transforming other industries. The findings of this paper could be relevant to other fields as well and add to the literature of CVC. Also, the theory used in this research regarding CVC mainly concerns technological non-financial industries, although the empirical data collection solely includes a bank and fintech start-ups.

The interaction between the bank’s VC unit and the rest of the bank is different depending on the type of investment made by the CVC. One of the major differences between CVC and a regular VC is that CVC activities are made with strategic objectives as well. Consequently, the CVC unit is affected by the corporation which it is part of. Therefore, this study will include empirical findings from different stakeholders, which are the start-up, the CVC unit and managers within the parent company.

1.6 Thesis Disposition

The rest of the thesis will have the following structure.

*Literature and theory:* This chapter will present and give the reader an understanding of previous theories and studies, related to the field of this study. The foundation of the analysis and discussion of this study will be based on literature findings and theories presented in this chapter.

*Method:* This chapter will give the reader an understanding of the tools and methodology used in this study. The research process will be presented and described.

*Results:* This chapter will disclose the empirical findings of this study’s interviews.

*Analysis:* This chapter will analyse the empirical findings in order to answer the research questions. The results will be analysed based on the literature and theory presented in Chapter 2.

*Discussion and Conclusion:* This chapter will present an in depth discussion of the main findings and a final conclusions. The chapter will also evaluate the theoretical and practical contributions of the study. Recommendations for further studies related to this study will be provided.
2 Literature and Theory

This chapter presents the existing literature connected to the problem area of this thesis. It summarises previous studies and research on CVC, types of investments, dynamic capabilities and coopetition theory.

2.1 Corporate venture capital

VC is a type of private equity financing that typically invests in early-stage and high growth companies. VC investing is often referred to as investing in invention and provides not only capital to entrepreneurial companies but also value added resources. VC investors contribute with both tangible and intangible assets, providing advice, business networks and monitoring activities to the invested company. A VC firm typically becomes minority shareholder of the invested company. Subsequently many VC investments are grouped into a VC fund and managed by the VC firm. Syndicated investment is one way for VC firms to reduce risk when investing in early-stage companies. Syndication is a form of co-investing where two or more parties alongside invest in the company. This means that the financial and operational risks get shared between the parties involved. The syndication can take place at the same investment round or at different stages in time. There are different types of VC investing and this thesis will investigate CVC investments. The main differences found between CVC and VC is summarised in Table 1.

<table>
<thead>
<tr>
<th>Structure</th>
<th>Corporate venture capital (CVC)</th>
<th>Venture capital (VC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Independent investment arm from an organisation</td>
<td>Limited partnership</td>
</tr>
<tr>
<td>Follow-on investment</td>
<td>Parent company and its balance sheet determines the objectives of the fund</td>
<td>Usually 10 year commitment, follow-on investments</td>
</tr>
<tr>
<td>Exit options</td>
<td>Can find value in specific exit options</td>
<td>Strong financial return</td>
</tr>
</tbody>
</table>

Table 1: Overview of differences between CVC and VC

CVC is defined by Dushnitsky & Lenox (2006, p. 754) as “equity investments by established corporations in entrepreneurial ventures”. CVC differ from traditional VC in several aspects. CVC are often structured as an independent investment arm from a company or as an informal group within a unit, for example in a R&D department. On the contrary to CVC, a traditional VC is usually structured as a limited partnership. The variety of structures a CVC unit can take influence the degree of autonomy from the parent company, which affect the qualitative limitations and opportunities for achieving strategic goals for a VC unit.

Secondly, a CVC and VC differ in fund objective, where a CVC has strategic objectives in addition to the financial objectives of a traditional VC. The parent company and its CVC unit have long-term strategic motives with an investment, which culminates by the fact that industries in high technological change and competition require organisations to adapt to the transformational environment. CVC activities have become an important tool in an organisational renewal and innovative power. Given a CVC unit’s strategic motives, its contribution cannot solely be measured in financial returns. Strategic benefits from CVC activities include access to new technology, development of new complementary
products and new market entry (Cumming 2010). Furthermore, the investing firm can minimise R&D risks by creating a portfolio of CVC investments. This provides opportunities that can be pursued once market uncertainty has been reduced. Then, if the technology still is considered valuable, a follow-on investment such as strategic alliance or acquisition of the company can be made to ensure the technological knowledge is transferred to the incumbent firm (Van de Vrande & Vanhaverbeke 2013).

2.1.1 Investment process

The investment process is a vital component to a VC’s organisational structure. A typical VC investment process consists of three phases: screening, investment and management phase. Subsequently an exit phase is entered, where the investor sells their share of the invested company. The exact stages in each phase differ in scope and duration depending on the firm. Normally, the time horizon for an investment process is a couple of months. Stage gates are implemented to ensure that the required clearance to proceed to the next phase is obtained between each phase. One or a couple of stage gates are implemented in the investment process depending on the preferences and routines of the VC. Commonly, a board of directors gives clearance for an investment. Figure 1 shows the different phases and its stages within each respectively phase (Kongshøj & Ljungqvist 2016).

![Figure 1: VC investment process](image)

The first phase in the investment process is the screening phase. Potential investments are sourced from incubators, prospecting and other VC firms and advisers. Investment opportunities also source from independent applications made directly to the VC firm. Also, in a CVC perspective, CVC units receive potential investments from the parent company. This type of investment candidates typically comes from the parent company’s R&D or business development unit (Kongshøj & Ljungqvist 2016). In the screening phase the first meeting or call is initiated. The phase also includes evaluation of the market, potential risks and if the investment fulfils the VC fund’s investment criteria (Tunguz 2014).

The investment phase commence if the potential investment proceeds from the screening. Usually, this phase includes the following stages; initial analysis, due diligence (DD) and investment. During this process a deeper analysis of the company is conducted, where the company’s market and financial needs are thoroughly investigated. The DD can be performed by the VC itself or by a third party. It is a comprehensive analysis of the potential investment target’s financial, legal, product, technology and market status. If the target company meet the required criteria and investment goals of the VC the investment stage can proceed. When an agreement has been reached with the owner and/or other financial players involved the investment can be placed out (Kongshøj & Ljungqvist 2016).
The next phase that follows is the management phase. The VC involvement and intensification in the management phase differ significantly between investments. However, it is common to include one of the VC managers on the board of directors in the invested company (Kongshøj & Ljungqvist 2016). The degree of involvement and active management from the VC can be realised through both tangible and intangible assets, providing advice, business networks and monitoring activities to the invested company (Cumming 2010). This phase is followed by a planned exit. The exit phase is the when the VC sells its share of the invested company. The exit could be done either to a corporate or financial player or exited through an initial public offering on a stock exchange (Kongshøj & Ljungqvist 2016).

2.2 Types of investments

Cumming (2010) states that CVC investments can be made with financial and strategic objectives. Given the strategic motives for investments, the CVC unit is not only measured in terms of financial returns. It remains unclear how the strategic objectives should be measured in a CVC investment. The degree of strategic benefit of an investment to the parent company is sometimes difficult to measure and evaluate (Cumming 2010).

Van de Vrande & Vanhaverbeke (2012) suggest that prior CVC investment between an established company and an entrepreneurial venture might lead to a strategic alliance. They also found support of the maturity of the venture in CVC investments increase the likelihood of the companies engaging in a strategic alliance. Furthermore, they and Schildt et al. (2005) propose that CVC investments and the relatedness of the companies activities have significant effects on the likelihood of learning from explorative activities.

Chesbrough (2002) has formed a framework that assesses and categorises CVC investments. The framework is built on two dimensions of corporate investment: Objective and Operational capabilities. The framework is graphically shown in Figure 2.

![Chesbrough's (2002) framework of four types of CVC investments](image)

Figure 2: Chesbrough’s (2002) framework of four types of CVC investments

The aim of the framework is to help large corporations identify start-up investments that will return strategic growth. Chesbrough (2002) propose to think about CVC investments in an organised way,
in order for companies to first gain an understanding of the benefits from a considered investment. Subsequently, with a better understanding the right decision could be made whether to invest or not in a particular start-up. The first dimension of the framework refers to financial versus strategic objectives and the second dimension captures if the operational capabilities between the companies, i.e., resources and processes, are loosely or tightly linked. Anokhin et al. (2016) recognise the conceptually contribution made by Chesbrough (2002), although they choose to rename the dimensions as technology fit and market fit. Their definition of technology fit corresponds to Chesbrough's operational capabilities, while their perspective to change objective to market fit rates the degree of strategic benefits to the company. Chesbrough (2002) maintains that most investments have varying degrees of strategic and financial objectives and dynamical linkage between operational capabilities. Nevertheless, CVC investments can still be differentiated with respect to the dimensions and categorised as driving investments, enabling investments, emergent investments and passive investments.

In driving investments, the CVC unit works closely with the start-up in order to reach strategic objectives. There is a tight link between the investing company’s operations and the start-up’s. The CVC unit share knowledge and information and connect the start-up with the parent company’s own initiatives. Strategic objectives could be insights on novel technology or knowledge on a new market the company considers to enter. However, there are limitations to what driving investments can achieve. Current strategies are sustained since these investments are tightly linked to the company. Nevertheless, the investments do not help to cope with disruptive technologies. If a corporation wants to transcend its current strategy and processes enabling investments may be more suitable.

In enabling investments there are also strategic reasons, although the companies does not link their operations together. The start-up and CVC do not couple with the parent company’s own operations. The aim for an enabling investment is to gain full benefit without necessarily has an operational linkage that is strong between start-up and parent company. A company’s strategy benefit from that enabling investment when the product or service that the start-up provides complement the investing company. Thus, investment in the start-up indirectly stimulates their mutual ecosystem, which increases the demand of the company’s own services or products (Chesbrough 2002).

Emergent investments, on the other hand, are made with expectations on financial return in start-ups with close operational linkage, that does not enhance the company’s current strategies. Still, emergent investments can be strategically valuable if the market or the company’s strategy changes. Furthermore, the investment provides the opportunity to explore a new market while still being able to focus and serve the current customers. If the new market has potentials the investing company may then shift focus to capture the market it now has acquired insights and knowledge about. Even though the initial objective is financial, the major returns may be strategic, which makes emergent investments a considerable complement to driving investments (Chesbrough 2002).

Passive investments are made with financial objectives in companies with no linkage to the investing company, hence they seldom contribute in achieving strategic benefits in the long term. This makes passive investment more similar to those of independent VC firms (Chesbrough 2002).

Anokhin et al. (2016) criticise the framework by Chesbrough (2002) because the link between different types of investments and outcomes have not been tested in empirical studies. They stress the importance of the outcomes of investments and suggest from their study that driving and enabling investments improve scale efficiency yields and increase innovation opportunities, while emergent and passive investments are detrimental to strategic objectives. Anokhin et al. (2016). On the other hand, Csaszar (2012), emphasises that in a fast changing environment it is important that a company support exploration activities, which in terms of CVC activities would be emergent investments. Furthermore, Dushnitsky & Lenox (2006) state that the trade-off between financial return and innovative benefits
is a question that is arising from CVC activities. Established firms might face underlying challenges because of structural problems when investing in CVC activities, which decrease the financial gains. Therefore, they propose that CVC investments create greater firm value when firms explicitly pursue CVC activities to harness novel technology.

2.3 Dynamic capabilities

Teece et al. (1997) define dynamic capabilities as a firm’s capacity to face change by gaining new types of competitive advantages from combining, developing and protecting firm-specific competences and resources. They propose a framework that builds on a Schumpeterian view. Hence, it is especially relevant in markets where there is a rapid change in technology, which causes the creative destruction of established competences. Moreover, the framework considers element from the resource based view, that considers exploitation of firm-specific capabilities and assets as the main factor for competitive advantages. In order to face industry transformation Teece et al. (1997) stress the importance of exploiting existing internal and external firm-specific competences.

To understand which capability is considered firm-specific and a contribution to a firm’s competitive advantage, the framework requires capabilities to be useful, difficult to replicate and unique. First of all, for a capability to be useful, it needs to fill an internal need (within the company) or external need (to its customers), hence to contribute to the firm’s revenue stream. Secondly, if competitors can replicate a competence or capability, the uniqueness of its competences is gone. Finally, unique capabilities allow a firm to set a price with less consideration to its competitors, since the firm’s value offer is due to its capabilities, which makes it distinguished from the others (Teece et al. 1997).

Moreover, Teece et al. (1997) stress that competence, as the way of getting things done, cannot be assembled through markets. Thus, insights in firm capabilities are primarily gained from understanding organisational structures and processes rather than numbers from balance sheets. The framework considers competitive advantage to be based on a firm’s organisational processes, shaped by its asset position and molded by its path. Therefore, it differs from many established theories, like Porter’s five forces and strategic conflict approach.

