

WHITEPAPER – EMPIRICAL STUDY
**CONFIGURATION OF CORPORATE
INCUBATORS**





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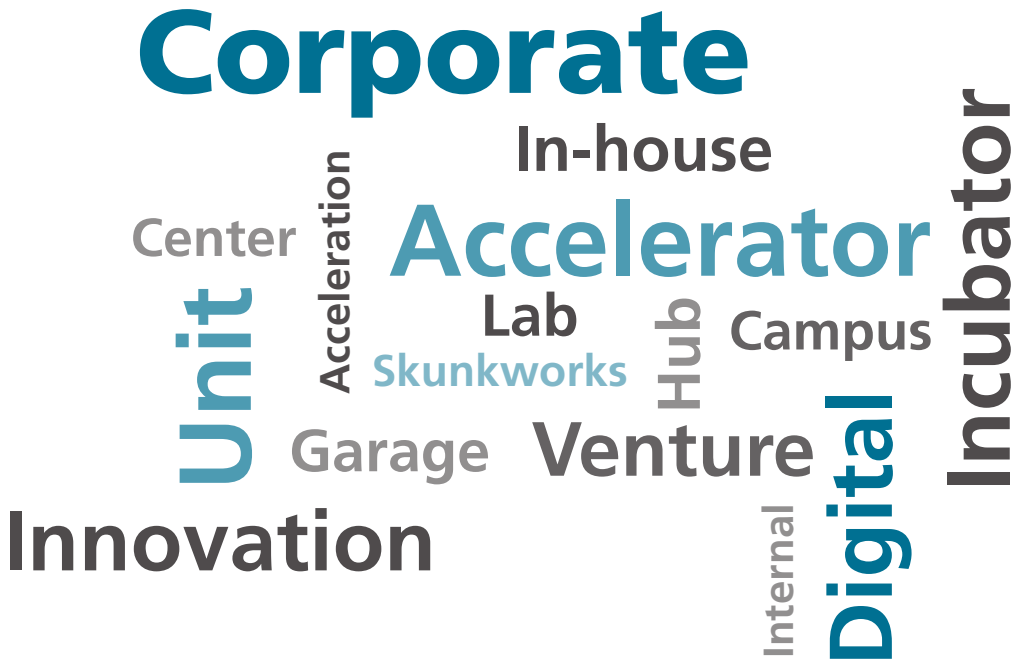
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INTRODUCTION

Corporate Incubators are separate development units of companies that serve as “Incubators” for radical innovations. Established companies want to combine the best of both worlds: the structured world of corporates designed for security and the creative-agile world of entrepreneurs and start-ups. Although the general interest in Corporate Incubators has never been greater than today, there are hardly any recognized best practices for their setup and operation.

In a practice-oriented interview study, the Fraunhofer Institute for Production Technology IPT developed a framework for the design of Corporate Incubators. Design options and success patterns were discussed with top-level managers.

The framework for the design of Corporate Incubators is formed by four design fields, which were analyzed in the study: thematic orientation, cooperation with the parent company, location and infrastructure as well as project management and start-up cooperation.



Innovation today requires agility and courage, because product results are more difficult to predict than ever. Megatrends such as digitalization are influencing almost all industries and questioning common revenue patterns. Due to the rapid changes in markets and technologies, companies are under pressure to act today: they are not only required to adapt their product portfolios, but also to question their own procedures in product development. Their task is to generate innovations more and more rapidly and not only by further developing their existing products. In addition, they need to develop completely new solutions that appeal to their customers and offer added value with new features and services. New technologies such as blockchain services, sensor systems or 3D printing open up new, unprecedented possibilities for product design. As technologies evolve, the business models behind them change at the same time, which is evident, for example, in the sharing economy trend. Companies that focus on the needs of their customers and bring products to market faster win the competition. How do they manage the balancing act of mastering their day-to-day business – continuing the success patterns of their past – and developing radical innovations for the markets of tomorrow at the same time? Established companies are meeting this challenge by setting up separate innovation paths in which they - beyond the existing structures and together with entrepreneurs - “breed” innovations. These instruments for radical innovations are called Corporate Incubators. They have the potential to add start-up-like development environments to the strengths of established companies.

How can Corporate Incubators, together with their links to the parent organization, be meaningfully designed? What needs to be considered in the strategic orientation? In addition to the current status quo, this study highlights future design options and identifies both current obstacles and success patterns of Corporate Incubators.

Study Design

The Fraunhofer IPT examined 72 Corporate Incubators in the study, with regard to the criteria location, company size, industry and legal form. The participating companies originate predominantly from German-speaking countries and are spread across almost all sectors and company sizes (see chapter “Status quo in Germany”, page 6).

In addition, 17 Corporate Incubators were examined in structured individual interviews. The interviews were conducted with managers of the Corporate Incubators as well as senior executives of the respective companies. These interviews served as a basis for anonymized case studies and show examples for the practice of strategic orientation and design.

WHAT ARE CORPORATE INCUBATORS?

