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Venture Capital vs. Corporate Venture Capital: Differences in Exit Strategies

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ABSTRACT:

Kandidaatintutkielma tarkastelee riskipääomasijoittamisen (Venture Capital, VC) ja yritysvetoisen riskipääomasijoittamisen (Corporate Venture Capital, CVC) exit-strategioita. Tutkimus perustuu rahoituksen ja strategisen johtamisen olemassa olevaan kirjallisuuteen ja keskittyy erityisesti sijoittajien tavoitteiden ja hallintorakenteiden vaikutukseen exit-päätöksissä. Lisäksi tutkielma tuo esiin VC- ja CVC-sijoittajien välisiä eroja exit-käyttäytymisessä.

Venture capital -sijoittajat ovat pääsääntöisesti taloudellisesti motivoituneita ja tavoittelevat korkeaa taloudellista tuottoa. Heille on myös tärkeää maineen rakentaminen, joka saavutetaan näkyvien ja menestyksekkäiden exitien sekä markkinaosaamisen osoittamisen kautta. Corporate venture capital -sijoittajat puolestaan tavoittelevat taloudellisen hyödyn ohella strategista arvoa, jota syntyy oppimisen, yhteistyön ja startup-yritysten integroimisen kautta emoyhtiön toimintaan silloin, kun se tukee yrityksen kokonaisstrategiaa.

Tutkielma perustuu kolmeen keskeiseen teoriaan: toimijuusteoriaan (agency theory), signalointiteoriaan (signaling theory) ja transaktiokustannusteoriaan (transaction cost economics). Näiden teorioiden avulla pyritään selittämään, miten taloudelliset ja strategiset motiivit vaikuttavat sijoittajien päätöksentekoon ja erilaisten exit-strategioiden valintaan.

Sekä VC- että CVC-sijoittajat ovat keskeisessä roolissa startup-yritysten rahoituksessa, mutta heidän exit-strategiansa perustuvat erilaisiin tavoitteisiin. Venture capital -sijoittajat luovat arvoa ensisijaisesti taloudellisten tulosten kautta, kun taas corporate venture capital -sijoittajat korostavat oppimisen ja strategisen hyödyn merkitystä arvonluonnissa.

KEYWORDS: corporate venture capital, IPO, exit strategies, agency theory, strategic learning, transaction cost economics, venture capital

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1 Introduction

When investors realize their returns and the ownership of the company changes, it is an exit. An exit is often made when an entrepreneur or investor wants to sell their company and at the same time the success of previous decisions becomes apparent. The thesis shows how corporate venture capital (CVC) and venture capital (VC) differ in exits. Independent venture capitalists often choose to go public and corporate investors usually exit through acquisitions. Acquisitions allow for closer cooperation with the parent company (Maula et al., 2005; Dushnitsky & Lenox, 2006).

Financial performance, including investment multiples, incentives, and market timing is the main focus of venture capital research (Gompers, 1996; Giot & Schwienbacher, 2007). Firm goals, learning, and strategic fit are the main topics of corporate venture capital research. VC and CVC investor exits are usually only studied separately, which is why I find this comparative topic interesting.

It is important to remember that exits are not a central step in the investment process. Exits are not just financial events. VC and CVC firms play an important role in supporting startups. They provide money, support and networks. These are very important for the growth of a company. When a company is listed on a stock exchange, for example, exits signal to the market about the performance of investors.

VC and CVC don't have the same reasons for investing. The main goal of VC funds is on maximizing financial returns for their investors. Corporate venture capital units are part of big companies and they usually try to reach both financial and strategic goals. CVCs have grown around the world, and it's important to know how different reasons for investing affect how they act when they exit. For instance, entrepreneurs can make better decisions about financiers when they know what they want and what the most common exit routes are.

This is a literature review that uses ideas from finance, entrepreneurship, and strategic management. The primary aim is to find the most used exit strategies, look at the logic behind exit decisions, the influencing factors, and to understand how organizational structures and investment goals affect exit outcomes.

1.1 Purpose of the study

The main goal of the thesis is to find the reasons behind the differences in exit strategies. The research utilizes theories to better understand the differences. The theoretical part opens up transaction cost economics, agency theory and signaling theory as explanatory factors for exit differences. Signaling theory shows how exits can be a way to communicate the quality of a company to the market. Agency theory explains how incentives affect investment and exit decisions. Transaction cost economics clarifies how strategic fit and coordination costs affect exits based on acquisitions. The thesis develops a framework that explains how economic and strategic motivations influence investor behavior by utilizing these theories.

Financial incentives and the need to provide returns to the partners within a limited time frame are typically the driving forces behind a venture capital fund. This study identifies and compares the primary exit routes and the factors influencing them. Corporate venture capitalists are likely to pursue strategic objectives, for instance exploiting new markets, technologies, new learning or expertise that can ultimately improve the competitiveness of the parent company. Exits are therefore motivated by different factors.

The study is a literature review based on academic publications and books on exit strategies, corporate venture capital, and venture capital. The review summarizes and critically evaluates existing research findings, but does not contain new empirical information. The goal is to identify patterns, highlight differences, and provide a unified theoretical understanding of how independent and corporate venture capitalists behave during the exit phase.

1.2 Structure of the study

This thesis is divided into six chapters, which are meant to make it easier to move from theoretical discussion to comparative analysis. Chapter 1 talks about the topic, gives some background on the study, and lists the study's goals. Chapter 2 gives a theoretical framework for looking at exit behaviour and talks about agency theory, signalling theory, and transaction cost economics. Chapter 3 is about venture capital exits. Chapter 4 is about corporate venture capital exits. Chapter 5 is about the results and the things that are the same and different between VC and CVC exits. Chapter 6 concludes up the thesis by going over the main points.

I would also like to mention that AI (ChatGPT-5) has been used to help with the text's organization, language improvement, and general clarity.

2 Theoretical Framework

This chapter is the theoretical framework that explains the exit differences between corporate venture capitalists and venture capitalists. Venture capital research explains investor behaviour using concepts from finance, management, and economics.