Organisational processes refer to how things are done within the firm and can be considered from three aspects. First of all is coordination and integration, which is how efficiently and effectively activity is coordinated and integrated within the firm. The second aspect is learning, i.e. the process by which repetition or testing enables tasks to be performed in a better way, which also can lead to the identification of new opportunities. It is important to understand that learning processes include learning from imitation of individuals, as the common teacher-student case, as well as from joint contribution from working together on complex problems. The final aspect of organisational processes defined in the dynamical capability framework is reconfiguration and transformation, a process referring to the ability and willingness to reconfigure and transform in time due to changing environments (Teece et al. 1997).

A firm’s asset position consists of multiple assets that are listed below as defined by the framework:

- **Technological assets** are the technology the firm do not wish to sell or that cannot be transacted to the market due to know-how. The use and ownership protection of technological assets are often key assets to firms.

- **Complementary assets** are defined as assets required for technological innovation to produce and deliver new products and services.

- **Financial assets** are defined as the firm’s cash position and leverage.
• **Reputational assets**, i.e. a firm’s brand and image, generally summarise the information about a firm and how customers as well as competitors will respond to actions made by the firm. In the dynamic capabilities view, reputational assets can be seen as an intangible asset that makes it possible for a firm to achieve its goals in the market. Often, there is a difference between what is known internally and externally about the firm, which makes reputational assets more salient than the actual state of a firm’s business. Therefore, the value of reputational assets is mainly external as it represents the market’s view on the firm’s current position and likely future behaviour.

• **Structural assets** is the formal and informal structure of the organisation. The asset includes hierarchy, vertical or horizontal integration and affects the way competences and capabilities advance.

• **Institutional assets** are regulatory systems, intellectual property regimes and antitrust laws. These assets are not entirely firm-specific but rather industry and geographically dependent.

• **Market (structure) assets** as in product market position is an important aspect. However, with the dynamical capabilities view, that asset is often exaggerated. This is because the market position in environments with rapid technology change can change very quickly, as new innovation disrupt established products.

• **Organisational boundaries** is the control and protection a firm has over its assets and intellectual property against competitors.

Teece et al. (1997) criticise microeconomic theory for not recognising path dependency and that paths are the strategic alternatives available to a firm. In their opinion previous investments and the firm’s history constrain its future behaviour and strategic choices. They mean that the strategic alternatives of a firm is strongly connected on its current position, which in turn is shaped by its historic path.

The dynamic capability approach stresses that in today’s global market, accumulating technological assets in a changing environment is not sufficient to gain extensive competitive advantages. Instead the successful firms are the ones that can coordinate and reorganise effectively both external and internal competences (Teece et al. 1997).

### 2.4 Coopetition theory

Coopetition, is a perspective on business relationships that focus on the combination of competition and cooperation. The term reached public attention when Brandenburger & Nalebuff (1996) first proposed coopetition as an applied business theory based on the foundation of game theory. However, Stein (2010) argues that the book is simplified. Although he acknowledges their contribution to the concepts of the theory he recommends the additions to the field made by Dagnino & Padul (2002). Similarly, they assert that the theoretical foundation of coopetition is limited which consequently has led to insufficient research of the field. They propose that “cooperation and competition merge together to form a new kind of strategic interdependence between firms, giving rise to a coopetitive system of value creation” (Dagnino & Padul 2002). By bringing the competitive and cooperation perspectives together they suggest a theoretical framework for coopetition:

1. Firms’ interdependence is a source of economic value creation and a place for economic value sharing.

2. Firms’ interdependence may bring to mutual but not necessarily fair benefits to the partners because of competitive pressures may undermine their coopetitive structure.

3. Firms’ interdependence is based on a partially convergent interfirm interest.
Dagnino & Padul (2002) classify coopetition as dyadic coopetition and network coopetition, where dyadic coopetition is between two firms and network coopetition when several firms are part of the relationship at the same time. If there is coopetition between companies at the same level of a value chain it is regarded as simple while a relationship that stretches along several levels is considered complex.

Finally, Dagnino & Padul (2002) also suggest that interfirm relationships, as a coopetititative system, dynamically can be characterised by different trust degrees, that evolve and change between distrust, weak trust, semi-strong and strong trustworthy behaviour. Moreover, they argue that profitable interfirm coopetition occurs when there is a high and stable degree of trust (Dagnino & Padul 2002). Similarly, Buchel (1996) propose sense-making and trust-building as a way to reduce the risk of problems that undermine the building of the foundation. Faulkner (1995) define trust as having enough confidence in the partner to commit valuable resources, despite the risk of being taken advantage of. However, trust is difficult to create and maintain, especially if it has been damaged, which in turn increase the importance of focusing on the early phase of the collaboration. This also increases the importance of the company’s image as trustworthy. Furthermore, to prevent communication problems, both formal and informal communication formats must be established, as qualitative and continuous communication increases commitment and align the partners’ objectives. To avoid confusion over responsibilities prior to the deal both partners need to have a clear understanding of what is needed to be done, what decisions will need to be made and who will take them (Kelly et al. 2002).

Bengtsson & Kock (2000) argues that while coopetition is the most complex, it is also the most advantageous relationship between competitors. Coopetition is complex as it can be seen as a contradictory relationship that defines when cooperation and competition exist simultaneously between companies. Moreover, they argue that it is crucial to separate the different part in the relationship to make it possible to benefit from coopetition, as individuals can only act in accordance to either cooperation or competition at a time. They suggest that the parts are separated by being divided among individuals or that one part is controlled and regulated by an intermediate actor (Bengtsson & Kock 2000).
3 Method

In this section the method is explained in detail. The choice of our research design and research process is presented, along with an explanation of how data is collected and analysed.

3.1 Research Design

This thesis was performed at a bank’s CVC unit and was conducted as a case study, describing a contemporary problem in its real life setting [Yin 2003]. A case study research approach is tightly connected to data and highly iterative, which is favourable when exploring new topics. The focus of the approach is to present the situation in a single setting. However, a single case study can also contain multiple cases with different levels of analysis [Eisenhardt 1989]. The embedded design containing multiple cases within a single case study will be used in this paper, since it will enable us to understand a complex phenomenon in a specific setting. We hope this study will extend previous research in the field of CVC and shed light on the dialogue between venture capitalists and start-ups. Furthermore, case studies use multiple sources of evidence for a concentrated investigation, which provide the opportunity for a deep analysis. In this study only one CVC unit was investigated. However, multiple fintech start-ups were included to investigate the perspectives of the start-ups.

In case study different methods for data collection is typically combined, such as interviews, observations, archives and questionnaires. The data itself can be evident in form of quantitative and/or qualitative data. Moreover, the purpose of using a case study can be different, for example to provide description, generate theory or test theory [Eisenhardt 1989]. This thesis aims to use qualitative data to provide description to a contemporary problem in a real life setting. We chose a qualitative research design because the research question of this thesis is of an exploratory type and the thesis aims to get insights from the perspectives of the stakeholders that are being studied. The qualitative research approach assumes that reality is holistic, multidimensional and changeable [Merriam 2009]. This aligns with our own viewpoint, research question and the complexity of analysing dialogues between parties that speak from different paradigms.

3.2 Research Process

This study followed a research process that was constructed in a broad and simplified manner. The process was designed to enable flexibility for new findings and allow iterative and interrelated activities. The research was divided into three main actions that were performed simultaneously: data collection, analysis and writing. The methods used for each activity in the process will be presented in detail in the forthcoming subsections. All three main actions were initiated from the start. In the beginning time was heavily spent on the literature study and supplemented by unstructured interviews at the case company. The analysis on the obtained early findings was discussed with investment managers at the CVC unit, in order to understand the problem identification for the thesis proposal. Subsequently, after the research proposal was finished, a methodology was constructed and outlined. The chosen methodology was an important tool for structuring, compiling and analysing the collected data. The methodology also guided the overall direction of the thesis. Moreover, regularly updates and check-ups with our supervisor at the case company was performed during the whole research process. Additional support was given from our supervisor and seminar group at the Royal Institute of Technology (KTH). Data was collected iteratively, through literature study, observations at case company and unstructured and semi-structured interviews during most part of the research process. All semi-structured interviews were transcribed and used in a process of interpreting results through cross-case analysis. The writing towards the final study was an integrated part of the process and performed in all steps.
3.3 Collection of Data

The collection of data was collected through a literature study, multiple interviews, direct observations and other secondary sources. The study also used a questionnaire as a compliment to the interviews. The data was collected simultaneously between the different sources of data and supplemented by actions of analysis. Working on the thesis at the case company enabled us to take part in the CVC team’s daily routines. This included weekly pipeline meetings and participating in group discussions with the team members. Observations made at the case company gave us a better understanding of current topics, key actions and identified obstacles for the team and the bank as a whole. This source of data was of importance specifically for understanding the problem identification and the work of a CVC unit. Especially as the thesis is a case study, the observations contributed to the study as a whole and provided a valuable complement to the literature study. Since observations as a source of data has complications with bias and subsequently could harm the reliability of the study, we only used this type of source as a ground for understanding the business and as a complement to the other sources used.

A questionnaire based on the framework by Chesbrough (2002) was provided to the CVC unit’s investment managers, where the respondents had to place out the four fintech investments in the framework. The questionnaire was not provided to the start-ups because the framework’s focus is on the reason behind the CVC unit’s investments decision. Furthermore, the start-ups have limited knowledge of the parent company’s different business areas, which refers to one of the dimensions in the framework. Additionally, the CVC unit gave us access to secondary data about the fintech start-ups. This data was both confidential and of public nature. The data consisted of investment memorandums and investments proposals to the investors. Insights in the start-up’s market, products, competition, finance, future market and company views gave a solid base for understanding the company and the rationale for the case company to make the investment. The secondary data was of great importance when constructing interview questions and for guidance in the semi-structured interviews that were performed with the fintech start-ups. The material that was gained through more informal meetings and interactions was in a more descriptive manner and for the understanding of the selected areas. The thesis supervisor at the case company also served as a gateway to contacts within the bank that later got interviewed.

3.3.1 Literature study

The literature review for this study is based on the framework for review methodology that was published in the article Five steps to conducting a systematic review (Khan 2003). The first step in the framework is framing questions for a review. Part of this step was already made in the research question. From the research questions the following keywords for the search terms were derived:

**Keywords:** strategic investment, corporate venture capital, fintech, investment types, investment relationship, dynamic capabilities.

The second step is identifying relevant work, which was initiated by finding work from multiple sources. Three main databases and search engines was chosen: KTH (Royal Institute of Technology) Primo, Google Scholar and Elsevier’s ScienceDirect. The search terms from step one was used and each article that matched the search terms was evaluated based on their title and/or abstract. A total of 50 research papers, articles and books were evaluated based on title and abstract and 20 of them were selected to the next step of the literature study. In addition, authors or articles recommended by the supervisor were taken into consideration. The third step is assessing the quality of studies, which was assessed by the following questions: (Collis & Hussey 2013)
• Have the most important scholars in the field of the thesis been cited?
• Does the review refer to major research studies which have made contribution?
• Does the review refer to articles in the most important academic journals in the area of the thesis?
• Have serious criticisms of any previous studies been identified?
• Does the thesis avoid plagiarism?

The fourth step is summarising the evidence, which was done with the chosen work in previous step. The author’s main purpose and findings, theoretical perspective and conclusions were summarised. Lastly, the fifth step is interpreting the finding, which was done in terms of existing theories, key concepts and agreements or disagreements, which later was presented in the literature review.

3.3.2 Qualitative interviews

The basis of this study’s collection of data derived from semi-structured and unstructured interviews made at the case company and multiple fintech start-ups. Interviews were held with employees at the bank’s business development units and with investment managers at the CVC unit. Interviews were held with four different fintech start-ups, which during the last year had received investment from the case company’s CVC unit. These four fintech start-ups had therefore undergone the whole investment process of a VC investment. The deal team working on respectively investment at the CVC unit was interviewed in order to receive the perspective of an investor. The interviewees at the fintech start-ups were selected by the degree of knowledge and dialogue with the case-company.