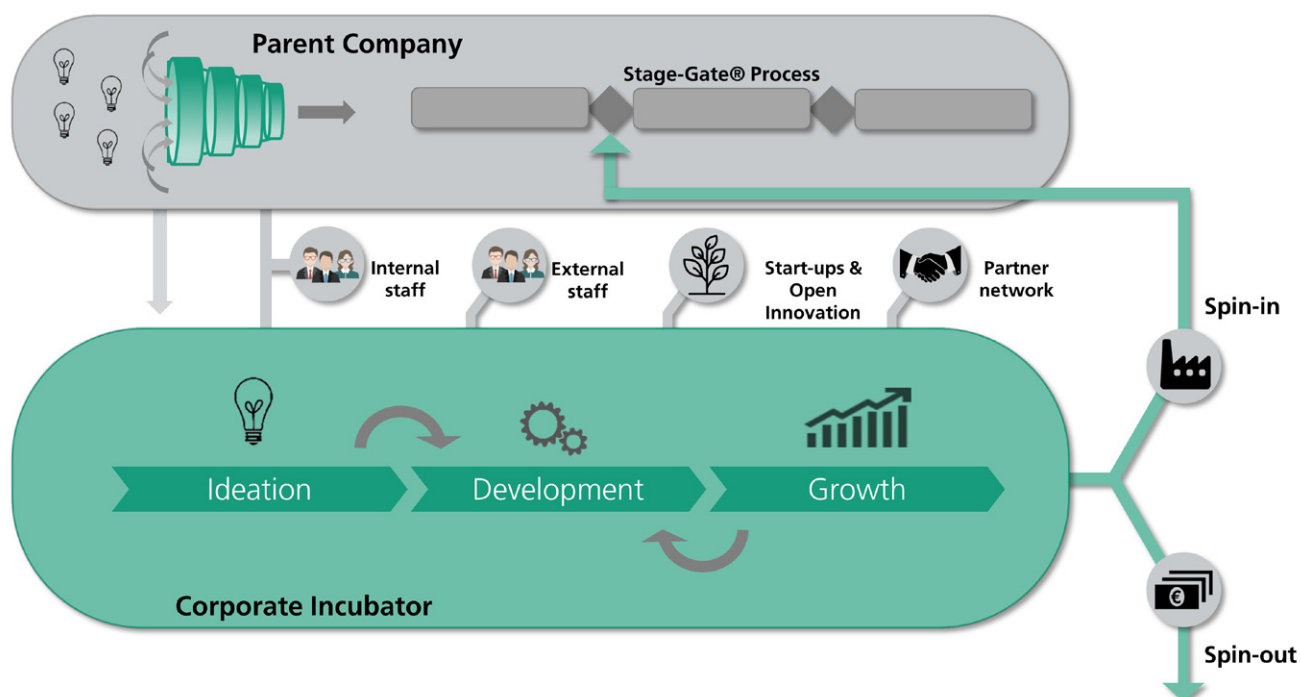
Corporate Incubators are separate business units that produce radical innovations for their parent organizations and drive them to market maturity. Even though companies have suitable structures to develop incremental innovations, they lack of radical innovations. Corporate Incubators offer a kind of “Incubator” in which radical innovations can “grow up” in a distinct development environment.

Corporate Incubators can be both internally and externally oriented. Internally oriented Corporate Incubators, so-called “Innovation Labs”, consist of the parent organization’s own employees. Their mission is to drive forward internal innovation projects that would be doomed to failure in the company itself - for example, new business models, disruptive

product ideas or innovations with conflict potential to the core business of the company. They work closely together with the company’s development departments.

Externally oriented Corporate Incubators also have the task of producing such radical innovations that would fail to be implemented in the company. However, they mainly rely on start-ups and work in a similar way to independent start-up incubators.

Irrespective of internal or external orientation, Corporate Incubators can take on very different forms - but the basic structure is usually the same (see graphic).



CORPORATE INCUBATORS: HYPE OR NECESSITY?

The meaningfulness of Corporate Incubators and related concepts is the subject of a controversial debate: Are Corporate Incubators merely a hype with which companies present themselves as agile, but then fail to deliver reliable, economic results? Or are they indispensable for the long-term success of a company, because companies are not in a position to innovate radically without them?

The answer to the question under which circumstances Corporate Incubators make sense is more multi-faceted in reality. Among the most important aspects that need to be considered are the size of the company, the innovation goals, the business environment, the existing processes, the corporate culture and the organizational setup of the company. For large companies, separate innovation environments have already become a standard in recent years. Thus, more than 70 percent of the DAX30 companies have established respective structures. In the SME sector, the diffusion is lower, but growing strongly. At the same time, there are examples of companies reducing their activities regarding Corporate Incubators. Therefore not only the question of whether Corporate Incubators should be implemented is important, but also of how they should be implemented.

In the expert interviews of the present study, the motives of companies for operating a Corporate Incubator and arguments against it were discussed. The expert interviews showed that the question of whether a Corporate Incubator makes sense, as well as the question of how it should be designed, requires a very specific answer respective to the company in question. The arguments for and against Corporate Incubators are shown in the graphic. At the end of the day this is a question of evaluation. Are there already structures and processes in the company which not only permit radical innovation, but also promote it?

Is there a culture that allows courage and failure tolerance? Do the existing processes allow agile development methods and continuous learning? Can the company as a whole react quickly when disruptive change occurs?