The three primary theories used in this study: transaction cost economics, agency theory, and signalling theory. The theories aid in the explanation of how investors' exit decisions and strategies are influenced by a variety of incentives, information asymmetries, cost structures, and financial and strategic objectives.

2.1 Agency Theory

Agency theory provides an explanation for situations where one person gives conrol to another person handle, even though their goals may not be the same. According to Jensen and Meckling (1976), agency theory is the theory that explains the relationship between principals and agents. In the case of VC, there is a relationship between limited partnerships (LPs) that give money and general partnerships (GPs) that manage it, as well as between investors and entrepreneurs in portfolio companies.

Jensen & Meckling (1976) state that if both parties in a relationship (principals and agents) seek to maximize their own results, there is a high probability that agents will not always act in a manner that is beneficial to principal. In venture capital, investors and entrepreneurs often have different goals. Investors need to be sure that entrepreneurs are acting in their best interests, and investors do not always have all the information they need about a company. Trust is very important in relationships between vc and the inverstor, because an investor cannot be aware of everything about a company at all times.

Venture capitalists use some methods to keep transaction costs low. These are staged financing, setting clear performance goals, and having a seat on the company's board of

directors. These give investors influence on important decisions and let them keep an eye on the startup. The goals of investors and entrepreneurs are more similar to each other with these also. (Megginson & Weiss, 1991; Hsu, 2004).

Gompers (1996) says that venture capitalists need to show their limited partners that they are successful. Demonstrating success makes them want to make quick and visible exits. This shows how agency conflicts also affect exits. The "grandstanding" phenomenon shows the effect of incentives on the timing of exits. Hochberg et al. (2007) also state that reputable and networked venture capitalists can help solve agency problems because they have better access to information and networks.

It is harder to find CVC agency problems. CVC managers may have big plans. They want to get new technology or go into new markets. CVC managers also work for the parent company and are under pressure to help the company make money. Strategic and financial goals can sometimes cause problems between the parent company and the CVC unit (Maula et al., 2013). The parent company might want to buy a company that encourages learning in longer perioid of time, but the CVC managers might want to leave quickly to show that they are making money, which could lead to an agency problem. In business partnerships where one person has more power than the other, there can be disagreements about how to use resources and how much risk to take on between strategic and financial stakeholders (Wadhwa & Basu, 2013).

Independent venture capitalists have limited resources and time. They want to be able to show performance and have liquidity. Because corporate investors are responsible for outcomes and have aspirations for strategy, they must handle internal conflicts between incentives. To comprehend how incentives and control mechanisms impact exit behaviour in both kinds of investors, it is necessary to comprehend these relationships. VCs and CVCs have different exit strategies, which can be explained by agency theory.

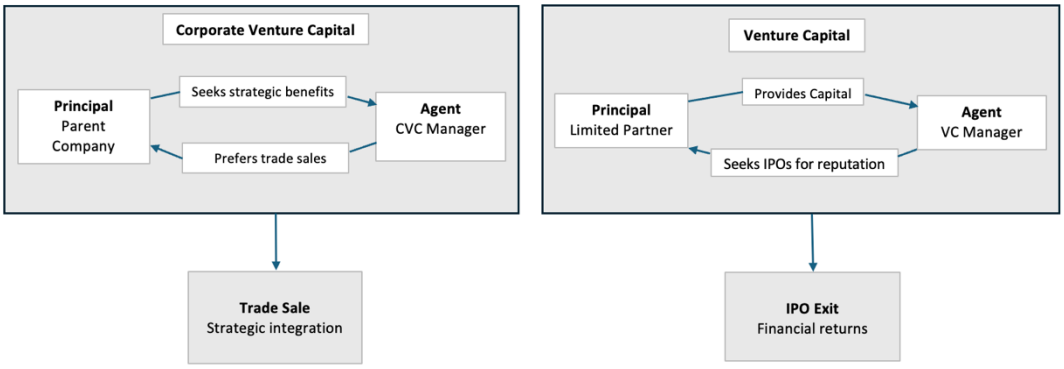

Figure 1 The principal-agent relationship in VC and CVC structures

2.2 Signaling Theory

Since early-stage businesses usually lack observable performance indicators, signals are crucial for both investors and entrepreneurs in venture capital. By sending each other trustworthy signals about quality or dependability, market participants attempt to lessen this uncertainty, according to signaling theory (Spence, 1973). While entrepreneurs attempt to persuade investors that they possess the skills and qualities necessary for success, venture capitalists must evaluate a startup company's potential in the face of uncertainty. The high degree of information asymmetry in early-stage investments makes signalling theory especially pertinent to venture capital. As a result, signals have an impact on how parties perceive a company's prospects for the future, and interpreting signals is crucial when making investment decisions.

An initial public offering (IPO) is a public signal of the company's quality as well as a means for investors to realise returns. Signalling is especially noticeable during the exit phase. Investors often interpret the involvement of a respected vc investor in an IPO as a sign of credibility. The credibility can lead to better performance and valuation after the IPO. (Megginson & Weiss, 1991). The venture capital investment itself can be seen as a certificate that reduces the risk for investors.

Reputable venture capital firms typically have a positive feedback loop. Understanding the difference between seasoned and novice investors is another benefit of signalling theory. Every profitable investment boosts VCs' standing and makes it easier for them to get deals and underwriters in the future (Hochberg et al., 2007). In this sense, exits can be viewed as public demonstrations of competence. Due to their lack of market credibility, smaller or new venture capital funds must rely more on the signals seen by the companies in their portfolio. In order to demonstrate their maturity and the confidence of investors, companies that receive venture capital investment typically time their exits to coincide with favourable market conditions (Giot & Schwienbacher, 2007).

When working with start-ups, strategic investors use their corporate identity as a sign of financial and technological stability (Park & Steensma, 2012). Since CVCs are established businesses, the resources and brand of the parent company already serve as the foundation for their legitimacy and reputation. As a result, they rely more on internal signals of strategic success and less on signals from the external market. This lends legitimacy to the startup, but it may also give the impression that the startup's strategy depends on the company. Because of that, strategic investor can both increase and decrease the startup's market position.