All the semi-structured interviews made with the CVC invested start-ups were recorded and transcribed in order to prevent perception biases, misunderstandings and other wrong-doings in the process of collecting data. Moreover, the interviews were also transcribed for the case of the interviewees. This made all the semi-structured interviews’ data available in text and could therefore be verified if necessary, which increased the reliability of this study. The interview questions can be found in the Appendix I. Interviews conducted during the thesis are presented in Table 2 and Table 3:

<table>
<thead>
<tr>
<th>Interview</th>
<th>Date and Time</th>
<th>Title</th>
<th>Type of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interview 1</td>
<td>2017-02-06 16:00-16:30</td>
<td>Investment Manager, SEB Venture Capital</td>
<td>Real time, unstructured</td>
</tr>
<tr>
<td>Interview 2</td>
<td>2017-02-21 14:00-14:45</td>
<td>Senior manager, SEB Venture Capital</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 3</td>
<td>2017-02-27 13:15-14:00</td>
<td>Senior manager, Corporate Market Corporate and Private Customer</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 4</td>
<td>2017-03-02 15:15-16:00</td>
<td>Senior manager, Business development, Large Corporations</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 5</td>
<td>2017-03-06 15:15-16:00</td>
<td>Senior Investment Manager, SEB Venture Capital</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 6</td>
<td>2017-03-14 09:00-10:25</td>
<td>Investment Manager, SEB Venture Capital</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 7</td>
<td>2017-03-15 15:15-16:00</td>
<td>Senior manager, Digital Banking, Business Development</td>
<td>Real time, semi-structured</td>
</tr>
</tbody>
</table>

Table 2: Semi-structured and unstructured interviews at case study company
<table>
<thead>
<tr>
<th>Interview</th>
<th>Date and Time</th>
<th>Company</th>
<th>Investment state</th>
<th>Type of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interview 8</td>
<td>2017-03-17 15:15-16:00</td>
<td>Start-up D</td>
<td>Investment made</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 9</td>
<td>2017-03-23 10:45-11:15</td>
<td>Start-up A</td>
<td>Investment made</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 10</td>
<td>2017-03-23 11:15-11:45</td>
<td>Start-up A</td>
<td>Investment made</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 11</td>
<td>2017-03-24 14:00-14:40</td>
<td>Start-up B</td>
<td>Investment made</td>
<td>Real time, semi-structured</td>
</tr>
<tr>
<td>Interview 12</td>
<td>2017-04-24 13:00-13:30</td>
<td>Start-up C</td>
<td>Investment made</td>
<td>Phone interview semi-structured</td>
</tr>
</tbody>
</table>

Table 3: Semi-structured interviews with start-up companies

### 3.4 Analysis and Interpretation of Results

The analysis of the results from the collected data was built on *cross-case analysis* [*Eisenhardt* 1989]. As the data collected mainly consisted of interviews, everything was reread by both authors to increase the understanding of the content. Moreover, we considered the frequency of an interviewee’s reference to a specific topic since that indicated the attention the interviewee attributed to it [*Krippendorff* 1989]. Cross-case analysis is a powerful tool when building theory from a case study. The analysis consists of a framework with multiple steps. However, this study does not aim to build a new theory, but rather investigate a phenomenon. Since the problem formulation and research questions enabled us to limit the framework of cross-case analysis to only some sections we only used parts of the method for cross-case analysis in this thesis. Two steps in the framework were specifically used in this study for analysing and interpreting the obtained results; *Analysing Within-Case Data* and *Searching for Cross-Case Patterns* [*Eisenhardt* 1989].

*Analysing Within-Case Data*’s foundation prevails from the concept of case studies and the fact that this type of research design often uses large volumes of data. In this step within-case analysis refers to analysing detailed information on each case separately. This allows analysis and interpretation to be made in stand-alone entities instead of being generalised in patterns in early stages and across cases. Additionally, separating the analysis first by each case will enable faster acceleration when performing cross case comparison. Therefore, section 4 in this thesis will present the result of each case separately. The aim of the analysis from the interviews was to shed light on the expectations and perceptions of the relationship between stakeholders. Therefore, a variety of sources have been used and the presentation of the result and analysis was conducted in such a way that reflected on the different perspectives of the issue.

The step *Searching for Cross-Case Patterns* was used as a method for analysing the results. The underlying concept is to force the researchers to wear structured and diverse glasses when analysing the results. This will potentially reduce the already determined initial impressions and enhance the reliability of the theory. Moreover, cross-case comparison can reduce the risk of information processing biases by looking at data in different ways [*Eisenhardt* 1989]. Although, this thesis does not aim to build a new theory, it does aim to find patterns between the cases in order to increase the understanding of the stakeholders involved. In this step the different cases were compared, and the interference and patterns drawn were discussed. Finally, our findings from the cases were sorted into descriptive categories and presented in the analysis.
The results were analysed through the *dynamic capabilities* view. The perspective is built on a firm’s capacity to face change by gaining new types of competitive advantages from combining, developing and protecting firm-specific competences and resources. The interview questions along with the follow up questions asked during the interviews were influenced by the perspectives from the *dynamic capabilities*. The perspective also affected the discussion made from the results and analysis.

### 3.5 Limitations

This thesis consists of a case study at a single CVC unit, where the relationship between stakeholders in a CVC investment process is investigated. Therefore, the most obvious limitation is the phenomenon is investigated from the perspective of only one CVC unit, its parent company and start-up’s connected to that company. Although, a case study provides the opportunity of a profound research, it follows that generalisations outside of that company is very limited (Blomkvist & Hallin, 2015). Moreover, since semi-structured interviews are hard to replicate the validation is limited by the method of interpreting the results (Krippendorff, 1989).

The case study will include interviews with all four fintech investments made by the studied CVC unit since its investment mandate changed. However, the decision to only include fintech start-ups makes the number of start-up case companies limited. Also, the relations between the investor and start-ups are still in an early stage since the investments were made recently, which have limited our empirical results. Start-ups that received investments prior the shift could have been included as a comparison, which would have given more perspectives, an increase in selections and the opportunity to investigate the dialogue between stakeholders at a later stage. However, the decision was made that start-ups prior the shift were to be excluded, as there was a time limitation as this study is a master thesis and one important aspect of the thesis is on the technological transformation of the finance industry. Another limitation is that only start-ups that received investment were included in the study. Hence, in one aspect, the thesis suffers from best-practises as the cases included received investments.

Another limitation is that we could have been biased in our interviews with the start-ups because we have been writing the thesis at the case company and first interviewed the investors at the CVC unit. Our first perception of the dialogue between the CVC unit and start-up was built on the paradigms of the CVC unit, which could have affected our way of interviewing the start-ups. On the other hand, since we were writing the thesis at the CVC unit we had easier access to the employees working there compared to the start-ups. Therefore, we could by our decision to first interview key persons at the CVC unit add complementary questions arising from the interviews with the start-ups. The opposite would not have been as easy, especially since one of the start-ups were seated in Denmark. It is possible that the start-ups withheld information that they thought could damage their relations with their investors and chances of new round of investments, despite us beginning each interview by sharing the thesis aim to increase the understanding between the parties to improve the dialogue between them.
4 Results

In this chapter the results collected from the interviews are presented. The first two sections include the results regarding the CVC unit and the parent company. This is followed by the results of the four start-ups currently in the case study’s portfolio, starting with the perspective of the CVC and followed by the perspective of the start-up. Finally, the CVC unit’s view on the four fintech investments is presented.

4.1 The CVC unit

This thesis’ case study is performed at a Swedish bank’s VC unit, SEB VC. SEB VC is a CVC subsidiary of the parent company SEB. SEB VC invests in early stage companies to get a minority holding with an ownership stake between 15-40 percent and has relatively long investment horizon of 4-7 years. Its current portfolio consists of 21 companies, where a majority are within the field of technology and life science. In 2016 the bank decided the VC unit should only make investments in fields connected to the bank, in order to support the bank’s overall strategy to increase the ability and flexibility to transform to changes in the market and customer needs. SEB VC has since last year changed from solely investing with financial objectives to also consider strategic objectives and inputs from other business units within the bank. Hence, the CVC unit now aims to make financial and strategic investments within a broad definition of fintech. The number of stakeholders in the CVC investment process has for some investments increased, because strategic investments now incorporate parent company’s business development units in the investment process. Now, in a CVC investment process the three main stakeholders are the CVC unit, that consist of investment managers, the parent company and the start-up company (Interview 2 2017). This is illustrated in Figure 3.

![Figure 3: Stakeholders in a CVC investment process](image)

Four fintech start-ups are currently in the unit’s portfolio (Interview 2 2017). All have been included in this thesis to investigate the dialogue and expectations between stakeholders in a CVC investment process. In this study they are named: Start-up A, Start-up B, Start-up C and Start-up D.

Through fintech investments the CVC unit aim to lower barriers, support flow of information and increase the entrepreneurial culture at the parent company. This also includes sending a signal to the market that the parent company is in the forefront of new digital and technological trends. The CVC unit also aims to contribute in making the parent company an attractive employer. Finally, the CVC unit aims to help small companies in their expansion phase (Interview 2 2017).
4.2 The parent company

The CVC unit in this case study is a subsidiary to the parent company, which is a bank. The bank is one of the stakeholders in the CVC investment process and thus affects the dialogue and expectations regarding the different types of CVC investments. In this subsection empirical result from interviews with three senior managers from different parts of the bank is presented. The interviewees work in two main divisions of the bank; Corporate and Private Customers and Large Corporates and Financial Institutions. The corporate and private customers division is responsible for private customers and small and medium sized companies, SME (Interview 3 2017).

4.2.1 The parent company’s view on the CVC unit

There are different perceptions on the CVC unit within the parent company. First of all, a senior manager in the Corporate and Private Customers division recognises CVC activities as a way of building a community. From the manager’s perspective CVC unit’s objectives does not necessarily need to be only financial but also involve aspects of knowledge sharing and networking. This could also include access to digital and fintech trends. To ensure this, either collaborations or investments could be contrived. The manager recognise that for companies in new markets investing rather than collaborating can give advantages for instance exclusiveness of a new technology. Subsequently, the technology could be valuable for the parent company. The manager states that from a customer perspective there are no differences between a collaboration or an ownership in a start-up. However, internally the CVC unit is an important part in the parent company since it possesses valuable legal and motorising structures for these types of investments (Interview 3 2017).

Secondly, a manager working with digital business development at the parent company recognises the CVC unit to be important for the organisation’s strategy. In the manager’s perspective making an investment brings companies closer than they would have been with only a collaboration. The manager believes the CVC unit should not have an active role in the parent company’s business development, although there should be a good dialogue between the units. Currently, there is not a clear structure of the dialogue between the CVC unit and the business development. This is because the studied CVC unit recently shifted focus to invest in only fintech start-ups. The manager does not recognise any clear disadvantages for the CVC unit to invest in companies that could potentially become a competitor to the parent company. Potential risks from the manager’s perspective could be that CVC investments would limit the parent company to collaborate exclusively with the CVC invested start-ups. Consequently, if a new solution would be realised from another start-up the parent company would then be locked into a specific agreement (Interview 7 2017).

Thirdly, a senior manager working in the Large Corporates and Financial Institutions division perceive it as abnormal for a bank to have a CVC unit in-house. This is because proprietary investments have become unfavourable due to regulatory changes. Another reason is that a bank is risk averse and the CVC unit is related to high risk investments. The manager perceives the investments made from CVC in fields closely related to the parent company’s business to have both financial and intangible gains. From the manager’s perspective there are disadvantages from investing in a field closely related to the parent company, since the bank has a tight budget and limited resources. Therefore, it could be seen as contradictory to have a CVC unit that invest in bets on the future, instead of making investments necessary right now to keep up with competition (Interview 4 2017).

4.2.2 The parent company’s perception of the dialogue with the CVC unit

The dialogue between the CVC unit and the parent company’s Corporate and Private Clients division goes in two ways. In some cases the investment managers at the CVC unit ask for inputs from the parent company regarding strategic benefits from a considered investment. It could also be that the
managers at the bank receive investment proposals directly from start-ups that wish to initiate a collaboration. The bank could potentially collaborate with start-ups without involvement of the CVC unit. Still, a tighter dialogue is established between the division and the CVC unit if there exists a strategical benefit and interest to proceed with the considered start-up. The parent company’s decision process to determine if the start-up is of interest to the parent company differs significantly. This could take a week or longer, since the matter needs to be thoroughly investigated with different stakeholders within the parent company (Interview 3 2017). In the beginning of a CVC investment process it is important for the business development to be active, since they have the most knowledge about the parent company’s customer needs. It is important to clarify the strategic benefits a considered investment could have for the parent company. The manager states that this process could take months to fully understand because it requires a complex evaluation with many stakeholders within the parent company. Moreover the strategic collaboration could be initiated post-investment. The manager acknowledges that it would be beneficial to have a more structured way to exchange ideas and knowledge between the units (Interview 7 2017).

As the senior manager at the Large Corporates and Financial Institutions division is new in his role there is currently no established dialogue between him and the CVC unit. As the CVC unit invests in areas related to fintech there should be a dialogue between them according to the manager. The knowledge sharing regarding technology and business improvements for institutional clients B2B is limited and could be further explored (Interview 4 2017).