PRO

- Promoting entrepreneurship and start-up culture
- Creating catalysts and initiators for radical product ideas
- Encourage collaboration with start-ups and founders
- Testing new working methods and environments
- Emancipation from day-to-day business and existing processes in order to drive truly radical innovations forward
- Acceleration in product development
- Promote the image of an agile company and recruit new employees with a new attractive location

CONTRA

- Acknowledgement of the company that not all innovation goals can be achieved "under one roof"
- If the company succeeds with transforming into an agile and innovative organization, no separate innovation paths are necessary
- Many Corporate Incubators fail in practice and are buried after a few years
- Explicit, quantified costs stand against benefits that are not specifically quantified at first
- Increasing the complexity of the corporate structure

STATUS QUO IN GERMANY



Locations

The majority of Corporate Incubators are located in metropolitan regions and tech hubs - locations that are considered attractive for both start-ups and employees of the company. Regardless of the industry, companies prefer Berlin as their location, followed by Munich, Hamburg, Cologne and Stuttgart. However, international tech hubs such as the Silicon Valley, Tel Aviv and Boston also play an important role. When choosing a location, companies consider a variety of criteria such as other existing company locations or proximity to universities and customer groups (see section "Location and Infrastructure", page 12).

Distribution

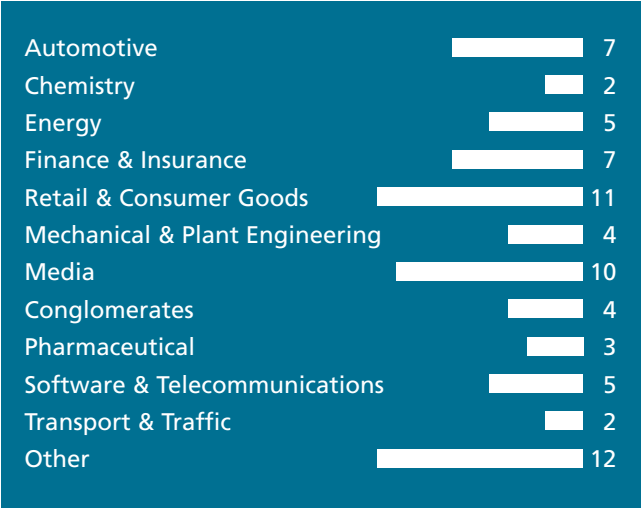
Ten years ago, Corporate Incubators were still a rare phenomenon for large corporations, especially in the German-speaking world. Today, more than 70 percent of DAX companies have Corporate Incubators of various characteristics.

"Today, more than 70 percent of DAX companies have Corporate Incubators."

Smaller companies are also increasingly counting on Corporate Incubators, although the distribution is lower. The smallest company examined in this study employs around 850 people.

Corporate Incubators exist in almost all industries (see chart below). While their basic design is the same across the various industries, each industry has its own trend topics, which are at the forefront of the orientation of Corporate Incubators (see section "Thematic orientation", page 8).

Verteilung der untersuchten Inkubatoren nach Branchen:



DESIGN FRAMEWORK

The design of a Corporate Incubator can be subdivided into four design fields that combine important design elements (see graphic). The four design fields to be designed can be defined by answering the questions “What?”, “How?”, “Where?” and “Whereby?”. Each of the design fields combine several design elements that need to be taken into account:

The question of “What?” refers to the thematic orientation: This is the work assignment of the Corporate Incubator, which is aligned with the goals and structures of the parent company. It includes the strategic focus, in particular the alignment in form and content. It must also be clarified which development phase the Corporate Incubator should accompany. Here, for example, the focus can be placed on early or later phases of product development (idea development versus scaling or commercialization). Finally, it must be decided whether the source of new ideas should be internal (employees), external (start-ups) or a combination of both.

The cooperation with the parent company affects all interfaces and points of contact between Corporate Incubator and parent company. This includes the Governance Model, which

describes the organizational anchoring, and the legal form of the Incubator. It also defines the access to corporate resources and preferred exit paths for innovation projects.

A further design field results from the location and infrastructure: These aspects set the framework for the environment in which the teams are to create innovations. The aim here is to anticipate daily working methods of the Corporate Incubator and to create an ideal setting for them. Location and infrastructure set important signals for the employees - but they are only two of many aspects that determine success.

The question of “Whereby?” triggers project management and start-up cooperation and creates a draft of how innovation projects should be promoted in detail. Here it is necessary to answer questions about the type and scope of funding and to determine the duration and financing of the project.

Thematic orientation

- Strategic focus
- Development stage
- Idea sources

What?

Cooperation with parent company

- Governance Model
- Legal / organizational form
- Access to corporate resources

How?

Project Management & Start-Up Cooperation

- Project financing
- Project duration
- Type and scope of funding

Whereby?

Location & Infrastructure

- Location
- Infrastructure / interior design

Where?

THEMATIC ORIENTATION

The thematic orientation determines how and to what content innovations are to be developed in the Corporate Incubator and can be understood as its work assignment. Three characteristics have to be defined: the strategic focus, the development phase and the source of ideas.



First, the strategic focus determines which markets are to be addressed by the Corporate Incubator. The strategic objectives of the parent company determine whether existing markets, diversification into new markets or a specific topic (e.g. digitalization) should be the objective of the innovation activity.