The perception of exits also reflects these signalling dynamics. Exits can still have a signaling effect on CVC units. The signaling effect is mostly internal to the company. A successful exit can indicate to the parent company that the venture unit should be supported in the future. At the same time, poorly handled exits could result in a loss of internal credibility and future support for the company (Maula et al., 2005).

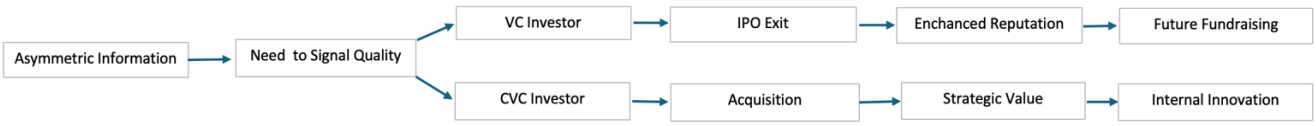

Figure 2 Signaling mechanisms and exit pathways in VC and CVC investments

2.3 Transaction Cost Economics

The concept developed by Williamson (1981) describes how companies organize transactions to reduce coordination, negotiation, and monitoring costs. The theory highlights how crucial governance frameworks are in unpredictable operating environments. A viewpoint on how venture capitalists select various governance strategies for managing and selling their investments is offered by transaction cost economics theory (TCE). When analysing investment choices and exit tactics, this viewpoint is helpful. Because investors must maintain relationships with entrepreneurs, co-investors, and potential buyers throughout the investment lifecycle, venture capital investments entail such transaction costs.

Megginson and Weiss (1991) say that VCs use staged financing, convertible securities, and control rights to protect themselves from opportunistic behaviour and reduce information asymmetry. Independent venture capitalists usually want to make deals that give them both control and flexibility in order to lower transaction costs. The investor also thinks about this when they leave the investment. For instance, an initial public offering might let investors leave the company easily without having to deal with negotiations or integration costs. M&A may also lead to higher coordination costs because they require coordinating many different groups and combining operations (Cumming & MacIntosh, 2003).

Because trade sales and acquisitions allow technology and expertise to be transferred to the parent company, CVC units frequently select them in order to lower future coordination costs. According to Dushnitsky and Lavie (2010), strategic investors gain from combining the expertise of corporate and entrepreneurial partners, and timely exits can optimise the value of this transfer. Internal transaction costs, such as bureaucratic approval procedures or competing departmental interests, are another

issue that CVCs still face. Exits may be delayed or less profitable but more strategically aligned as a result of these internal conflicts.

CVCs are part of the parent company, so they can make both financial and strategic investments. Transaction cost theory says that corporate venture capitalists have their own pros and cons. Acquiring a portfolio company can lower transaction costs in the future by giving you useful technologies and information (Maula et al., 2013). Companies also use venture capital investments to try out new markets with a small investment before deciding whether or not to buy the whole company. In other words, "option logic" means that CVC exits happen most often when the costs of working together are higher than the benefits of working together (Dushnitsky & Lenox, 2005).

Corporate venture units may become less strategically significant and function more like traditional venture capital firms if they become overly independent. Organisational structure and resource dependence have an impact on how well businesses can absorb external innovations (Wadhwa & Basu, 2013). Strong integration can make it harder to make decisions and cost more to coordinate. The best structure strikes a balance between integration and independence, which lets CVCs make separations that are good for both the business and the strategy.

The different exit strategies chosen by VCs and CVCs can be explained by transaction cost economics. In order to save money on monitoring and negotiating, independent venture capitalists frequently look for a speedy exit and corporate venture capitalists have a more comprehensive perspective on exits, considering internal coordination as well as strategic advantages for the parent company. Because of this, their exit strategies, especially acquisitions, aim to add value to the business while controlling transaction costs.

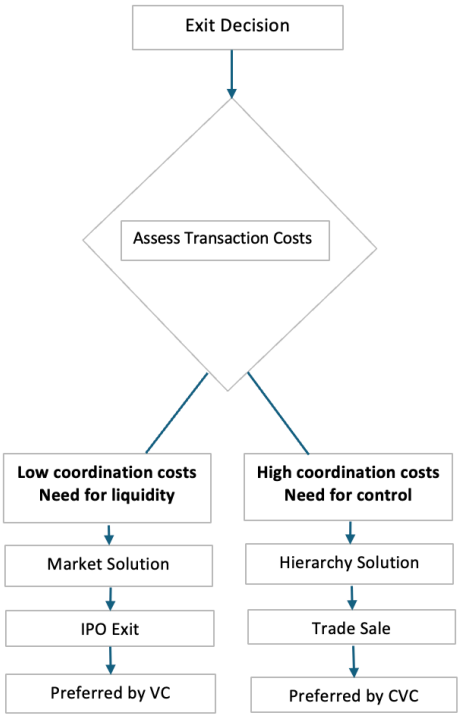

Figure 3 Exit decision framework based on transaction cost economics

2.4 Integrating the Theories

Agency theory examines incentive structures and control systems that guarantee the alignment of interests between investors and entrepreneurs (Jensen & Meckling, 1976). In independent venture capital, mechanisms like staged financing and performance-based agreements mitigate moral hazard and incentivise entrepreneurs to grow their enterprises and pursue a successful exit. When it comes to corporate venture capital, agency conflicts are harder to deal with because managers have to meet both the strategic and financial goals of the company's hierarchy (Maula et al., 2013). These different types of relationships change how each type of investor runs a business and plans their exit.

Signaling theory helps to understand how to communicate trust to external or internal audiences. A smooth exit from an IPO solves the problem for venture capitalists, allowing them to show good results and help them to grow (Megginson & Weiss, 1991;

Chemmanur et al., 2014). Successful exits create a good impression in the market. That boosts reputation and makes it easier to get support in the future (Hochberg et al., 2007). For CVC, a signal is mainly internal. A successful exit tells corporate management that the venture unit is doing well and bad results could mean that resources need to be moved around or the company needs to be restructured (Maula et al., 2005).