4.2.3 The parent company’s expectations on CVC invested start-ups

A senior manager at the Corporate and Private Customers division expects the invested start-ups to contribute to the parent company’s own client offering. To invest in a company’s technology could potentially fast-track launch of a new offering to the parent company’s clients. The manager also expects the CVC unit to build a network that improves the position the parent company has in the fintech industry. Hopefully, there are additionally benefits such as the investments signals that the parent company is in the forefront regarding innovation. This also involves employer branding, which is important in order to attract employees to the organisation (Interview 3 2017). The manager at the digital business development emphasises that the private customers today are fast. Therefore, the parent company must keep track of services and new areas that could potentially become significant for the customer value in the future (Interview 7 2017).
4.3 Start-up A

This section will present the empirical results regarding start-up A. The first part will present the perspective from the CVC unit, which will be followed by the perception and expectations of senior managers at start-up A. The start-up is an online platform for digital payments and crypto currencies.

4.3.1 CVC unit’s perspective

CVC unit’s expectations on start-up A

Primarily, there were three reasons that made the CVC unit invest in start up A: the technology, the business model and the founders. The start-up is built on blockchain technology, which is currently among the most trending areas within fintech. The CVC unit had been observing the field attentively and was looking for an investment opportunity in the field. Since the parent company, as a bank, currently cannot use crypto currency due to legal restrictions, the CVC unit identified it as an interesting area to invest in as it would complement and hedge their business. The start-up is active in a technological field that most likely will grow and therefore it is important that the parent company has exposure to future potential businesses. The CVC unit saw the investment as financial and the expectations were in line with general VC criteria, for instance potential for good financial returns. (Interview 6 2017).

The investment manager believes start-up A’s expectations on the CVC unit are to provide capital and competence. The manager does not think the start-ups expectations has changed since the investment. The manager perceive the CVC unit contributes to the start-up by sharing financial knowledge, bringing new ideas, advancing the start-ups strategy and aiding in general problem solving. Specifically, the manager believes that their parent company’s brand has played an important role since the start-up is active in a a new field where there is still a lot of suspicion. By having a bank as an investor the start-up has become more respected (Interview 6 2017).

The investment manager believes start-up A’s expectations on the CVC unit are to provide capital and competence. The manager does not think the start-ups expectations has changed since the investment. The manager perceive the CVC unit contributes to the start-up by sharing financial knowledge, bringing new ideas, advancing the start-ups strategy and aiding in general problem solving. Specifically, the manager believes that their parent company’s brand has played an important role since the start-up is active in a a new field where there is still a lot of suspicion. By having a bank as an investor the start-up has become more respected (Interview 6 2017).

CVC unit’s perception of the dialogue with start-up A

Prior the investment the dialogue with start-up A was frequent and consisted of around ten meetings. The dialogue revolved mainly around the start-up’s strategy and personnel. Currently, there is no interaction between the start-up and the parent company aside from the start-up has visited and presented their company. The dialogue post investment is considerably frequent between the CVC unit and start-up. The investment manager motivates the frequent dialogue with start-up A, since start-up A is active in a new market where there are great reputational risks for the parent company (Interview 6 2017).

4.3.2 Start-up A’s perspective

Start-up A’s expectations on the CVC unit

Since start-up A is active in a new and non regulated technological area, receiving capital from the studied CVC was considered a big milestone. This resulted in positive global PR (public relations) attention, which was not expected in that magnitude before the investment. Prior investment they also saw a risk that the investment could limit their potential of selling their products to other banks, as its connection to the investor could imply a tight and biased connection to the bank. Post investment the positive expectations have been fulfilled and the concerns erased. However, they see that having a member of the CVC unit in the board of directors could potentially be a problem in the future. This is because it can send a message to other banks that they are partial towards the parent company. They perceive the board member to represent the investment arm and not the bank, however it is unclear if the market would perceive it the same way (Interview 10 2017).
Start-up A aims to bridge to the current financial market with their technology. Thus, another reason they wanted the studied CVC unit as an investor was the expectations that they could learn from the bank. Prior the investment the expectations on the CVC unit were to obtain knowledge and network. More specifically, the knowledge of understanding how banks are thinking, experience in building companies and guidance to attain a business plan. Post investment, there has been more knowledge sharing than expected. Start-up A has gained knowledge of the financial markets and how banks operate in their communication with another bank. Moreover, the board member has brought up issues, given ideas and advised the start-up advice on how to organise the company in different ways. Start-up A perceives the CVC unit to have plenty of resources related to capital since they are a bank compared to angel investors. This is considered to be positive for potential next rounds of capital acquirement (Interview 10 2017).

Start-up A believes that the CVC unit’s expectations on the start-up are mainly financial. This is because the CVC unit stated clearly prior the investment that there were only financial objectives to the investment. However, the start-up believe there exists expectations regarding soft values such as knowledge sharing as well (Interview 10 2017).

**Start-up A’s expectations on parent company**

Start-up A’s expectations on the parent company was centred around the benefits and quality assurance the brand could provide them. In the start-up’s point of view the brand of the bank adds more value to the start-up than that of the CVC unit. Prior the investment the start-up also expected to get closer to the parent company as a bank and to get introduced to the right people. Post investment the start-up perceive the knowledge sharing to be surprisingly good with the parent company. For example, they have received advice from experts within the bank in order to improve their position. They look positively on further collaborations with the parent company, which could be in form of experimental projects. Although, the start-up does not consider further collaboration to be urgent at the moment (Interview 10 2017).

**Start-up A’s perception of the dialogue**

The investment process went faster than expected, despite the many steps and elements involved. The start-up perceived the dialogue to be clear and professional. Moreover, the CVC unit connected them to another start-up they consider investing in, which provided both companies with new insights. Post investment, start-up A is very satisfied and consider the CVC unit to be attentive and responsive in their dialogue (Interview 10 2017).

They recently had a seminar with bank directors and a workshop with the bank’s trainees. Through the CVC unit start-up A initiated a dialogue with the parent company to talk about collaborations and are slowly moving towards potentially even more knowledge sharing. They also believe the bank can benefit from increased knowledge sharing, for example the bank can learn more about blockchain technology from the start-up, which they believe will disrupt the financial market. The start-up’s vision is to disrupt the banking business, which could become an issue with a bank as an owner. On the other hand, the technology change is happening. By cooperating the parent company could benefit from the investment by learning about the technology, which could help them improve their processes and reduce their costs as a way to retain the bank’s position (Interview 10 2017).
4.4 Start-up B

This section will present the empirical results regarding start-up B. The first part will present the perspective from the CVC unit, which will be followed by the perception and expectations of a senior manager at start-up B. The start-up has developed a platform that increases transparency and reduces costs for SME customers.

4.4.1 CVC unit’s perspective

CVC unit’s expectations on start-up B

The CVC unit took an interest in start-up B as they aim to improve a non-transparent market and fill the gap by providing a platform, which enable customers to compare prices. The founders had noticed from extensive working experience in the field that no improvements were made by the current players. Prior to the investment the start-up already had customers on their platform and generated profits. Subsequently, the investment manager has high expectations on the start-up to reach their common objective and accelerate in growth (Interview 6 2017).

Aside from fulfilling the financial objectives made during the deal, the investment manager hopes there will be a collaboration with the business unit of the parent company. The start-up positions itself towards small and medium sized enterprises (SME), which is a customer segment that is important to the parent company. Currently, the parent company only offer similar services to larger companies, as the costs otherwise would be too high. Potentially, the parent company would be able to offer their SME customers the services of the start-up as a complement to their own financial products. In return, the parent company could offer their financial products to the start-up’s customers through the platform. Furthermore, investing in a company that increases transparency for their customers and helps them save money could improve the brand of the parent company. The business unit of the parent company was positive to a potential collaboration prior investment, although a business relationship with the parent company was neither promised nor part of the investment deal (Interview 5 2017).

The investment manager believes the start-up expects them to help them to scale and finance the business, as well as helping in general problem solving, which is similar to other start-ups. In this case, there are also the expectations to use the external network of the CVC unit to find contacts that can help in building an automated and digitised platform. Secondly, the investment manager believes the start-up expects them to connect them to key personnel at the parent company for further collaboration (Interview 5 2017).

CVC unit’s perception of the dialogue with start-up B

There were around three meetings with the start-up before initiating the legal process. This is considerably fewer than with start-up A, however as it is not a deep technological company it is easier to understand. Post investment, the majority of the communication between the CVC unit and start-up is through the board meetings and phone calls in between (Interview 6 2017).

The CVC unit is giving the start-up advises on how to talk with the bank and is keeping a dialogue with the parent company with the aim to start a collaboration between the bank and the start-up. According to the investment manager, the managers try to balance reminders and suggestions, while not wanting to push the business unit too much. Post investment, the start-up has had one meeting with parent company’s business unit (Interview 5 2017).
4.4.2 Start-up B’s perspective

Start-up B’s expectations on the CVC unit
Start-up B became interested in having the CVC unit as investor because of the brand of the parent company, as the start-up is also active within the financial sector. Furthermore, prior investment they felt that the CVC unit understood and believed in the start-up’s business model. Aside from capital, important qualities of an investor are competence, knowledge and network contacts. Post investment, the start-up considers this to have been delivered, although the investment was made only recently. The start-up has received suggestions on network contacts and advises on strategy and business. In the same time, the CVC unit has made demands on the start-up and the start-up perceives there to be a good balance. The start-up believes it is important that investors are not too involved, so that the start-up have time to focus on the daily operational business. The start-up believe that the CVC unit has high expectations on them because of their substantial work experience, both regarding financial terms and softer terms, such as building a sustainable company culture (Interview 11 2017).

Start-up B’s expectations on parent company
Prior investment the start-up had expectations on collaborating with the parent company, although they were aware of the CVC unit being an independent investment arm. Post investment, no collaboration has yet been initiated, but the start-up hope it will in the future (Interview 11 2017).

Start-up B’s perception of the dialogue
The investing process took considerably longer time compared to the start-up’s other investors. They believe this is because the CVC unit is more thorough and there are more stakeholders involved on their side. The CVC unit was clear in the beginning about the time plan and which steps were needed. Furthermore, the start-up believes the unit could have sped up the process had the start-up been in direct need of capital. The start-up perceives the CVC unit to be considerably flexible, although they point out that the investment was made only recently. The start-up has received advice on digitalisation and marketing. The CVC unit has one seat at the board of directors and one deputy director, through which they provide the start-up with knowledge and network contacts. Since the senior management of the start-up has a lot of working experience they have not received, or been in need of, help on how to set up their organisation (Interview 11 2017).

Prior investment, the dialogue did not focus on a collaboration with the parent company and the CVC unit clearly stated that the unit was separated from the parent company. Although they could introduce the start-up to the right personnel at the parent company. Post investment, the start-up has had meetings with the parent company about a potential collaboration, regarding potential collaboration. The start-up strives to have closer contact with the parent company. Therefore, they want the CVC unit to act as a bridge and push towards a collaboration between the start-up and the parent company. The start-up believes it would benefit both the parent company’s customers and their own if they could offer their services and products to each other’s customers as a complement. Nonetheless, they point out that it has not been that long ago since the investment was made and that they also need to be more concrete in what they want (Interview 11 2017).

4.5 Start-up C

This section will present the empirical results regarding start-up C. The first part will present the perspective from the CVC unit, which will be followed by the perception and expectations of a senior manager at start-up C. The start-up provides services to companies that wish to increase customer experience and gain insights to maximise sales and service.
4.5.1 CVC unit’s perspective

CVC unit’s expectations on start-up C
Even though the start-up is not explicitly turned towards the financial sector the CVC unit saw an operational linkage between the start-up and the parent company. Start-up C has developed predictive software, which improves the customer experience. One part of the parent company is currently using an older version of start-up C’s products. The investment manager expects the start-up to achieve the financial objectives that were agreed upon in their investment deal. The manager believes the start-up expects the CVC unit to introduce them to the parent company’s business development units and to advise them on how to grow their business. The investment manager does not believe the expectations have changed during the short time since the investment was made (Interview 5 2017).

CVC unit’s perception of the dialogue with start-up C
Prior to the investment, the dialogue was primarily focused on the investment agreement. Currently the parent company is behind in the area which the start-up possesses expertise in and the start-up’s new products could be useful to parent company. Therefore, the manager believes it would be to the advantage of both companies if there was more interaction between them. From an investor’s point of view, the start-up’s value would increase if they got parent company as a customer. Still, the CVC unit does not push for a collaboration. Instead they attempt to improve the interaction between the parent company and start-up by setting up meetings with the business unit and recommending the start-up. The manager believes it is the start-up’s responsibility to convince the parent company of a collaboration. Post investment, the dialogue is primarily centred around the board meetings where the CVC unit has a seat (Interview 5 2017).