Corporate Incubators can also be used to design a development path to develop innovations that overlap with the company's existing businesses - or even cannibalize them - and are therefore difficult to develop internally. However, many companies seek a diversification in alternative markets that exhibit intersections to their current market in order to introduce innovations with their know-how. Others plan to expand their activities into a fixed, pre-defined cross-industry trends. Many companies encounter increasing digitalization with the help of Corporate Incubators in order to take advantage of innovation opportunities, find new business models and successfully integrate existing start-ups if necessary.

In the course of the thematic orientation it is also necessary to determine in which development phase a Corporate Incubator should support the innovation. Each market phase has its distinct requirements. While the brainstorming process can be supported by a general support program, a creative environment, coaching by experienced entrepreneurs or workshops, the actual development requires more individual and targeted support. During the commercialization phase, close cooperation with the parent company may be necessary or market entry can be planned, depending on the product. Large companies tend to offer different support programs or Corporate Incubators for the respective market phases.

In connection with the thematic orientation of the Corporate Incubator, the question of the source of ideas needs to be answered as well: Companies can rely on internal sources such as bottom-up innovations or on external sources such as start-ups and idea competitions. In practice, however, it often appears to be a combination of both (see chart).

The involvement of one's own employees is often achieved through the bottom-up innovation approach. This allows internal ideas to be identified, evaluated and selected. The feeling of "being able to make a difference" has a positive effect on the motivation of the employees. The focus on external sources of ideas has the advantage that an outside view is applied. Especially for completely new business models, it has been shown that start-ups can often be a valuable source of inspiration.

**Vision and Mission:
Clearly define the work assignment**

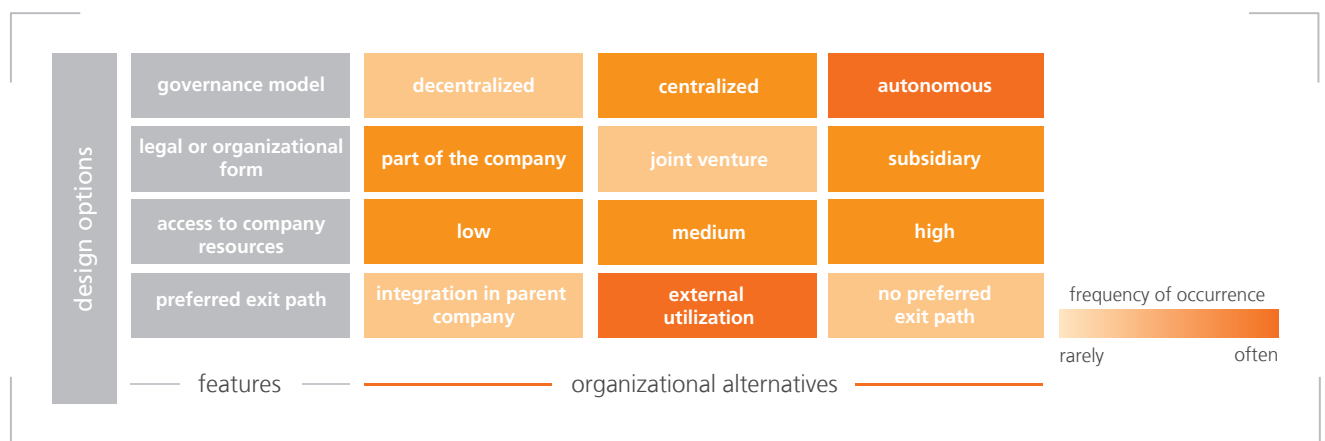
Just as companies set out their self-image and strategic goals in writing a mission statement, this also makes sense for Corporate Incubators.

The vision sets the long-term goal and should be realistic, but never too modest. The common vision serves the strategic alignment and motivation of the teams.

The mission defines the work assignment and mode of operation for the Corporate Incubator. A clear dissociation from existing development units of the company is important here, because it is not the aim to build a competing unit, but rather a complementary one. Since Corporate Incubators are often largely detached from the parent company's regulations, it is also important to define the permitted framework of action.

COOPERATION WITH THE PARENT COMPANY

The design of the cooperation with the parent company plays a central role in the design of a Corporate Incubator. Depending on the strategic corporate goals and thematic orientation, very different combinations of characteristics can be useful here: The governance model, the legal form, the planned access to company resources and the preferred exit path for innovations must be defined here.



The governance model has a decisive influence on the innovation projects and depends strongly on the existing structures of the company. A decentralized allocation of the Corporate Incubator to a specific business area is often found in diversified, large companies. The various divisions each have their own Corporate Incubators, which in turn are supplemented by central units such as "Corporate Venturing" or "Mergers & Acquisitions". A central connection exists when the Corporate Incubator reports to a cross-sectional department, such as the innovation management. However, the most common governance model is autonomous anchoring. The Corporate Incubator reports directly to the executive board and top-management levels. Central and autonomous anchorages tend to promote risk-taking and cross-divisional innovations during the project selection, as risks are borne by several business areas. Central or autonomous anchoring is also particularly

well suited for promoting common interface issues between different business areas (see chart).

The appropriate legal form must be chosen during the design phase. Corporate Incubators can be established either as legally independent subsidiaries (usually as L.L.C.), as a part of the company (newly created organizational unit in existing company structure) or as a joint venture together with other companies. The question of the legal form is closely related to the question of how much autonomy should be granted to the Corporate Incubator (see infobox, page 11).