Transaction cost economics posits that divestment decisions are shaped by the investor's organisational structure and emphasis on efficiency, aiming to minimise coordination and integration costs. (Williamson, 1981; Cumming & MacIntosh, 2003). Independent venture capitalists usually prefer exits like IPOs because they make it easier and cheaper to leave the company. Corporate venture capitalists often use exits and acquisitions to bring valuable skills in-house, especially when the benefits of having more control outweigh the costs of working together (Dushnitsky & Lenox, 2005; Dushnitsky & Lavie, 2010).

Agency theory, signalling theory, and transaction cost economics are three theories that each give a different but useful view on how venture capitalists act and make exit decisions. These three perspectives explain why VCs and CVCs pursue different exit routes even under similar market conditions. When taken together, these theories give a full picture of how economic and strategic investors are different. According to agency theory, people's behaviour is influenced by their rewards. Reputation and information asymmetry are key factors affecting market perception in the framework of signalling theory. Transaction cost economics says that the latter's efficiency and integration depends on how managers make decisions and how the organization is structured

No single theory can fully explain venture capital exits independently. Some theoretical relations have been seen in practice. Hsu (2004) demonstrates that entrepreneurs are fine with big investors offering them lower valuations. Major investors help improve the company's reputation in numerous ways. Giot and Schwienbacher (2007) put together transaction costs with signalling and incentive structures to show how market timing and

fund dynamics affect exit paths. The results demonstrate that theories are interrelated. They are influenced by both markets and organisations instead of operating independently.

Venture capitalists aim to reduce agency costs. They inform external investors of success. They maximise transaction efficiency in terms of liquidity. They are mainly motivated by financial logic. When making decisions, corporate investors incorporate elements of information transfer, internal coordination, and strategic learning. Theoretical perspectives explain different aspects of exit behavior in the exit behavior of venture capitalists and corporate venture capitalists.

Agency theory, signaling theory, and transaction cost economics look at different parts of exit behavior. When taken as together, they provide insight into the behaviour of venture capital and corporate venture capital investors when exits.

- **Agency theory**
    - In VC, fund managers work under strong financial pressure and limited time, which often pushes them to choose clear and fast exits like IPOs.
    - In CVC, agency relationships are more complex because managers must meet both financial and strategic objectives defined by the corporate parent.
- **Signaling theory**
    - In VC, IPOs serve as strong public signals of portfolio firm quality and improve the reputation of the VC investor.
    - In CVC, exits work more as internal signals to the parent company, showing strategic learning or that the technology is useful.
- **Transaction cost economics**
    - VC investors prefer exit routes like IPOs that minimize coordination and separation costs.
    - CVC investors often choose acquisitions or trade sales that allow the corporation to internalize technology and reduce cordination costs.

These points of view reveal the reasons behind VC investors' primary emphasis on exits delivering major financial returns and market viability, but CVC investors prioritise alignment with strategy, knowledge application, and value growth for the parent company. This thesis is based on three theories: agency theory, signalling theory, and transaction cost economics. They address the influence of investor motives, reputation, and organisational factors on exit behaviour. The analysis and comparison in the next chapters are based on this framework.

3 Venture Capital Exits

Because successful exits are crucial to retaining venture capital funding and fostering innovation, exits have grown in importance in academic research. Because they significantly affect both the investor's profile and the financial return on investment, exits are a crucial phase of the venture capital cycle. They also demonstrate the investor's success in raising new funds in the future.

The purpose of this chapter is to give an overview of the primary exit options available to venture capital (VC) investors, describe the major factors influencing exit decisions, and explain how the theories previously discussed can be used to understand these decisions. A review of earlier empirical research and a brief summary of the main concerns in venture capital exit research round out the chapter.

3.1 Exit Routes in Venture Capital

There are ways that venture capital investors usually use to exit of their investments. Initial public offerings (IPOs), acquisitions, trade sales, and write-offs are the most frequent ways. The degree of control, risk, and liquidity of these choices vary.

According to Giot and Schwienbacher (2007), IPOs are frequently regarded as the best exit strategy because they increase the VC's visibility, which may later make it easier to obtain additional funding. Favourable market conditions, or "hot periods," are not always present in the cyclical IPO market. Because IPOs can produce large returns and show the success of portfolio companies, they are also beneficial to venture capitalists (Black & Gilson, 1998; Megginson & Weiss, 1991).

A secondary sale could be an option if a company is not prepared to go public. In this instance, the investor sells their holdings to a financial institution or another investor. IPOs typically get more attention than that kind of an exits. When an investment fails

and the investor gives up on it, write-offs occur. This is a typical aspect of the high-risk venture capital investing game, even though it leads to losses (Gompers, 1996).

When a portfolio company is sold to another company, usually a strategic buyer, this is called a trade sale. These exits usually happen faster than IPOs and give you instant cash. They are often chosen when the public markets aren't doing well or when the buyer can add value by working together or merging (Cumming & MacIntosh, 2003).

3.2 Determinants of Exit Decisions

Previous studies have shown that many variables influence the exits of VC investments. The timing and style of exit are influenced by several factors. Factors are the life cycle of the fund, the objectives of the investors, and market conditions (Gompers, 1996; Giot & Schwienbacher, 2007; Wadhwa & Basu, 2013). The life cycle of the fund is one important consideration. Investors often sell an investment earlier than necessary. According to Gompers (1996), the life cycle of a venture capital fund is usually ten years. The life cycle forces fund managers to sell their investments before the fund is over. Even if the company could continue to grow privately, exits often occur.

Strong networks and reputation among venture capitalists often lead to better exits according to Hochberg et al. (2007). Strong innovation, growth prospects and scalable business models increase the likelihood of a company going public (Chemmanur et al., 2014). Strategic buyers are more likely to acquire smaller companies or companies with less promising growth prospects.