4.5.2 Start-up C’s perspective

Start-up C’s expectations on the CVC unit
Start-up C thought it was important that the investor had a long-term perspective, was flexible, understood the company and had experience of investing in similar start-ups. Post investment, the start-up perceives the CVC unit to have fulfilled their expectations and to be rather good compared to other investors. In general, the start-up wished investors would add more to the investee. Yet, in their experience the majority of investors do not, which have lowered their expectation on investors, including the CVC unit. They wished the CVC unit would be more active in sharing their network with the start-up (Interview 12 2017).

Start-up C’s expectations on parent company
Prior investment, the start-up had some expectations on collaborations with the parent company. Currently, the parent company do not fully utilise their products to their full potential, since they are only using an old version of the start-up’s products. The start-up perceives their new updated product would be beneficial to the parent company and therefore they wished there were more interaction between them. Post investment the CVC unit has introduced the start-up to people within the parent company. The start-up believes they have gotten these meetings easier than they would have without the CVC being an owner of the start-up. Nonetheless, the start-up still need to sell in their business (Interview 12 2017).

Start-up C perceives the parent company’s brand to probably be better than most investors. The start-up believes the parent company expects them to achieve the agreed financial objectives. The start-up does not know if they have other objectives as well. As the CVC unit has turned to invest in fintech the start-up perceives it signals to the market and fintech entrepreneurs that they make investments to form collaborations in order to increase innovation. Besides, the start-up believes the parent company, as a bank would benefit from collaborating with start-ups to become more innovative
and faster. Instead, the financial objectives are dominant and less focus is on how the investments can develop the banks business. In addition, the parent company has a wide network and its majority owners own many Swedish companies. Therefore, the start-up believe that having the parent company as an investor should open more doors to their internal and external network, such as customers, other companies and partners. Even though the start-up did not expect it prior investment, they see network sharing as an important area to improve. The start-up can understand the complexity for the parent company to share its network, still they feel that the parent company sometimes get stuck in traditions. The start-up thinks it is the legacy of the parent company, traditions and habituated working methods that make the organisation and other established banks slow to act. They believe this is hard to change and beyond what the CVC unit could possibly do (Interview 12 2017).

**Start-up C’s perception of the dialogue**
The start-up perceived the investment process to be clear and good. The investment process matched their expectations of taking more time compared to other investors, as their process is more thorough, set and extensive. Post investment the dialogue with the CVC’s board member has focused on business operations and worked well (Interview 12 2017).

### 4.6 Start-up D

This section will present the empirical results regarding start-up D. The first part will present the perspective from the CVC unit, which will be followed by the perception and expectations of a senior manager at start-up D. The start-up provides detailed information and categorisation about purchases and savings.

#### 4.6.1 CVC unit’s perspective

**CVC’s expectations on start-up D**

Compared to the previous cases, the investment proposal in start-up D came from the parent company and not from the CVC unit. The investment was driven by the business development unit and was made with strategic objectives. The aim for the bank was to start a collaboration with the start-up, where the parent company would gain access to the start-up’s technology and parts of both companies’ product offerings would be integrated. The initial dialogue between the start-up and the parent company concerned a pure collaboration. However, during the dialogue the parent company saw a potential to invest in the company through the CVC unit in order to strengthen the collaboration (Interview 5 2017).

The investment manager perceives the start-up’s expectation on the bank is regarding the strategic collaboration. They do not perceive the start-up wants operational or strategic advises as their other investments do. Instead, the investment manager believes the start-up has more expectations on the parent company. Furthermore, the manager does not believe that the expectations of the start-up have changed post investment. Since the parent company has the closest dialogue with the start-up there is no need for the CVC unit to increase their involvement in start-up D (Interview 5 2017).

**CVC unit’s perception of the dialogue with start-up D**

Normally, one of the investment managers from the CVC takes a seat in the invested company’s board of directors. However, in this case the CVC unit did not receive a direct seat because of competition and objective issues perceived by the start-up. Instead a representative detached from the CVC unit was appointed to represent the CVC at the board of directors. The dialogue prior to the investment was more intense from CVC’s side compared to the dialogue post-investment. Post investment, the dialogue with the company is infrequent and briefings on current status after board meetings are done
with the CVC’s representative in the board of directors. As a consequence, the direct link between the CVC unit and the start-up is loose and the dialogue with the start-up is mainly done through the parent company (Interview 5 2017).

The investment manager thinks the dialogue between the parent company and the start-up is well defined, but outside the CVC unit’s operational reach. The CVC unit wants to be considered an adviser if something would be needed by the start-up. Therefore, they want regular updates on the invested company (Interview 5 2017).

4.6.2 Start-up D’s perspective

Start-up D’s expectations on the CVC unit

Overall expectations on the CVC unit prior the investment were few since the investment was initiated by the parent company. Prior to the investment, the start-up aimed to be perceived as neutral and objective towards their customers, partners and potential new investors. Therefore, the start-up did not want to have a manager from the CVC unit on the board of directors as it might signal bias. Prior investment, the start-up perceived that the investment potentially could harm their aim to be viewed as neutral by the market, even though the CVC unit is an independent investment arm. Post investment, the start-up recounted that they did not expect the brand of the parent company to have as much influence as it has had on their reputation and perception as being unbiased. Start-up D is not sure what expectations the CVC unit has on them, as the parent company initiated the investment. Subsequently, the start-up does not know how the CVC unit will be evaluated on the investment, if it will be in terms of financial or overall gains (Interview 8 2017).

Start-up D’s expectations on parent company

Prior to the investment an agreement was negotiated and signed regarding the collaboration with the parent company. This implied that there existed a clear road map of the collaboration before the investment. Post-investment, start-up D view the road map to be followed as planned. Prior the investment the start-up expected the investment to tighten the link to the parent company and give them mutual goals, which they perceived to have been fulfilled (Interview 8 2017).

The collaboration with the parent company has given start-up D a solid product portfolio. They perceive they have gained credibility and that it has been beneficial for the start-up to provide and sell technology to the parent company. They are often at the bank to give seminars to employees, management and customers. In start-up D’s view they have gained an understanding of how a large financial institution acts and handle their customer process, which is valuable for the start-up. They have not been exchanging knowledge around laws and regulations. What is problematic in start-up D’s views is that it is hard to apply the way a larger corporation works, as there are processes, regulations and laws that larger financial companies need to follow because of their size (Interview 8 2017).

Start-up D’s perception of the dialogue

Start-up D perceives the investment and the collaboration as good. Although, start-up D perceived the investment process to be much slower than expected compared to other investors. In their view the CVC unit was fast in their steps of the process. Yet, they perceived the power balance to be shifted towards the parent company and its business development compared to the CVC unit, which made some negotiations slightly challenging. In the start-up’s perspective, they prefer to have one person to negotiate with, who have mandate to make decisions. Their investment process was made in a complex environment with many stakeholders. The size of the parent company has both positive and negative effects on the start-up. Start-up D is humble to that fact that the size affects their ability to make fast decisions. On the other hand, when a large company makes a decision they go with full force towards that goal. Start-up D argues that being able to be fast in the investment
process, especially in fintech as it is a fast-moving market and the start-up itself wants to run fast. To have a slow process makes it harder for an investor to compete, unless they can provide more than capital, like the parent company. Start-up D believes there needs to be structured processes within the parent company in order to become faster in the investment process (Interview 8 2017).

Start-up D and the parent company are active in the same market in some aspects, which causes the start-up to perceive the dialogue and expectations as more complicated. However, that also makes the CVC unit as an investor more interesting and relevant to the start-up. Nevertheless, to be in the same market as the parent company of the investor puts the start-up on edge and they take the potential competition into consideration in the dialogue between them. The CVC unit is perceived from the start-up company as more of a middle hand between them and the parent company, where the primary dialogue is held with the parent company (Interview 8 2017).

In the start-up’s view the investment process and dialogue with the CVC unit have worked well and they consider them easy to work with. Prior the investment the company expected the CVC unit to have a passive role as important decisions regarding their collaboration were made by the parent company. However, if conflicts would arise in the future in their relation with the parent company, the start-up hopes that the CVC unit will be a middleman between the start-up and the parent company. The start-up perceives the CVC unit to be on their side as owners. Still, they are uncertain in what way the CVC unit would do something that could directly harm the parent company (Interview 8 2017).

4.7 CVC unit’s view on the investment process

In the CVC investment process the main stakeholders are the CVC unit, consisting of investment managers, the parent company and the start-up company. Depending on the type of investment the stakeholders could be more or less active in the process (Interview 1 2017).

4.7.1 CVC unit’s view on four fintech investments

During the interviews with the start-ups and investment managers at the CVC unit empirical results from a questionnaires was collected. The data from the questionnaire was collected from six investment managers at the studied CVC unit. The respondent had to place out the four fintech investments in Chesbrough’s framework four types of investments that assesses and categorises CVC investments, which was introduced in subsection 2.2. In total 6 investment managers at the CVC unit placed the four case study companies in the framework. Start-up A had most votes as a passive investment and start-up B as an enabling investment. Start-up C and D was clearly voted as emergent and driving investment respectively. The obtained empirical results from this framework can be seen in Figure 4. The size of the circles corresponds to number of times the start-up was placed in respective field. The largest circle corresponds to 6 votes and the smallest circle corresponds to one vote. The placements of the circles in the squares do not reflect the degree of either dimension.
4.7.2 CVC unit’s view on the interaction and investment process

According to an investor manager from the CVC unit, the investors and business development units often act from different paradigms, perspectives and time horizons. In investments or considered investments that is based on strategic elements, this can lead to prolonged processes and unclear dialogues between stakeholders. Furthermore, the longer an investment process have been under way the more have a considered start-up invested in time and gotten secure of receiving the investment. Therefore, it can be challenging for a start-up if the process then is terminated without good reason or based on a decision that should have been made before the initiation of the investment process. As the fintech community in Sweden is small, this can damage their brand as investors (Interview 6 2017).
5 Analysis

In this chapter the results are analysed. From cross-case analysis and the perspective of dynamic capabilities themes were identified. Thereafter, the cases were analysed and compared to the framework of Chesbrough’s four types of investments.

5.1 Aspects influencing the dialogue between the stakeholders

From the second step of cross-case analysis patterns from the empirical results were found. These were sorted into three descriptive categories: coopetition, collaboration and interaction, and brand.

5.1.1 Coopetition

In a dynamic capabilities view, the market position is often exaggerated in environments with rapid technology change, as new innovation can disrupt established products, which changes the market position very quickly. The market position can be seen to be tightly connected to the banks’ institutional assets, as the high barriers of entry in the financial market is strongly connected to branch specific laws and regulations. In the financial market, the rapid technology transformation has made it possible to act on the market without being a traditional bank or financial institution, which has lowered the barriers of entry and increased the competition.

In a way, it is contradictory for a bank to invest in companies that aim to disrupt their currently profitable business model, or for start-ups to seek investments from the banks they wish to disrupt. On the other hand, the technological change is happening, and as new players enter the market, the competition between the established banks also increase. Aside from other banks that seek to invest or acquire start-ups, the CVC unit face competition from other VC investors as well. Just as many start-ups compete to get the investments, investors compete among each other to get the start-ups they consider most likely to financially or strategically benefit their companies. As the fintech community is considerably small and the competition among fintech start-ups relatively low, general knowledge and inspiration are shared between start-ups. The same start-up emphasis that collaborating and allying with banks is preferred to competing with them. Collaboration gives exposure to the bank’s customer base, regulatory benefits and knowledge, which would be hard to gain by competing against them. Start-up A and D have both potential to become competitors to the parent company, however they perceive the advantages of allying with them is coherent for their current business. In a way, competition is one driving factor of this study, as part of its purpose is to give investors more insights in the start-ups perspective, which they can use to become more attractive as investors.