The access to corporate resources granted to Corporate Incubators must also be clarified during the design phase. Even if it is often planned to actively integrate company resources such as experts, user data or production and test facilities, perhaps

even access to other specialist departments in the innovation process, this may present major challenges: Suitable staff often cannot be made available quickly and flexibly enough, because employees have little capacity in addition to day-to-day business. Especially experts and their superiors often perceive the support of innovation projects as unpaid additional work. Adapted concepts for internal cost allocation as well as a commitment of the superiors to innovation projects can help here.

The choice of the right exit path is decisive for the successful commercialization of the innovation object: In principle, integration into the parent company (e.g. transfer to an internal series development) or external utilization (e.g. spin-off, sale, licensing) is possible. However, companies often do not have a precise idea of the potential application options at the beginning of the development process.

The preferred exit path for the innovations is influenced by the strategic fit of the idea to the orientation of the parent company. The origin of the idea as well as the cooperation with the company during the development are of central importance for the choice of the exit path: For the integration into the parent organization, early involvement of the company's relevant stakeholders is necessary. In case of a purely external application, however, it would be a good idea to make the project development as independent as possible.

Legal form: Part of the company or L.L.C.?

The choice of the legal or organizational form has a strong influence on the external image, the contractual relationships with partners, the accounting, but above all on the daily work of the Corporate Incubator. Company practice shows that both the organizational anchoring in the parent company as well as the legally independent unit, usually as a L.L.C., is also widespread. The foundation of a L.L.C. offers the greatest possible autonomy in daily decisions to the Corporate Incubator. In addition, an independent legal form emphasizes the focus on profitability, since independence increases the responsibility for results. In addition, liability risks may be partially limited and company group requirements, for example in the area of purchasing or human resources, are avoided. In contrast to the L.L.C., there is a complex legal structure of the parent company, which often creates new challenges in accounting. A spin-off may incur additional costs due to redundant corporate functions.

The choice of the legal or organizational form must be made specifically dependent on the according company. The study shows, however, that large companies tend to spin off a L.L.C., while small and medium-sized companies prefer the Corporate Incubator to be anchored as a part of the company.

LOCATION AND INFRASTRUCTURE

The choice of location and infrastructure defines the working environment in which the Corporate Incubator is innovating. Here it is necessary to find the balance between proximity and distance. Geographical proximity between the Corporate Incubator and the parent company facilitates the exchange of knowledge, the joint use of existing resources and can increase acceptance within the company. On the other hand, geographical proximity stands in the way of the original purpose of the Corporate Incubator - to establish a separate, autonomous innovation environment.



The choice of location is a very company-specific decision, which typically includes strategic aspects, existing locations, but also politically motivated factors. The results of the expert interviews conducted show that the most important criteria are the attractiveness of the location for employees, the proximity or distance to the parent company, access to start-up ecosystems and proximity to universities. Building on this, the following four location categories were identified in this study (see chart):

A location selected nearby the company often appears in the form of new building complexes on or adjacent to the existing company premises. The constituent feature is the geographical proximity to the parent organization. A location close to the organization favors close cooperation with the parent company. This is particularly useful if the Corporate Incubator is not

only designed to create innovations, but also new approaches (e.g. "Agile", "Lean Start-up") and to bring cultural elements (e.g. entrepreneurship and failure culture) into the company. For cost reasons, smaller companies often choose a location close to their location which can be realized at favorable terms. Overall, however, geographically distant locations are more common, as they allow a high degree of autonomy and offer advantages in personnel recruitment and cooperation with start-ups through more attractive locations.

In research-intensive industries, research-related locations are often chosen. This choice of location is intended to promote cooperation with universities and research institutions and to open up a valuable source for future personnel through proximity to students.

Start-up hotspots are the most frequently chosen location category for Corporate Incubators. The aim of this choice of location is close cooperation with founders and start-ups. Start-up hotspots in Germany are located in major cities such as Munich, Cologne, Hamburg and Berlin (see chapter “Status quo in Germany”). In an international context, there are large hotspots in Tel Aviv, Boston, London, Singapore, Seattle and Moscow in addition to Silicon Valley in San Francisco. In order to attract start-ups, selected locations in metropolises with a distinct founder scene are enormously important. Such locations are usually attractive for employees, are close to universities and have good transport connections.

A newer form of site selection is the virtual Incubator. Virtual in this case refers to the fact that the Corporate Incubator is independent of location. It therefore does not have its own physical premises. Instead, project-specific rooms are rented in co-working spaces or other accommodations.

There is a wide spectrum of design options for equipping Corporate Incubators, ranging from laboratories for research-intensive applications to creative offices and production halls for the development of process innovations. The classification of the infrastructural possibilities in these categories is not always possible, since these only give a rough direction; nevertheless, the model is well suited for a general description.

In most cases, Corporate Incubators are designed as creative offices. These differ from classic offices in a number of characteristic features: Open space architectures create an open, communication-oriented interior design. In addition, spatial design can create stimuli for inspiration and creativity.

Prototypes and handicraft materials provide impulses for experimentation. It is important to plan exactly which purpose the Corporate Incubator should fulfil and which equipment is best suited for this purpose. The strategic orientation and the architectural implementation are therefore closely interwoven.