Investors' preferred exit routes are influenced by the state of the economy. Investors are typically more interested in expanding businesses when the stock market is doing well, which most of the time results in more initial public offerings. This demonstrates the degree to which exit decisions are influenced by market conditions (Black & Gilson, 1998). However, in order to obtain liquidity during economic downturns, venture capitalists are more likely to select acquisitions or secondary sales.

Initial public offerings are more prevalent in nations with developed capital markets and robust investor protection and trade sales typically occur more frequently in nations with weaker legal systems (MacIntosh & Cumming, 2003). This implies that decisions about exit strategies are significantly influenced by the institutional and legal context.

The startup team's experience could have a big influence on the exit results. An experienced management team increases a startup's chances of going public because they are typically better equipped to meet the demands of the public markets. (Basu & Wadhwa, 2013)

So, a number of overlapping factors at the firm, market, and investor levels influence exit decisions. According to the reviewed literature, market timing and fund lifecycle pressures seem to be particularly significant in practice because they have a direct impact on when venture capitalists can realise returns.

3.3 Theoretical Perspectives on VC Exits

The theories discussed in Chapter 2 explain the reasons behind venture capitalists' exit decisions.

The relationship between investors and venture capitalists is the focus of agency theory, which also addresses the alignment of the interests of the principal (investors) and the agent (managers). Venture capitalists are driven to select highly visible exit strategies because they have to show their limited partners that they are performing well (Jensen & Meckling, 1976). Young fund managers may rush to go public in order to establish their reputation in the "grandstanding" described by Gompers (1996), even though this may not be in the best interests of investors because waiting could yield larger returns.

The function of listing as a way to show external investors how good a company is is explained by signalling theory. Public investors are less uncertain when respectable

venture capitalists participate in the IPO process (Megginson & Weiss, 1991; Chemmanur et al., 2014). The success of a company's IPO sends a powerful message about the business and its leadership. The investor's reputation is enhanced by leaving at this point because it will be simpler to draw in quality investments later on (Hochberg et al., 2007).

The expenses of carrying out the operations are used in transaction cost economics to explain exit decisions. Investors are thought to be able to exit the market with minimal exchange and supervision expenses through an IPO (Williamson, 1981). When the company creates value through exchange or use by the buyer, the trades are typically sales to a strategic buyer. Cumming and MacIntosh (2003) claim that in addition to being simple or complex and costly, ownership transfers are also impacted by institutional and legal frameworks.

After combining all of these theories, it is possible to draw the conclusion that factors such as cost, reputation, and motivation have an impact on the decision to withdraw from an investment in addition to the desire for financial gains.

3.4 Empirical Evidence and Performance Outcomes

Exits have a positive effect on venture capital investment performance, according to empirical evidence. Strong investor competition and good market liquidity are indicated by high initial public offerings (IPOs). Fund's ability to balance timely exits with shifting market conditions is important to its success (Giot & Schwienbacher, 2007).

Trade sales are still a good way to exit a company if the market is not doing well. Cumming and MacIntosh (2003) say that trade sales can still be a good way to get liquidity and it provide more freedom to exit timing. VCs who use different exit strategies are more likely to have better outcomes. The use of different exit combinations shows

this. Investors gain information from both successful and unsuccessful cases (Wadhwa & Basu, 2013).

The success of an exit depends on many factors. These are fund structure, market timing and management experience. There is no one factor that explains an exit. It is also related to lessons learned. This shows that exit is a complex process.

3.5 Summary of Venture Capital Exit Literature

The main exit options offer different advantages. Options include IPOs, acquisitions, secondary sales and write-offs. The advantages depend on the market, company characteristics and motives.

Agency theory, signaling theory, and transaction cost economics helps understand how incentives, information gaps, and cost factors together influence exit decisions. It is important that the timing of the investment, reputation, strong network, and risk capacity are in order (Giot & Schwienbacher, 2007; Wadhwa & Basu, 2013). The next chapter is about CVC exits. It discusses the impact of strategic goals and organizational structures on exit behavior.

4 Corporate Venture Capital Exits

This chapter is about exits of corporate venture capitalists (CVC). First, the characteristics of CVC investing are described. Second, the most typical exit methods are discussed. Then, the factors influencing exit behavior are presented using theories. Finally, a summary is provided.

CVC does not focus only on pursuing financial profit. CVC investors also pursue new technologies by investing in new companies. They seek new ideas and markets. These can help the parent company expand and develop. Investments have both strategic and financial goals. The way CVC investors behave at various phases of the investment process is influenced by the combination of these goals. This is especially true when making exit decisions, where strategic advantages may take precedence over financial goals.

4.1 Overview of Corporate Venture Capital Investing

CVC is used by many businesses to keep up with emerging technologies and possible shifts in the market. Corporate venture capital refers to the direct funding of new startups by large corporations. These investments give businesses access to new ideas and technologies. These startups also provide them with new learning opportunities (Chesbrough, 2002; Maula et al., 2005).

Certain corporate venture capital divisions might function as nearly autonomous venture capital funds with their own decision-making procedures. The degree of autonomy has an impact on how strategic and financial goals are balanced (Maula et al., 2013). Some may have very different primary goals and performance. Others might have a close connection to the business development or research and development divisions of the parent company. Hsu (2004) says that money isn't the only thing that matters in the

relationship between investors and entrepreneurs. CVCs also give startups strategic resources.

CVC companies can plan their exits more freely and flexibly. They do not have to stick to time windows. The freedom of exit time can also cause problems when the company's strategy, budget or management changes. The exit decision may then be different (Dushnitsky & Lenox, 2005). CVC funds have to deal with more internal requirements than VC funds that are not linked to a company. They need to make sure that their exit plans fit with the parent company's plans and their own financial goals.

4.2 Typical Exit Routes for CVC Investors

The most common exit methods for CVCs are acquisitions and secondary sales. Exit options are IPOs, acquisitions, secondary sales, and write-offs. The parent company can adopt new technology in these exits. Learning new things helps to achieve its strategic goals and a better position in the market (Dushnitsky & Lenox, 2005).