Start-up D perceived the competition between start-up and parent company as high, therefore will this section mainly focus on them. CVC can be seen as a characteristic form of a dyadic and simple coopetition relationship, which will be showed by analysing the result from the three requirements theoretical framework of coopetition (Dagnino & Padul 2002):

The first requirement Firms’ interdependence is a source of economic value creation and a place for economic value sharing is fulfilled. First of all, the complexity of the finance industry has led many start-ups to seek the resources and knowledge banks can provide, while banks in turn consider investments with fintech start-ups as a way to innovate and gain insights in novel technology. Secondly, subsection 5.1.3 sheds light on the benefits the brand of the parent company brings to the start-ups and the positive image the parent company gets from CVC investments. Thirdly, the collaboration between the parent company and start-up D, which was the driving factor behind the investment, is an example of how the firm’s interdependence is a source of economic value creation and sharing.
The second requirement is *Firms’ interdependence may bring to mutual but not necessarily fair benefits to the partners because of competitive pressures may undermine their coopetitive structure*. The benefits from the CVC investment have not been measured and compared between the parties, as it is beyond the scope of this study. Also, the investments in fintech were made recently, making it too early to measure the benefits. However, start-up D perceives that the dialogue gets more complex by the start-up being active in the same market as the parent company. At the same time, the start-up acknowledges that it also makes the CVC unit as an investor more interesting and relevant. On the one hand, the start-up D’s requirement that no CVC investment manager joined the board of directors and instead had to use a representative, as a way to show the market they are impartial towards the parent company, could be seen as competitive pressures of the market that undermine their coopetitive structure. On the other hand, using a neutral representative as an intermediate actor could also be seen as start-up D’s way to ensure that cooperation and competition are separated (Bengtsson & Kock 2000). However, results from our study show that it is hard for the start-up to be perceived as neutral because of their strong collaboration. The start-up D’s expectation to be perceived as neutral affected them more than expected in their reputation of being biased. On the other hand, neither start-up B or C believe there are any potential limitations connected to the parent company being a bank. Start-up A sees the potential to gain competitive advantage for both companies by collaborating and sharing knowledge. However, they clearly state their vision is to disrupt the banking business, which could potentially become an issue with a bank as an owner. Similarly to start-up D, start-up A could potentially see a problem in the future by having a manager from the CVC unit on the board of directors, as it could send a message to other banks that they are partial towards the parent company. Nevertheless, they perceive the board member to represent the investment arm and to work towards the development of the start-up and so far their expectations have been fulfilled.

The third requirement *Firms’ interdependence is based on a partially convergent interfirm interest* can be considered to be fulfilled as both start-up, CVC unit and bank agreed on the objectives and the plan on how to reach them before the investment. In start-up D’s perspective the investment has tightened the link to the parent company, in regard to sharing similar goals. Furthermore, as the CVC unit own a minority share of the company, the parent company benefit financially from the success of the start-up, which motivate convergent interfirm interest. On the other hand, if the success of the start-up is at the expense of the parent company, the benefits from the investment may not exceed their own loss, which could make interfims interests less convergent. Another dimension that could affect the convergence of interest is if other well established players would suffer even more. This adds to the complexity of investing in potential disruptive technology that is active in the same field as itself.

### 5.1.2 Collaboration and interaction

The results of the studied companies show that collaboration greatly influences the dialogue between start-up, CVC unit and parent company. The cases can be divided into two categories where the first is when an extensive collaboration was initiated as a deal of the investment and the second when it was not.

In start-up D the investment agreement included a concrete technical collaboration plan that had an asserted sponsor at the parent company. Because of their collaboration, the start-up have an established and frequent dialogue with the parent company, which includes knowledge sharing with focus on how to bring mutual benefits from their joint operations. On the other hand, the dialogue with the CVC unit is more limited and the start-up has fewer expectations on knowledge sharing from the unit compared to its expectation on the parent company. As the investment focused on the strategic collaboration with other units, the start-up perceived the CVC unit to have less power in the investment process.
Operational collaboration can bring benefits to both investor and investee. For example CVC activities in technology heavy start-ups saves the R&D department the administration of capital and resources that would be needed to develop the technology in-house by themselves. Hence, technology, which is less advanced and requires little resources are often developed by R&D activities within the parent company or easily purchased without the need of an investment. Therefore, the dynamic capability theory emphasises that the use and ownership protection of a technology is a key asset to firms. With use and ownership protection a technology, which has relatively moderate technological height, could be very valuable, which motivates investments to gain exclusive agreements.

For start-up A, B and C the investment agreement only concerned financial objectives. The start-ups have a more frequent dialogue with the CVC unit compared to start-up D, where the CVC unit provides strategic and business advice through the board. Post investment, the three start-ups hope to form a collaboration with the parent company. Although, a collaboration was not part of the agreement, there were underlying interests to get closer to the bank. Through the CVC unit, the start-ups have been connected to different units within the parent company and initiated dialogues. The start-ups wish to increase the dialogue and to turn it into a collaboration. However, most of the start-ups consider the dialogue with the parent company to be slow. Although, they recognise the complexity of evaluating and making decisions in large organisations, as start-ups are exceedingly smaller in comparison, the slowness can be a different experience. On the other hand, when the parent company make a decision, it results in a large impact, especially for a small start-up.

The dynamic capability theory stresses the importance of exploiting existing internal and external firm-specific competences in order to face industry transformation. In a global market, accumulating technological assets in a changing environment is not sufficient to gain extensive competitive advantages. Instead successful firms are those that can coordinate and reorganise effectively both external and internal competences. Analysing the case study company in this respect, the CVC unit ties technology to the parent company by investing in fintech. However without organisational processes to utilise and exploit internal and external competences, some competitive advantages can be lost.

As the CVC unit has turned to invest in only fintech, it can be perceived as a signal to the market and fintech entrepreneurs that they make investments to form collaborations in order to increase innovation at the parent company. Furthermore, the parent company has a strong brand, which is an important factor for the image of the investor as a CVC unit. It is probable that start-ups that are interested in the CVC unit are also interested in the parent company. Thus, it can be expected that other investees are interested to get close to the parent as well. Even though these expectations are not visible in the investment deal, potential dissatisfaction could arise when the start-ups’ expectations on collaboration are not met by the parent company.

5.1.3 Brand

In dynamical capabilities, the brand and image of a firm can be considered to be reputational assets that summarise customers' and competitors' view on the company and its likely future behaviour. While a strong brand enables a firm to achieve its goals in the market, the opposite can impede efforts and plans [Teece et al. 1997]. The brand of the parent company is one of the most mentioned assets by the start-ups. For start-up A, B and D the brand of the parent company and its position on the financial market provided them a quality assurance towards the market and potential investors. Especially, for start-up A, receiving the investment improved their brand and acceptance from the market.
Compared to the other start-ups the brand of the parent company had less importance to start-up C. However, it is doubtful that there was a connection between the brand and the type of investment, but rather that the influence of the brand is connected to the type start-up. For example, the minor importance the brand of the parent company had on start-up C was probably due to their products are applicable to many industries in addition the financial industry. In the same way, the importance of the brand to start-up A is more connected to the start-up being active in a new field using novel technology, where the investment from a well established and regulated company signals legitimacy. On the other hand, start-ups that are active in new field and novel technology are more likely to be on the financial dimension on investments as they do not match the investing company’s current market position.

Although, the CVC unit is an independent investment arm, it is still part of and bear the name of the parent company. Therefore, the CVC unit can benefit and contribute to the strong brand of the parent company. However, in the same way the parent company is affected by negative PR about the CVC unit, as the CVC unit is affected by negative PR about the parent company. Before investments are made, the CVC unit needs clearance from the parent company. For example, the parent company was positive to the investment of start-up B as it could signal to SME customers that they actively support increased transparency in the start-up’s business area. On the other hand, there was unease before the investment in start-up A as it would invest in a start-up that was active in an unregulated and novel technology. However, to both the CVC unit’s and the start-up’s surprise the investment resulted in a positive PR attention. From the cases it is seen that the benefit of the investor’s brand is higher for start-ups using novel and unregulated technology and the closer they are connected to the same industry as the investor.

One of the reasons CVC activities are made in this study is to signal to the markets and customers that the bank is proactive and aware of the digital transformation. According to [Reece et al. (1997)] the value of reputational assets is mainly external, however since an additional aim of CVC activities is to internally improve the attractiveness of the parent companies as an employer it could be argued that reputational assets provide internal value as well.

5.2 Investment types

There are different types of investments, which are often generalised to have either strategic or financial objectives. There is literature that differentiate between strategic and financial investments. However, there are also findings that show that the relatedness between companies affect their interaction in CVC investments. Moreover, a time aspect needs to be taken into consideration in investments based on technology. This involves the time frame for utility for the parent company and its customers. Since technology is shifting fast, technology that could potentially give value in the future is an uncertain investment. Thus, an investment in capital and resources in a novel technology might not be applicable in the future, because of unpredictable technological shifts. On the other hand, investments in novel technology can also yield high return and replace the current technology. The investment in start-up A, is an example of an investment which has potential future benefits for both the parent company and its customers. From a time perspective, investments made with primarily strategic objectives often have short time horizon on the expected strategic returns.

In order to get a more detailed view of CVC investments, additional dimension to the investment could be added to the financial and strategical objectives. Chesbrough propose four types driving investments, enabling investments, emergent investments and passive investments in the framework from [Chesbrough (2002)], which is introduced in subsection 2.2. The types describe the two dimensions of investments, objective and operational capabilities, which refers to financial versus strategic objectives, and whether the resources and processes are loosely or tightly linked to the parent com-
pany. The objective is dependent on the current market fit between the start-up and parent company (Anokhin et al. 2016) that ultimately is dependent on time and characteristics of the market. Identifying the strategic utility in the parent company from an investment is key to the overall strategy and monetisation of the investment. In this identification process the CVC unit is dependent on the parent company and their acknowledgement of the utility of the technology. Determining if a technology is loosely or tightly linked is vital, though it could also be a concept of perception, which adds complexity of the dialogue.

The factors Chesbrough propose to determine the type of CVC investment are compared to the findings of our case study. The obtained empirical results on the four fintech start-ups were used to identify factors to determine the type of investment. An overview of the factors determining the type of investment from our case study can be seen in Table 4.

<table>
<thead>
<tr>
<th>Framework</th>
<th>Case-study</th>
</tr>
</thead>
</table>
| Driving   | • Works closely with the start-up in order to reach strategic objectives  
• Advances strategy of current business  
• High technology fit  
• Knowledge of new market the company consider to enter  
• Insights on new technology  
• Collaboration with parent company is part of investment deal  
• Current business development  
• Parent company a driving factor - asserted sponsor at parent company  
• Parent company more power than CVC  
• Example: Start-up D |
| Emergent  | • Allows exploration of potential new business  
• Financial objectives  
• Link to operational capabilities high  
• Potentially with time can give strategic benefits  
• Explore novel technology in fintech  
• Potential disruptive technology and competition  
• High expectations on financial return  
• Collaboration with parent company is not part of investment deal  
• Example: Start-up A and C |
| Enabling  | • Strategic objective  
• Does not couple the start-up tightly with its own operations  
• Complementary product or service to the parent company  
• Indirectly simulate the mutual ecosystem of the parent company and its compliment  
• Additional service to parent company  
• Collaboration with parent company is not part of investment deal  
• Technology or software not implemented in parent company’s business  
• A sponsor at the parent company not needed  
• Example: Start-up B |
| Passive   | • Financial objective  
• Lack the means to actively advance the parent company’s business  
• High expectations on financial return  
• No strategic benefit  
• Example: Investments made before 2016 |

Table 4: Factors determining the type of investment

5.2.1 Driving investments

Driving investments advances the strategy of the company’s current business as they improve scale efficiency yields and increase innovation opportunities (Anokhin et al. 2016). Based on the result, start-up D can be seen as a driving investment. First of all, every interviewed CVC investment manager placed it as a driving investment, as can be seen in ???. In Chesbrough’s framework one of the characteristics of a driving investment is a high technology fit between the start-up and parent com-
pany, which either provides insights on new technology, or a new market, that aligns with the current market position of the company. In this case, the high fit between the parent company and start-up D is the technology the start-up provides, which advances the parent companies current digital strategy.

In driving investments according to the framework, CVC unit works closely with the start-up in order to reach strategic objectives. However, the interviews show that start-up D is the start-up furthest away from the CVC unit among the start-ups in this study. On the other hand, the start-up works closely with the parent company as they have an extensive collaboration where they use and share technology and products. Furthermore, the collaboration with parent company was part of investment deal, unlike the investment deals with the other start-ups where discussions about collaborations were initiated post-investment. Therefore, we interpret that the characteristic in the framework includes both CVC unit and parent company, as there seem to be little differentiation between the parties in the framework.

The CVC unit needs an asserted sponsor at the parent company in order to make a strategic investment. Their definition of a strategic investment is more closely to driving investments compared to the framework that consider both driving and enabling as investments made with strategic objectives. The parent company was a driving factor behind the investment in start-up D and the power balance was shifted towards parent company regarding the decisions in the investment deal. In this case study, high involvement from the parent company and that a collaboration agreement is part of the investment deal can be seen as major factors that determine an investment as driving. Compared to the framework and the other start-up cases, the parent company is more involved in driving investments. In this case, driving investments a collaboration between the start-up and parent company is part of the deal terms, which need to be negotiated between the start-up and the business development unit in addition to the financial terms that are part of the CVC unit’s agreement. Internally, an investment also needs approval from one of the board of directors. Consequently, in driving investments the dialogue is affected, as more stakeholders are involved in the decision process prior investment and the following dialogue post investment. From the start-up’s perspective, the investment process was considered slow. Their investment process was made in a complex environment and consisted of the CVC unit and many stakeholders within the parent company, with different degrees of decision power.