High-end lab or simple garage?

In the development phase of a Corporate Incubator, the planning managers are confronted with the question of what the premises should actually look like. This is not only an aesthetic question, but closely linked to the way the Corporate Incubator is to work and the external image to be drawn.

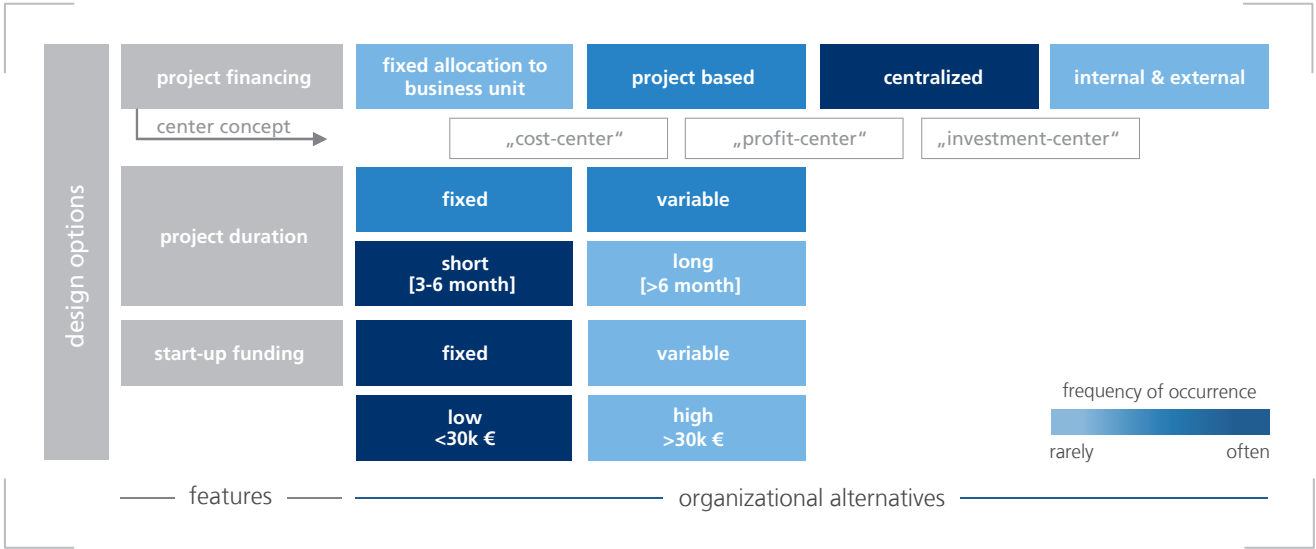
While the design of the working environment can demonstrably influence work results and working methods and serve as a “flagship” for the company, its influence should not be overestimated: Innovative interior design does not automatically lead to innovative employees. Architecture can set impulses, simplify work patterns and act as a tangible expression of the Corporate Incubator’s mission. A mere utilization of new, innovative-looking premises without the adaptation of processes, structures and procedures will, however, have little effect. This trap of the “resource myth”, the assumption that radical innovations require high investments, should be avoided at all costs.

“Innovative interior design does not automatically lead to innovative employees.”

In the expert interviews conducted, the interviewees emphasized a low level of acceptance in the parent company: Premises that appear too expensive cause displeasure among employees who do not work directly in the corporate incubator. They rate it as wasteful or perceive it as a sheer “playground”.

PROJECT MANAGEMENT AND START-UP COOPERATION

The core of the work of a Corporate Incubator is the work in innovation projects with internal employees and external partners. The design of project management and start-up cooperation defines the basic rules of project design for internal projects and for projects with start-ups.



The project financing determines where the funds required for the Corporate Incubator’s projects come from. The fixed allocation to a business unit, project-dependent financing and central project financing via a cross-divisional unit are possible options (see chart). The choice of project financing often follows the chosen governance model of the Corporate Incubator. If the Corporate Incubator is organizationally anchored in a business unit, it is usually financed by that specific business unit. This form of financing is particularly used in diversified, large companies. However, most companies choose a project-dependent or central project financing system. In the case of project-dependent financing, it is determined individually for each project where the required funds are applied for. In practice, these are often mixed forms, in which both individual business units and central offices contribute resources.

A purely central project financing usually follows a central or autonomous governance model: The costs incurred are regarded as overhead expenses and allocated to the entire company. A disadvantage for this central financing is the lower economic orientation, as overhead expenses are used, for which a lower cost sensitivity is expected in many companies. On the other hand, there is one advantage of the central project financing in the sense that long-term, high-risk and cross-divisional projects can be initiated which are usually avoided.