Gompers (1996) states that IPOs are not very common for CVCs. This is because in an IPO the parent company would lose control of the startup. This reduces the use of IPOs as an exit route and CVCs prefer other exit strategies.

When a corporate investor sells its ownership to another investor, VC, or PE firm, it is called a secondary sale. This is used when the startup's technology is no longer useful to the parent company (Dushnitsky & Lenox, 2006). A secondary sale is a good exit option if strategic power has been weakened or already achieved

Write-off is a situation where the startup no longer brings value to the parent company. Written-off investments can still be educational and provide experience for the future. Chesbrough (2002) finds that companies' failed investments typically lead to better

knowledge of new technologies and market uncertainties among the companies involved. The future investment targets are also better known in CVC units.

4.3 Determinants of CVC Exit Strategies

The overall goals of the investment are what shape the exit strategies most for corporate venture capital investments. One of the most important things of CVC exit is the relationship between the startup and the parent company. Acquisitions frequently become a natural exit strategy when the startup's technology clearly supports the company's current strengths (Dushnitsky & Lenox, 2005). Corporate investors are more likely to use secondary sales or trade sales if this strategic relationship deteriorates with the firms. This highlights the central role of strategic fit in CVC exit decisions.

More autonomous units typically function similarly to conventional venture capital funds, prioritising profits. Strategic outcomes are given more priority by CVC units that are integrated into companies' R&D departments. Exit is also influenced by the CVC unit's structure (Maula et al., 2013). Park and Steensma (2012) stress that strategic investors must satisfy the demands of internal and external stakeholders. Corporate interests and image are frequently combined when making exit decisions. Exit strategies must strike a balance between a number of sometimes incompatible goals.

Strong strategic alignment can encourage businesses to bring successful startups into the organisation more quickly, while weak incentive systems can slow down exit decisions. Incentive programs and internal controls are crucial. It is often difficult to evaluate the performance of corporate venture capitalists, because they are typically assessed on both financial performance and strategic value (Wadhwa & Basu, 2013).

CVC investors can time exits based on company priorities rather than transient market fluctuations because they are not constrained by fixed fund lifecycles. It gives CVC more freedom to exit timing. But just because things are flexible doesn't mean they can ignore market forces. Although it differs from independent VC, market conditions also affect

CVC exits. Exit decisions may be accelerated or delayed by shifts in the competition, technological trends, or business strategy.

4.4 Theoretical Explanations: Transaction Cost and Strategic Learning Views

Two theories explain how corporate venture capitalists think about exits: transaction cost economics and strategic learning. Combining these theories makes it simpler to comprehend why CVC investors frequently favour trade sales and acquisitions as their exit strategy. These exit strategies allow businesses to retain the strategic value derived from learning while also reducing future expenses.

According to Dushnitsky and Lavie (2010), a successful venture capital program is one that skilfully balances the trade-off between discovering new markets and taking advantage of ones that already exist. Efficiency and strategic value may be realised at the exit moment. The transaction cost perspective states that businesses invest in startups to create new technologies, but they also want to minimise coordination costs. The company is likely to buy the startup when the advantages of complete control exceed the expenses of operating in the market (Williamson, 1981; Dushnitsky & Lenox, 2005).

Dushnitsky and Lenox (2005) argues that strategic learning perspective focusses on how businesses use venture investments to gain insights into new markets, technologies, and business models. An exit is frequently linked to the accomplishment of learning objectives or the application of knowledge within the organisation. According to Maula et al. (2005), the corporate venturing learning process is sequential, with each exit offering a new viewpoint that then influences innovation decisions.

4.5 Empirical Evidence and Performance Outcomes

Some research shows that too much strategic control can make it harder to be flexible and make decisions, which can lead to lower profits (Maula et al., 2013). Some studies indicate that investments in CVC companies can yield substantial profits when aligned with the company's strategy (Dushnitsky & Lenox, 2006). Empirical research regarding corporate venture capital investments in firms yields inconclusive outcomes concerning financial and strategic performance.

Park and Steensman (2012) say that CVC managers need to show the parent company how valuable they are strategically in order to gain trust and legitimacy within the company. Both are necessary for CVC companies to do well, both financially and strategically. Autonomous CVC units often do better financially because they can take advantage of market opportunities more quickly (Maula et al., 2005). From a strategic point of view, integrated units are usually more valuable because they make it easier for people to share information and can help the company come up with new ideas.

According to Wadhwa and Basu (2013), the ratio of exploration to exploitation determines how well corporate endeavours perform. CVCs can put too much focus on short-term strategic projects. This can make them less open to new ideas and less willing to learn from others. CVC can help businesses with money and learning. The most successful companies do this, and it's important to find a balance between strategists.

4.6 Summary of Corporate Venture Capital Exit Literature

Exits for CVCs allow learning for the parent company as technology, lessons learned, and knowledge can be put to the test. CVCs are more focused on strategy and have a more complex internal structure in the organization. Balancing strategic goals with financial returns is important. Acquisitions, trade sales, secondary sales and sometimes IPOs are possible exit routes for CVCs

Strategic value can be greater than transaction costs, and in this case firms internalize startups. This is explained by transaction cost economics and strategic learning theory. Empirical evidence suggests that effective CVCs can generate both economic and strategic benefits. (Dushnitsky & Lenox, 2005, 2006; Maula et al., 2005; Dushnitsky & Lavie, 2010). The differences between VC and CVC exit behaviours will be examined in the upcoming chapter.

5 Comparative Analysis of VC and CVC Exits

Both venture capital (VC) and corporate venture capital (CVC) investors have similar tools and investment mechanisms, but their goals, motivations, methods of making decisions, and results frequently diverge. The ways in which financial and strategic objectives impact exit behaviour can account for the variations. Decisions are also influenced by market conditions and organisational structure.

VC and CVC exit strategies are contrasted in this chapter. The primary parallels and divergences between exit goals and routes are first discussed in the chapter. After that, it looks at how these distinctions can be understood using agency theory, signalling theory, and transaction cost economics. The chapter concludes with a look of comparative empirical studies about the success of VC and CVC when exiting a company.

