Summary Results of Corporate Venture Capital Compensation Practices Survey

In the spring of 2000, Frederic W. Cook & Co., Inc. undertook a survey of compensation practices for employees responsible for the venture capital investing activities of their corporations. The survey intentionally excluded financial services companies (i.e., investment banks, commercial banks and insurance companies) that have long-standing venture capital and private equity investment activities and in which carried interest incentive plans and co-investment opportunities are prevalent. Instead, the survey was geared to non-financial service, industrial and technology companies where venture capital investments are growing rapidly. There is high interest in exploring whether or not special compensation arrangements are appropriate and how such might be designed.

Twenty-eight companies provided information on their compensation practices for employees responsible for venture capital investing. Nine of the companies, representing 32% of the survey participants, have carried interest incentives in place for their venture capital employees. Only two of these companies follow the traditional venture capital firm model of requiring employee co-investment in order to participate in the carried interest. Of the 19 remaining companies, representing 68% of the survey participants, that do not have carried interest incentives in place, ten companies (53%) have such plans either under development for implementation in 2000 or under consideration for future implementation.

Voluntary co-investment by group employees and/or parent company executives is currently permitted by six companies. Three of these companies have carried interest incentives and three do not. In all cases, co-investment is on an individual, ad hoc basis. None of the companies has a side-by-side fund for employee co-investment. However, three of these companies and six other companies have side-by-side funds under consideration for future implementation.

If all of the plans under development or consideration are implemented, the prevalence of special plans among the 28 companies would be as indicated below.

Compensation practices for corporate venture capital investment professionals are in their infancy. The competitive environment is similar to the financial services industry twenty years ago when special carried interest and co-investment practices began to be adopted by institutional firms in order to compete with the independent firms for talent. The apparent evolving direction is to adopt carried interest incentives without mandatory co-investment. There is interest in side-by-side funds for voluntary co-investment by group employees and/or parent company executives, but this practice will not be as prevalent as carried interest incentives.

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