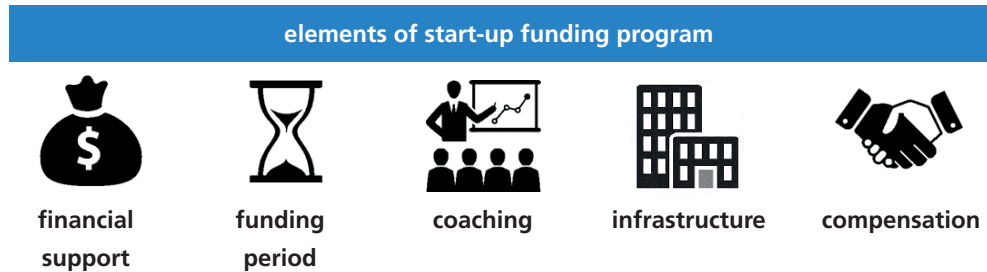
Typically, projects are short with a duration of three to six months. Insubstantial products such as apps and services are developed quicker than complex, physical products such as plants and machines. Regardless of the type of project, the

aim is to achieve the shortest development periods possible and to work with fixed deadlines instead of predefined targets (“time-boxed mode”). This method of working can help prevent excessive perfectionism (“over-engineering”) and accelerate product development, especially in technical product design.

With the maturity of the start-ups, the costs for the cooperation grow strongly. In exaggerated terms, the cooperation with start-ups in their start-up phase is comparable to a student competition, whereas in the case of start-ups from the “Mature/growth” phase it is more like buying a company.

The core elements of a start-up funding program are financial support, a funding period (typically 3 to 6 months), an infrastructure (offices, machinery, access to experts), coachings (training, mentoring and networking) as well as shares for the funding. Support programs for Corporate Incubators are therefore very similar in structure to independent start-up Incubators. However, in addition to purely financial targets, there are also strategic targets such as competence building, personnel recruitment, strategic company acquisitions or new external impulses.

An important consideration for cooperation with start-ups is the question of their maturity. There are three simplified categories: Founding (funding enables foundation), “Early/ Seed” (early development phase, negative returns) and “Mature/ Growth” (maturity phase, positive returns).



Many companies insist on shares of the start-ups in return for their inclusion in the Corporate Incubator. Especially for start-ups, however, the idea of selling company shares at such an early stage of development as the ideation phase strikes aversion. Many Corporate Incubators meet this aversion with a form of “no strings attached”-funding without compensation (also known as “pizza money” or “play money”). However, even in these cases, the goal of long-term cooperation is often retained in a cooperation agreement.

Funding without start-up shares is controversial because effective success controlling is difficult here. The fundings are therefore usually limited to smaller amounts of less than 20,000 €.

What is what? Accelerator vs. Incubator

The distinction between Accelerators and Incubators is difficult because both terms are often used synonymously. The Accelerator is a further development of the Incubator, which was only designed at the beginning of the 2000s. Some characteristic differences are listed below.

Accelerators are focused to promote the development phases of start-ups. Therefore, the entire funding program with a fixed scope standard start at defined times (“batches”) and focus on a short, fixed duration (approx. 3 months). Additionally to financial funding, intangible elements such as coaching, mentoring, networking, pitch and management training support the involved start-ups.

Incubators support start-ups throughout their life cycle. They often offer them an individual and longer funding period (at least 6 to 12 months) than accelerators. In comparison, they usually focus on infrastructure and financial funding. Networking and coachings often take place, but play a subordinate role.

SUCCESSFULLY DESIGN AND OPERATE CORPORATE INCUBATORS

While many Corporate Incubators are a complete success, others fail in the first years of their existence. It is important to understand which measures lead to success and which errors must be avoided. In the expert interviews conducted, obstacles as well as solution strategies and success factors were discussed. The following three aspects describe the most common obstacles for Corporate Incubators:

Lack of acceptance in the parent company

“No functioning cooperation”

Radical innovations do not emerge as “one-man-shows”, but from the successful cooperation of interdisciplinary teams. The parent company and Corporate Incubator are dependent on each other. However, the creation of a separate innovation unit can lead to acceptance problems, as the Corporate Incubators can be perceived as a competing unit by the employees of the parent company. If there is no acceptance in the parent company, the cooperation does not work and the Corporate Incubator is slowed down. In practice, this leads to the “not-invented-here-effect”, especially during the spin-in, because product ideas are sensed to be foreign. Innovation projects can therefore fail when transferring from the Corporate Incubator to a business unit that takes over or supports further development.

Solution Strategies

- **Top-level commitment**

A strong involvement of the top management of the parent company signals commitment within the company. The top management has to convince that both the parent company and the Corporate Incubator are necessary for long-term success. The top management in particular has a major influence on the communication channels (intranet, press

conferences, events, getting acquainted with the Incubator) and the corporate culture and can thus increase acceptance among employees. With the clear backing of the company's management, the Corporate Incubator can also act with assertiveness in difficult projects.

- **Close integration of the relevant business units from beginning on**

A close involvement of the business unit, which will later be responsible for bringing the innovation to market maturity, prevents the “not-invented-here-effect.” Prejudices are eliminated by involving the relevant business units from the moment the ideas are put into concrete terms. It is more a case of discussing framework conditions and exchanging ideas than delivering bulked processes into the business units and thus slowing down the agility of the Corporate Incubator. Too close integration of corporate units can also lead to a “buy-in effect”: If too closely involved, the units involved become part of the Corporate Incubator and put down their role as viewers or internal customers.