5.1 Comparison of Exit Motives

Gompers (1996) says that VCs often make visible and liquid exits. IPOs are the most visible sign of success. These exits also bring in money. They also show future investors that the VC is competent and knows what it is doing (Megginson & Weiss, 1991). The main goal of a VC is to get as much money back as possible to LPs during the life of the fund.

Investors in CVC have two motivation sources. They look for strategic advantages like market intelligence or access to new technologies in addition to financial performance (Maula et al., 2005; Dushnitsky & Lenox, 2005). How well the startup fits with the parent company's future plans often influences the way decide to exit. The company may choose to leave through a trade sale or acquisition once the main learning objectives have been met (Chesbrough, 2002).

The variety of goals makes it harder to exit for CVC. Most of the time, people look at the returns on independent VC funds to judge their performance. For CVCs, performance is

mostly judged by the combination of financial and strategic outcomes, which may not always be the same (Wadhwa & Basu, 2013). Because of this, CVC investors can put off exits or choose exit paths that are more about getting information than getting money quickly.

5.2 Exit Routes and Market Timing

The same exit strategies, for instance IPOs, acquisitions, secondary sales, or write-offs, should be available to both types of investors. Exit decisions and their timing are influenced by variations in the objectives and underlying motives. Financial and strategic priorities account for these discrepancies. These two categories of investors have very different exit strategies and motivations.

Because they frequently result in the highest financial returns and enhance the venture capitalist's reputation in the market, initial public offerings are typically preferred by venture capitalists (Black & Gilson, 1998; Giot & Schwienbacher, 2007). A successful IPO shows that the venture capitalist made a wise investment choice. The overall state of the economy and investor confidence have a significant impact on stock markets always. When it comes to the timing of their exits, venture capitalists are typically very cautious, primarily waiting for "hot markets" where liquidity and valuations are at their peak.

The most common exit method is M&A in CVC investments. It is often better aligned with the strategic goals of the parent company than other exit options. The parent company can directly benefit from the technology and expertise of the startup (Lenox & Dushnitsky, 2006). Maula et al. (2013) argue that compared to VCs, CVCs have fewer restrictions on the timing of exits. They are not as closely tied to the life cycle of the fund. Exits often occur to achieve internal strategic goals. CVCs are not dependent on market conditions at a specific moment. This flexibility may be good thing, but CVCs may become less careful with their finances as the outcome.

Investments in the CVC unit may be held longer than is profitable or makes sense. External investors do not put much pressure on the corporate venture capital units to sell their investments and therefore there is not much selling pressure. Dushnitsky and Lavie (2010) state that there is a conflict between learning and profit in this case. Companies may continue to cooperate with startups for strategic reasons and they may continue to cooperate for learning reasons. This can happen even if the financial returns are no longer increasing.

5.3 Governance and Decision-Making Differences

VCs use staged funding, close monitoring, and regular reporting to manage risk and plan exit strategies more properly (Hsu, 2004). These methods reduce Information asymmetry and encourage the pursuit of clear exit outcomes. Jensen and Meckling (1976) report that governance is clear in VC. It operates mostly on the basis of contracts and money. A lot of pressure for VCs is caused by the relationship between the CEO and the LPs. The pressure encourages the VC to make things happen over time. (Jensen & Meckling, 1976).

Maula et al. (2013) say that the decision to exit in a CVC can take a long time. CVCs have many levels and ways of handling things compared to VC funds is different. Many ways of handling things are needed, especially when financial and strategic goals are not aligned. Companies also have different reward systems and they also pay their employees differently than VCs. In CVCs, managers do not usually receive such large bonuses for exiting. This may make them less interested in quickly exiting investments. The operation of a CVC unit is tied to the parent company, which is a larger company. Investment managers in companies often have to report to many people at the same time and all these can have different expectations of results. They have to report to, for example, senior management, R&D managers and the board of directors.

If a company merges with a startup, they can exercise control and increase efficiency. According to transaction cost economics, CVC investors acquire startups when the

benefits of cooperation outweigh the costs of operating in the market (Williamson, 1981). Acquisitions are a common way for CVCs to exit the market for this reason.

5.4 Performance and Learning Outcomes

Better investment opportunities and more institutional support are easier to obtain if the VC has a strong reputation. (Hochberg et al., 2007). Giot and Schwienbacher (2007) report that VCs primarily measure success in monetary terms. Metrics include fund multiples and internal rate of return (IRR). Market timing and portfolio diversification are important factors in VC success.

According to Dushnitsky and Lenox (2006), CVC investments can bring different kind of value to the parent company. CVC investments must be strategically aligned with the company's objectives. Chesbrough (2002) says that if no financial returns are generated, value is generated by learning about new technologies or future markets. CVC sees returns as a broader issue and the benefits are not always seen as quick financial gains. Returns come from innovation, learning and new knowledge for the parent company.

Wadhwa and Basu (2013) argue that finding the balance between exploration and exploitation is difficult. Emphasizing money-making can lose the strategic aspect. Targeting strategy too much may not work well. This means that CVC can also be risky and there are many things that can go wrong. The CVC unit may be closed, change its strategy or the management may change before the results are visible (Maula et al., 2005).

5.5 Comparative Synthesis

VC and CVC exits have different mindsets and metrics to measure success. Their goals are different, but both also can use the same exit options. Independent venture capitalists are mostly interested in money, reputation, and the success of their investments. A good exit shows that they are good at their job and have earned money. Exits are not just about getting their money back. (Megginson & Weiss, 1991; Chemmanur et al., 2014). Exits are a way to show that the venture capitalist is doing things right.

The main objective of CVC is financial gains and the startup's fit with the parent company's future plans. The skills and knowledge that the startup can bring to the parent company are also very important. Exit is also affected by the company's internal coordination and the costs of various transactions (Williamson, 1981; Dushnitsky & Lavie, 2010).