In one way, being active in the same area has affected the trust between the start-up and the parent company. On the other hand, the tight collaboration between start-up D and the parent company, where they share technology and knowledge, indicates a high level of trust, which according to Dagnino & Padul (2002), increases the likelihood of the interfirm relationship being profitable. Also, as the market is changing, CVC activities is a way for the parent company to minimise the threat of new technology in the future by gaining insights and knowledge, and for fintech start-ups to grow, which motivates convergent interfirm interests between the companies despite competitive opportunities between them. Thus, even though conflicts of interest may arise and affect the dialogue when the invested start-up is close to the field of the parent company, both parties benefit from collaborating. Investments in start-ups close to the field of the parent company are most likely to be as driving investments, in order take advantage from synergies and gain strategic benefits. In that way they will be cases of coopetition. However, it is not seen as driving investments per se affect the dialogue between stakeholders with elements of coopetition, but rather that the cases that are likely to be driving investments often are active in the same field, which in turn can give rise to competitive elements.

As driving investments indicate a more extensive collaboration and support from the parent company, the brand may play a larger role for both companies as driving investment advances the strategy and will likely make a difference in the customer offering in the short-term. However, it is also likely the degree of competition in a specific investment is the factor that determine the impact of brand rather than the type of investment and collaboration.
5.2.2 Emergent

There is less uncertainty in a driving investment compared to an emergent investment as the synergies between the parent company and start-up can be estimated and evaluated based on the current market conditions. However, Csaaszar (2012) emphasises that in a fast changing environment it is important that a company support exploration activities. Moreover, as a firm’s competitive advantage is based on its organisational process, being in the forefront increases the ability to be able to reconfigure and transform in time to changing environments (Teece et al. 1997). Emergent investments allow exploration of potential new businesses. Although, there is a high operational linkage between the start-up and parent company, their markets does not currently align and the investment is made with financial objectives. Unlike the case start-up D as a driving investment, there were differences in the categorisation of the type of investment in the framework of start-up A, B and C by the interviewees. Start-up C was categorised as emergent by five persons, start-up A by two and start-up B by one, which was presented in ??.

Start-up A fits as an emergent investment, despite more placements as a passive investment. First of all, the start-up is active in blockchain, which is a new technological area that potentially could harm and disrupt the business for traditional banks and an area the parent company is interested in. One reason that motivated the placement of the investment as passive is because crypto currency is a field the bank do not considered to enter. Still, by investing in a company that use crypto currency insights on blockchain and the new market can be gained. After all, regardless of whether or not the bank will use crypto currency, the technology has the ability to affect the financial industry. Additionally, as start-up A moves between the interface of crypto currency and traditional payments, an investment in the start-up can be seen as a way to hedge against future disruption. No collaboration between the companies was discussed during the investment process, and post investment no collaboration has been formed. The dialogue post investment between the CVC unit and the start-up has involved strategic and business advice. The start-up has been given insights on how a bank’s internal processes work and they have held presentations about their business. In the start-up’s perspective, both companies would benefit from more knowledge sharing to learn more about each other’s areas and technology. As there are benefits to be gained from knowledge sharing it contradicts the placement of start-up A as a passive investment. This is also reflected by the investment’s positive response from media.

Start-up C uses predictive software that gives companies insights they can use to improve customer experience. Among others, the technological transformation is changing the way companies can predict and interact with customers. The investment in start-up C was mainly made with financial objectives and no collaboration agreement was part of the deal terms. Prior investment, the parent company used one of the start-up’s older products and post investment there has been a dialogue between start-up C and the parent company about potential future collaboration. Thus, a high operational linkage can be considered between the companies as their technologies fit. Emergent investments are made to explore novel technology and technical tools to improve customer interaction, and predict customer behaviour, is getting more used. Since the parent company already uses an older version of the start-up’s product and predictive intelligence is getting used more frequently start-up C’s business could align with the parent companies current business.

The major reason start-up C is not classified as a driving investment is because a collaboration between the start-up and the parent company was not in the deal terms. In the literature, emergent investments can potentially with time give strategic benefits, which would make them similar to driving investments. That would be the case if a collaboration was formed and the parent company started to use the start-up’s new products and implement it in their customer interface. In the CVC unit’s perspective it is beneficial if the start-up would get the parent company as a customer, as it would mean the start-up got an additional large customer, which would increase the value of the start-up.
In the same way, by having an investment in the start-up the parent company benefit from a value increase in the start-up and with more communication channels a dialogue about future collaborations between the companies are simplified.

Both the CVC unit and the start-ups have financial expectations. However, the CVC unit and the start-ups hope that the start-ups can receive valuable knowledge and collaborations with the parent company. The parent company is a more dominant stakeholder in the investment process as the CVC investments are now made within fintech. As start-up A considered the process to be fast while start-up C considered it slow, we believe that start-up A had low expectations on receiving the investment, which made them more positive to the investment process. On the other hand, we believe start-up C compared the CVC unit to other VC investors, that has a less thorough process as they do not carry reputational risk towards a parent company. Furthermore, as there is a tighter link between start-up C and the parent company compared to start-up A, it is probable that more inputs from business development units were asked for, which prolonged the process.

5.2.3 Enabling

In the framework, enabling investments are made to complement the strategy of a company’s current business. Although the companies do not link their operations together, there are strategic benefits. A company’s strategy benefits from that type of investment if the product or service the start-up provides is a complement to that of the investing company, thus indirectly stimulating their mutual ecosystem. In addition, Anokhin et al. (2016) propose enabling investments increase innovation opportunities. Start-up B is analysed to align mostly as an enabling investment, although two interviewees placed the investment as emergent and passive respectively. Similar to other investment types besides driving, no collaboration agreement was part of the investment deal. Post investment, the dialogue between the start-up and parent company has involved discussions about a potential collaboration and the company wishes to take the dialogue to the next step. The start-up focuses on increasing the transparency and reducing the costs for SMEs, which is a key customer segment to the parent company and they expressed that the investment would send a positive signal towards SMEs. If a collaboration would take place, the start-up would offer their services to the bank’s customers as a complement. In addition, the start-up’s customers could use the bank’s services to finance their use. Hence, an increase in the use of start-up B’s products would indirectly simulate the revenues of the parent company. Moreover, as the start-up and parent company both provide similar products but to different customer segments, they could recommend each other. Hence, there are strategic benefits to be made as the companies’ current market positions align. However, the investment in the start-up would not advance the current strategy of the parent company, differentiating it from a driving investment.

5.2.4 Passive

Passive investments are made with financial objectives only. Even though start-up A, B and C has been put as passive during some of the interviews, more of the result have supported that there are additional benefits and underlying objectives of the investment. Prior the board directive in 2016, that the CVC unit should focus on investments that had a connection to the business of the parent company, the CVC unit made many investments in technology and life science. As those do not have a link to the parent companies operational capabilities and are made with financial objectives only, they are considered as actively managed passive investments. As passive investments are just like regular VC investments, none of the interviewed investment cases were considered as passive.
6 Discussion and Conclusion

In this chapter the results and analysis are discussed. Thereafter, the research questions are summarised and concluded. Finally, an evaluation of the study is presented and further research recommended.

6.1 Discussion of results

The discussion of results is presented in three parts: interaction between stakeholders, further approaches and findings from an investment type perspective.

6.1.1 Interaction between stakeholders

This study has focused on the expectations among stakeholders. Yet, if we exclude the expectation that the agreed plans will be followed, we have found that the expectations, as well as the differences in expectations, among the stakeholders are considerably few. Furthermore, there was little difference prior and post investment. One explanation could be a clear dialogue between the start-up and the CVC unit during the investment process, where future objectives were aligned and set, making little room for differences in expectations. On the other hand, some of the start-ups told that based on their experience or knowledge, investors in general often exaggerated the knowledge-and network sharing they would bring, which could have limited their expectations prior investment. The start-ups expressed that there is a difference between what they expect and what they hope and wish. Aside from start-up D, the invested start-ups had in common the wish to extend the interaction with the parent company. This could involve increased knowledge sharing or a collaboration, which could be in the form of technology sharing or increased access to each other's customers and markets. Currently, there is a dialogue between the start-ups and the parent company, although the parent company is perceived as slow to act.

Aside from start-up A, all start-ups considered the investment process as slow. As previously discussed, the start-ups expect that negotiations with the bank requires more thoroughness from regulations and reputational risks. Still, a prolonged process can be detrimental as start-ups are in exposed positions during the investment process before decisions have been made. As start-ups often have limited resources, being attentive and responsive to potential investors can be time-consuming, consequently limiting the companies' strategic growth. Moreover, as new regulations and technology quickly changes the markets, start-ups want to be able to act quickly and seize opportunities. Thus, a slow and time consuming investment process can be a challenging experience, especially if the process does not end in an investment. As the start-up community is small, negative experiences with an investor could be harmful to the investor’s image. Given this aspect, investors in general should strive to have investment processes that are as clear and fast as possible.

From the interviews with the start-ups, the most distinguished areas of interest were interaction with the parent company and faster reaction from the parent company, both prior and post investment. Even though both start-up and bank are aware of the differences, they still view the dialogue from different paradigms. First of all, there is a considerable difference in size, which differentiate the companies' organisational processes. A large bank has many internal stakeholders that need to coordinate and find an agreement. In addition, the size of the bank entails rules and regulations that they need to comply with, which are not applicable to a small start-up. Secondly, in dynamic capabilities view, a firm’s current position is shaped by its historic path. As the bank has a long history, its future behaviour is consequently shaped by its past decisions and traditions. A start-up on the other hand rarely has any history or path as it is such a young company in comparison. Thirdly, the dialogue between start-up and the parent company often regards technology that could be implemented to the parent company’s business or to get access to customers. With the aspect of path dependency the
parent company has valid reasons to be cautious not to make a decision that creates lock-in effects, since that will affect and limit the bank’s available paths in the future. Especially, in a technological transformational environment, lock-in effects can be devastating.

6.1.2 Further approaches

The parent company changed the investment mandate for the CVC unit to focus on investments that could benefit or relate to the bank’s business. Some start-ups perceive the CVC’s change to invest in fintech as a signal to the market and fintech entrepreneurs that they make investments in order to increase innovation at the parent company. Consequently, it is not unexpected that start-ups hope to increase interaction with the parent company. As the decision was made to invest in fintech, strategies should be made to actualise the opportunities of the investments in start-ups that align or develop the bank’s strategy. That does not mean that all investments should include a collaboration and to make our stand point clear, we do not believe a collaboration should be formed if it is not beneficial to parent company and advance, or complement, their business. Furthermore, CVC activities are made to hedge for the future, which gives the parent company the opportunity to wait and listen to the market. Consequently, since a collaboration post investment is not guaranteed, enabling, emergent and passive investments should be made to be financially sustainable and contribute to the investment portfolio. Still, there should be increased knowledge sharing between stakeholders and organisational processes should exist that are able to capture strategic benefits from investments when they emerge.

During the investment process the CVC unit consider how the investment could affect or benefit the parent company. Post investment, as the CVC unit moves between start-up and parent company, the investment managers feel they need to balance the aim for a collaboration while not pushing the business units too much. On the one hand, it can be seen as if the CVC unit could do more to initiate a collaboration. On the other hand, as the CVC unit are investors, they do not possess deep knowledge about every area of business development. Therefore, they should not be a driving force behind the forming of a deeper collaboration between the parent company and a start-up.

There are clearly differences between a large bank and a small start-up, which increase the complexity of the dialogue and interaction between stakeholders. We have identified that the shift made in the CVC unit’s strategy have affected the investment process. As strategic investments involve more stakeholders, there are more steps and decisions to be made, leading to prolonged processes. First of all, in order to have a clear dialogue and investment process in investments with strategic aspects, there must be frequent internal communication between the stakeholders from the parent company and the CVC unit. Secondly, it must be clear what mandate different stakeholders have in an investment process and how it differs between various types of investments. Thirdly, the stakeholders’ time horizons must be clear during the process. While it is not expected that the CVC’s investment process is as fast as independent VC’s, the speed of the process could be improved. As start-ups are affected by a prolonged process and the start-up community is small, their experience have an impact on the brand, and consequently the competitiveness, of the investor. One way to make investment processes faster is to decrease the number of stakeholders, which could be done from excluding strategic elements from the investment’s agreement plan. Thus, eventual collaborations would have to be formed post investment when the need for speed is less. In addition, from an investor’s point of view, the value of the company increases from a collaboration with a large company, such as the parent company. If the collaboration is formed before the investment, the increase in value that was brought by the parent company will consequently be paid for by the CVC investment. However, one drawback with this approach is that a collaboration agreement is a desired milestone with huge impact for some start-ups, which would give an investor that guaranteed a collaboration a strong position when competing with other investors.
As the CVC’s investment horizon stretches for four to seven years, and the investigated start-ups received investments recently, it would be interesting to monitor how the dialogue developed over time between the stakeholders, especially regarding knowledge sharing and collaboration between start-up and parent company.