- **Intensive communication and internal marketing**

- **Garage instead of high-end lab**

Lack of emancipation from day-to-day business

“Not making the jump”

Radical innovations require accelerated, agile procedures and a culture that promotes entrepreneurship. In addition, they need different environmental conditions than the classic day-to-day business, which is geared to safeguarding the status quo, efficiency and error prevention. In practice, however, this emancipation from day-to-day business is often a challenge, especially for small and medium-sized enterprises, as they do not necessarily have the resources to set up a completely separate environment. As a consequence, they often use the same premises, take over the existing processes and employees are only released part-time from existing activities for the tasks of the Corporate Incubator. These points are not negative per se; in combination with the “force of habit”, however, they often fail to lead to actually separate, autonomous innovation paths. Too much proximity to day-to-day business can then be fatal for the Corporate Incubator

Solution Strategies

- **Physical separation from day-to-day business**

The experience of the interview participants shows: New ways of working require new environments. Corporate Incubators do not function as purely virtual organizational units without their corresponding premises. However, this does not mean that a location with a geographically large distance is the solution. Even a separate floor, hallway or room can be enough of an isolation from the day-to-day business. Even in a part-time solution, be it in sprints or weekly, the Incubator-time of an employee should be spent in the respective environment in order to create a focus on the innovation projects of the Corporate Incubator.

- **(Special) rules that determine how the Corporate Incubator works**

Autonomous, flexible working methods are the basic prerequisites for the agile development of radical innovations. The processes and rules of a Corporate Incubator are therefore designed to facilitate speed and flexibility and to enable employees to perform at their best. This is often contradicted by the processes of the parent organization, which are designed for cost optimization, planning and quality assurance. These processes also have their *raison d'être*, but in the specific case of radical innovations they are very obstructive. The “balancing act” between the rules and processes of the parent organization and those of the Corporate Incubator is one of the biggest obstacles in practice. However, such “special arrangements” are necessary - especially in the areas of human resources (flexible working hours, hiring criteria and processes for employees, exceptions from company-wide hiring freezes) and purchasing (flexible purchasing of prototype components, individual budgets).

- **Avoid more than one job (“split heads”)**

- **Formulate a clear mission statement that defines the work assignment and the way it is to be carried out**

Many new ideas, but no successful implementation

“A lot of show, few results”

Radical innovations rarely fail in practice due to a lack of ideas, but rather because of improper implementation. One of the greatest challenges lies in the design of the Corporate Incubator: Not only ideas, impulses and concepts should originate from it, but tangible results in the form of prototypes and reliable market successes. At the latest one to two years after its formation, quantifiable economic success is expected from a Corporate Incubator. A cardinal error committed by some Corporate Incubators is the alignment as a pure “idea workshop”. The mistake arises from the conception that the Corporate Incubator should generate ideas as the main task, which then go on to being implemented elsewhere. The problem here is the transfer of ideas, in which not only information is lost, but also motivation (“not-invented-here-effect”). If ideas are passed on too early, “inertial forces” and corporate policy factors prevent the implementation of innovations from the start.

Solution Strategies

- **Orientation as “Incubator” instead of “idea workshop”**

While idea generation also has an important place in a successful Corporate Incubator, the main focus should lie on the development and implementation of ideas (orientation as an “Incubator”). Only effectively implemented results will ensure the necessary acceptance of the employees of the parent company. In addition, the results of the Corporate Incubator should be validated as an integral part of the procedure, i.e. in a suitable form to be experimentally tested on reality.

- **Avoiding the “analysis trap” and creating enthusiasm through tangible results**

Corporate Incubators should avoid the “analysis trap” in any case: An overly precise analysis of innovation ideas before testing them in small experiments and prototypes. Especially radical innovations can rarely be derived purely analytically. The credo is therefore “make it tangible”.

- **Strive for consistent responsibilities and avoid many handing overs of ideas or projects**

CONCLUSION

Corporate Incubators are still a relatively recent phenomenon in established companies, but increasingly spread in almost all industries. The most popular locations in Germany are Berlin, Hamburg and Munich.

Among the most common reasons for the failure of Corporate Incubators are the lack of acceptance within the parent company, a lack of emancipation from day-to-day business and the inadequate implementation of innovations.

“Ideally, Corporate Incubators combine the best of both worlds”

Through a separate path for radical innovations, companies can realize novel, disruptive business ideas without sacrificing their proven strengths and classic development processes.

Ideally, Corporate Incubators combine the best of both worlds: The structured world of established companies, fitted to incremental innovations, with the creative-agile, sometimes chaotic world of entrepreneurs. With this combination, they successfully advance the development of radical innovations.

However, the results of this interview study also show downsides. Thus, several of the examined case studies manifest significant restructurations of the Corporate Incubator, as composed goals were not achieved in the past couple of years.

Corporate Incubators are more than just a temporary hype, since the simultaneous mastery of the daily business and the development of radical innovations require different organizational conditions. Corporate Incubators can solve this problem and generate a successful development path for radical innovations, which many companies otherwise do not

“Critical for the success is above all the establishment of acceptance within the parent company, emancipation from day-to-day business and the actual implementation of ideas”

succeed in. However, care must be taken in the design. The variety of existing Corporate Incubators shows that the design requires a company-specific adaptation. There is no universal sample solution for this, however some success factors which can serve as guidelines for the design, could be identified in this study.

“The biggest challenges of the digital change for established companies can only be tackled successfully in separate units”

In some of the companies surveyed, the Corporate Incubator initiatives have led to inadequate results, therefore were completely abandoned and restarted at a later time.

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Configuration of Corporate Incubators

Study Fraunhofer IPT

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