People often use agency theory to explain why VCs care so much about money and incentives. At the same time, signalling theory helps us understand why having a good reputation and making successful exits are so important in venture capital. Then transaction cost economics explains CVC behaviour in a different way, because they care more about integration and internal processes. These theories explain different parts of the same thing, and when you put them all together, they show you why VC and CVC exits are so different.

Agency theory is widely used to explain VCs' goals. The incentives are money and reputation. Signaling theory explains the importance of reputation and successful exits for VCs. Transaction cost economics explains in a slightly different way. It cares more about integration and internal processes. Theories explain different parts of the same phenomenon. Together, they show the differences in the exits of VC and CVC

Comparison of venture capitalists and corporate venture capitalists:

- **Primary objective**
    - VC: Maximizing financial returns and liquidity.
    - CVC: Pursuing both financial returns and strategic benefits such as technological learning and market access.
- **Preferred exit routes**
    - VC: IPOs and rapid market-driven exits with high visibility and financial upside.
    - CVC: Acquisitions or trade sales help integrate the startup and support future company goals.
- **Time horizon**
    - VC: The lifetime of the fund is limited
    - CVC: Flexible timing because investments are not bound by a fund structure.
- **Governance and incentives**
    - VC: Strong incentives linked to results and contracts.
    - CVC: Financial and strategic incentives influenced by corporate hierarchy and internal stakeholders.
- **Reputation and signaling**
    - VC: Reputation from good exits and market visibility.
    - CVC: The signaling shows strategic value for the parent firm.

VCs need to deliver results quickly and CVC usually have more time. VC exits happen faster and are more affected by market conditions. CVCs can focus more on learning and internal goals. CVC exits take longer and are more focused on internal goals.

5.6 Summary of Comparative Analysis

Corporate venture capital and venture capital use a lot of the same exit options, but they don't think about them in the same way. Most of the time, normal VCs only care about

quick exits and making money for their funds. Corporate investors are more interested in learning new things and helping the main company in the long run.

Empirical evidence suggests that exits work best when timing is good, goals are clear, and the investment fits well with the strategy of the company (Dushnitsky & Lenox, 2005; Maula et al., 2013). The exit is typically not very successful if these elements are absent. We can better comprehend how various investors support the expansion of new businesses once we have a better understanding of this.

The thesis is concluded in the following chapter, which summarises the key conclusions, theoretical implications, and possible directions for future research.

6 Conclusions

The thesis aims to explain the differences in exit decisions between venture capital and corporate venture capital. The aim is to explain the financial and strategic differences in exits as explanatory factors for the variation. The aim of the thesis is to show how different types of investors approach exits differently. CVC investors often focus more on strategy and the startup's suitability as part of the parent company. VCs are mostly interested in financial returns and timing. The differences explain why VCs and CVCs often choose different exit strategies.

Exit behaviour is explained by three primary theories. Agency theory describes how investors use monitoring and incentives to direct and control entrepreneurs (Jensen & Meckling, 1976). It outlines why venture capitalists are under pressure to produce positive outcomes for their investors, which can often result in noticeable and timely exits (Gompers, 1996). In line with the signalling theory, exits, particularly initial public offerings (IPOs), provide public evidence of quality for investors and companies alike (Megginson & Weiss, 1991; Chemmanur et al., 2014). A theory called transaction cost economics, which looks into exits from a more pragmatic perspective, investors favour exit strategies that are cheaper to execute and easier to manage (Williamson, 1981; Dushnitsky & Lenox, 2005).

The fundamental objective of independent venture capitalists is to generate large financial returns in a short period of time. High fund returns are usually utilised to evaluate their success, and initial public offerings (IPOs) especially are thought to be the best exit strategy since they can generate large profits and showcase market success (Black & Gilson, 1998; Giot & Schwienbacher, 2007). Also, trade sales and secondary sales are employed, primarily in situations where IPOs are impractical and the stock market is weak (Cumming & MacIntosh, 2003). Reputation is crucial because VCs with solid networks and a solid track record typically exit the market more successfully (Hochberg et al., 2007).

Other than to working in large corporations, corporate venture capital investors look for innovations, new information, and technological advancements that could improve the main company's ability to compete in the future. So corporate venture capital exits differ from VC exits in that they involve more than just money or financial goals. (Maula et al, 2013). As a consequence, trade sales and acquisitions have become common exit strategies for CVC investors. These exits make it easier for the company to utilize the startup's experience or technology for its own operations. (Dushnitsky & Lenox, 2006). CVC units are not limited by the life cycles of the funds. It gives them flexibility in deciding when to exit. Tthis freedom is not only a positive thing. Internal company politics and changing tactics can influence decisions.

VC investors are more interested in liquidity and good performance. CVCs are more interested in strategy and learning new things (Chesbrough, 2002; Dushnitsky & Lavie, 2010). VCs have to prove results to external investors and have a limited time to exit. In CVCs, future innovation and development are just as important as financial success (Maula et al., 2005; Wadhwa & Basu, 2013). While CVC exits are slower and more determined by internal strategy, VC exits are usually quicker and more influenced by the state of the market.

None of the theories presented in this thesis can fully clarify exit behaviour on their own. The influence of control and incentives on exit timing is explained by agency theory. The significance of exits for credibility and reputation is explained by signalling theory.
The impact of costs, integration, and governance on exit decisions is explained by transaction cost economics.

The results of this study are also useful in real life. Entrepreneurs need to know that venture capitalists and corporate venture capitalists want different things. Traditional venture capital investors may be a better fit for startups that want to grow quickly and

make money when they leave. CVC may be better when a company wants to learn more about its industry or gain strategic partnerships. It is important to talk about exit goals early in the partnership . This will reduce problems later. The goals of the CVC unit must be aligned with the goals of the parent company.

Future research could include case studies or data analysis to investigate exit events. It could also be interesting to study the effects of sustainable investing on exit behavior. Venture capital and corporate venture capital are two different but related ways to fund new businesses. Their exit behavior shows what they really want to accomplish. Venture capitalists are more interested in making capital and building their reputation and corporate venture capitalists are more interested in strategy and learning. Exit also means the start of new growth, innovation, and knowledge creation in the economy.

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