6.1.3 Findings from an investment type perspective

The dialogue differed between driving investments and emerging, enabling and passive investments. The main difference in how the dialogue is affected by the agreement of a collaboration during the investment deal. Consequently, as driving investments and investments made with mainly strategic objectives, include a collaboration they are closer to the parent company and involve more stakeholders, which affect the dialogue. As driving investments are made to advance the strategy of the current business, there is a high likelihood of more activity from a parent company in driving investments in other companies aside this case study as well, regardless of the organisational structure of their CVC activities. It is interesting, while driving and passive investment are each others opposite, the same cannot be said of emergent and enabling, although they are at the opposite dimensions of the framework. There are many similarities in the dialogue of emergent and enabling investment as both types are centred around a collaboration with the parent company or increased knowledge sharing. Likewise, as the investment processes are similar, the dialogue prior investment follows a similar procedure with less stakeholders than in driving investments.

As the results show little difference between emergent and enabling investment, the choice to adapt Chesbrough’s framework can be challenged. On the other hand, as CVC investments often contain both financial and strategic objectives, having a second dimension that captures the operational linkage gives nuances to investments. After all, there is a clear differentiation between enabling and emergent investments as a potential collaboration between the start-ups and the parent company would be different depending on the type. If a collaboration would have been formed between start-up B and the parent company the technology would not have been integrated in the parent company, nor is the investment made to give the parent company new insights to enter the start-up’s market. A potential collaboration with the emergent investments would on the other hand include technology implementation, like start-up C, or increased knowledge sharing about the new market and technology, like start-up A. Therefore, it is possible that more differences had been found between the types of investments if the thesis had been made at a later stage, with more start-up cases and more time for the stakeholders to interact.

It is hard to draw any general conclusion about the dialogue between stakeholders in emergent investments, as the two cases in this study are very different. Nonetheless, it can be seen that the dialogue with the start-up that is furthest away from the current market position of the parent company is focused on learning about the different areas. For start-up A to learn more about how banks are working and for the parent company to learn more about blockchain and crypto currency, novel technology and new market, where start-up A is active. On the other hand, with start-up C that is closer to the current market position of the parent company, the dialogue is more focused on how to form a collaboration, which would give the investment more strategic benefits in. Thus, the dialogue would be more dependent on the degree of the position and type of company rather, which adds to the perception of the type of investments.

If the defined investment types in Chesbrough’s framework are subsidised to only have one dimension, financial or strategic objectives, the results show that start-up A, B and C are made with financial objectives, as a collaboration is not part of the investment agreement. Our study show that the three investments are made with high expectations on financial returns, otherwise the investment would not have been made. This does not mean that there are no expectations on financial returns from start-
up D, but that the expectations are more focused on mutual strategic benefits between the parent company and start-up. This can be considered contradicting to the framework and our placement och start-up B as an enabling investment, since the definition of enabling investments are high strategic fit and low linkage to operational capabilities. On the other hand, start-up B does complement the business of the parent company, which is also the definition of the investment type in Chesbrough. In that regard, the investment types is affected by the characteristics of the start-up and the investors' perspective of the investment.
6.2 Summary and conclusion

The purpose of this thesis was to study how the type of investment affects the dialogue between stakeholders in a CVC investment. The stakeholders investigated in this study are start-ups that received investments, a CVC unit and its parent company, a Swedish bank. The studied CVC unit recently changed direction to only invest in fintech and fields related to the bank’s business. Subsequently, investments in fintech would support the bank’s overall strategy to increase the ability and flexibility to transform to changes in the market and customer needs. The thesis was conducted as a case-study, using cross-case analysis, and contained four fintech start-ups, which the studied CVC unit had invested in.

Firstly, to answer the subquestions: how do the expectations and perceptions differ between stakeholders and what are the characteristics of different types of CVC investments, the start-ups, the CVC unit and selected managers at the parent company were interviewed to reflect on different stakeholders’ perspectives and expectations. The obtained empirical results were analysed through the aspect of dynamic capabilities and also described through the four investment types defined in Chesbrough’s framework. A summary of the obtained characteristics of different types of investment can be seen in Table 4. Secondly, the differences between the expectations and perceptions between stakeholders in a CVC investment process were incorporated into the answers to the main research question of this study: How does the type of investment affect the dialogue between stakeholders in a corporate venture capital investment.

In general, all cases have been satisfied, resulting in few differences in case specific expectations between CVC unit and start-up, prior and post investment. However, there are differences in the perception between the stakeholders. Our results show that all start-ups want a collaboration or increased interaction with the parent company. Even though these wishes and hopes are not always expected to be fulfilled, potential dissatisfaction could arise when the start-ups’ underlying hopes on collaboration or increased interaction are not met by the parent company.

Our study has identified that the dialogue between CVC unit and other parts within the parent company is important and could be further developed. Their internal communication and decision processes must be clear and well structured in order to develop a good dialogue between all stakeholders. The process in a CVC investment is many times perceived by the start-ups to be slow. Our analysis concludes that the decision making in determining an investment’s strategic benefit is done at the parent company, which in terms of speed is challenging. As business units face challenges because of the parent company’s size, path, internal processes and regulations, a clear structure of strategic CVC investments have not been set between CVC and parent company. This has prolonged investment processes, which have negative effect on start-ups. Thus, in order to remain an attractive investor, efforts should be made to improve the investment process when more stakeholders are involved.

In conclusion, the dialogue differed between driving investments and emerging, enabling and passive investments. The main difference in how the dialogue is affected by the agreement of a collaboration during the investment deal. Similar dialogues were found in emerging and enabling investments, where they wished to have more interaction with the parent company. However, it is hard to draw any general conclusions about the way the type of investment affects the dialogue with only four cases. Especially, as it was seen that there were differences that were more connected to the different characteristics and circumstances of the start-up, rather than the alignment to, and objective from, the parent company.
6.3 Evaluation of the study

The purpose of the study is to investigate how the type of investment affects the dialogue between stakeholders in a CVC investment process. By investigating four fintech start-ups, a CVC unit and its parent company, we hoped to give clarity regarding the dialogues involved in a CVC investment process between stakeholders. Previous research have been limited the connection between the objectives of a CVC investment and the expectations and perceptions between the stakeholders. Therefore, we believe our study contributes to narrowing the gap of existing research within the area of CVC investing. In addition, we hope to illustrate how the obtained empirical results could be perceived by existing theories regarding CVC investments and dynamic capabilities. This study’s theoretical contribution involved combining Chesbrough’s framework of four types of investments and theories from dynamic capabilities, thus developing the research field of CVC investments. Chesbrough’s framework was developed in 2002, which consequently affects the framework’s reliability. Different types of CVC investments are a considerably unexplored area and the framework has limitations for that reason. On the other hand, the framework includes many aspects regarding CVC investments and adds a dimension the the general description of financial and strategic investments. The framework is used as a tool to map investments to better understand the dialogue and expectations of different types of investments.

This study is limited to the four start-ups and their specific situation and observations of the studied matter. It does not advise on best-practises or recommended ways to improve the dialogue between investor and investee in general. This paper should be perceived as a multiple case study within a case study. The four studied fintech start-ups’ characteristics have been applied to theoretical frameworks, subsequently generalising the obtained results. This in hope for the obtained conclusions to be relevant to other CVC units, in the financial and other markets. Furthermore, the thesis is performed at a Swedish bank and thus influenced by the technological transformation in the financial industry. Nevertheless we believe the findings of this paper could be relevant to other fields facing digital transformation as well. For the studied CVC unit the empirical contributions of the study could improve the dialogue in future investment processes and improve utilisation of current investments. From a start-up perspective, understanding the different dialogues in a CVC investment could be beneficial when choosing between various investors. All start-ups and interviewees have been anonymised in order to decrease the search-ability and to increase the likelihood of authentic answers from the interviewees, the names have been excluded from the thesis. Compared to the interviewees from the parent company and the CVC unit, the positions of the interviewees from the start-up have been excluded as the start-ups are considerably small.

We suggest further research to focus on the connection between different types of CVC investments and the process of embodying innovation into the parent company. Our results show an important dialogue is established in some strategic investments, however the internal processing for knowledge sharing between CVC unit and parent company could be improved. Thus, more research could be made on how to develop processes and organisational structures to fully utilise the potential in invested start-ups. Furthermore, Chesbrough’s framework consists of two dimensions of an investment, objective and operational capabilities. Results from our study show that in addition to the start-ups’ and CVC unit’s dialogue, an additional stakeholder is of importance to a CVC investment, the parent company. The parent company is not taken into consideration in Chesbrough’s framework of determining the type of investment. We suggest further research to be made to develop the framework and include the parent company as an important aspect.
References


Buchel, B. e. a. (1996), International Joint Venture Management, ohn Wiley and Sons Asia Pte, Singapore.


Interview 1 (2017), ‘Investment manager, seb venture capital’, Real time, unstructured.

Interview 10 (2017), ‘Start-up a’, Real time, semi-structured. transcribed.

Interview 11 (2017), ‘Start-up b’, Real time, semi-structured. transcribed.

Interview 12 (2017), ‘Start-up c’, Real time, semi-structured. transcribed.

Interview 2 (2017), ‘Senior investment manager, seb venture capital’, Real time, semi-structured.

Interview 3 (2017), ‘Senior manager, corporate market, corporate and private customer’, Real time, semi-structured. transcribed.

Interview 4 (2017), ‘Senior management, business development, large corporations’, Real time, semi-structured. transcribed.


Interview 6 (2017), ‘Investment manager, seb venture capital’, Real time, semi-structured. transcribed.

Interview 7 (2017), ‘Senior manager, digital banking, business development’, Real time, semi-structured. transcribed.

Interview 8 (2017), ‘Start-up d’, Real time, semi-structured. transcribed.


Khan, K. e. a. (2003), ‘Five steps to conducting a systematic review’, *Journal of the Royal Society of Medicine* 96(3).


Yin, R. (2003), *Case Study Research: Design and Methods*, Sage Publications, California, USA.
Appendix I

The templates below feature the questions asked during the semi-structured interviews. First the questions asked to the CVC unit’s deal team are presented, then the questions to the business development units at the parent company and finally the questions asked during the interviews with the start-up companies. During the interviews, start-up X was replaced by the concerning start-up.

Semi structured interview template for CVC deal team

Name:
Position/role at SEB:

General question regarding the CVC
What do you consider general key success factors in an investment?

Questions regarding start-up X
Why did SEB VC invest in start-up X?

What were your expectations before the investment?

What are your expectations now?

What was the dialog like before the investment?

How is the dialogue now between you and the start-up now?

What do you believe the start-up expected prior investment, from the CVC and the bank?
- Do you think those expectations have changed?

What connections and synergies do you see between the bank and the start-up?

Has there been any interaction or cooperation between start-up and the bank’s business development unit?

Where in the framework would you place the investment?

Semi structured interview template for business development unit at the parent company

Name:
Position/role at SEB:

Can you tell us a bit about your work?

General question regarding the CVC
What is your opinion on SEB Venture Capital?

What is the relation between your department and investments made by the CVC?

How active do you want to be in an investments, prior and post investment?
What do you think are the advantages and disadvantages of investing in fintech a field closely related to the business of the bank?

From your perspective what do you as important in a potential investment?

What do you consider are key factors in an investment?

What do you think are the start-ups expectations on SEB?

How important is the technology of the start-up, and that it is applicable and useful to SEB, short and long term?

How does an investment affect your work?

**Semi structured interview template for start-up receiving investment**

Name:
Position/role at start-up:

Why were you interested in CVC as an investor?

What were your expectations on the CVC unit and the parent company prior investment? - Has those expectations changed?

How did you perceive the investment process?

What have you received from the investment, aside capital?

How is your dialogue with the CVC unit?

What do you think are the CVC unit’s and bank’s expectations on the investment?

How is the dialog affected by the start-up being active in a field connected to the bank?

What could be improved in the dialogue between the the start-up and the CVC unit and bank?