Corporate Venturing as a Major Corporate Strategic Initiative

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Abstract

This paper reviews selected literature on internal corporate venturing in order to help build a venture management framework for scholars as well as managers. It includes a discussion of the various definitions authors have proposed, corporate venturing success drivers, and the different internal corporate venturing processes used by companies. We also identify several best practices for ensuring a successful internal corporate venturing project via a diversified venture portfolio that considers both risks and rewards. We also identify some of the qualities that team leaders and team members often exhibit to ensure that ventures are successfully managed. We also note that many internal corporate ventures are not successful. However, without risk-taking and initiating new ventures, companies are unlikely to experience success in their major innovation initiatives. Our paper presents current theoretical and managerial thinking about what it takes to successfully initiate and manage new corporate ventures.

Key Words: Corporate venturing, internal ventures, innovation, business and market development.
1.1 Introduction and Overview

1.2 Internal corporate venturing (ICV) strategies are intended to help large firms diversify through product and process innovation. Roberts points out that, among new venture strategies, ICV requires the highest degree of corporate involvement and is characterized by “situations in which a company sets up a separate entity within itself—an entirely separate division or group—for the purpose of entering different markets or developing radically different products” (Roberts 1980, p. 136). These groups usually have a significant degree of autonomy with respect to the firms’ operating divisions (Hill and Hlavacek 1972; Vesper 1984) and they may even possess their own marketing and R & D capabilities (Hisrich and Peters 1986). Von Hippel, among others, notes that such venture groups are usually headed by “venture managers” responsible for developing major new products and/or new businesses (Von Hippel 1977).

1.3 Today’s companies face dynamic environments that often necessitate entering new areas. These market and technological areas may be so different from a company’s current markets that its typical procedures for introducing products may not apply. The firm’s existing structures, policies, and practices simply may not fit the new area.

1.4 Our article seeks to extend the field’s current understanding of the role internal corporate ventures play in organizations. The objectives of our paper, therefore, are to examine the major studies that focus on internal corporate ventures and to develop an explanatory framework of the internal corporate venture process based on prior research.

2.1 Background

2.2 Why companies employ venture groups.

2.3 Why do firms pursue ventures when the process can be problematic (Block and MacMillan 1993)? One explanation stems from work pioneered by Penrose (1959). Her central thesis was that firms differentiate themselves on the basis of uniquely combining input resources to yield outputs (McGrath 1995). This idea has led to a growing literature focusing on relatively special and idiosyncratic firm attributes as a major basis for competitive advantage (see Conner 1991; Peteraf 1993). The most important of these attributes are often termed “competencies,” and are defined as path-dependent accumulations of assets, skills, and know-how (Teece, Pisano, and Shuen 1991) which allow a firm to accomplish its purposes. Advantage is achieved when a firm possesses “distinctive” competences (Selznich 1957). Such competencies allow firms to earn above-normal returns (McGrath 1995).

2.4 In competitive markets, no advantage will last indefinitely. The reality is that competitors will mobilize to eliminate advantage by creating or acquiring new competencies of their own (D’Aveni 1994). This suggests that it is imperative for a firm to be able to generate new capabilities in order to renew its own competitive advantages (McGrath 1995).

2.5 Similarly, Burgelman (1983) notes that venturing is ones of the core processes through which existing firms acquire valuable new competencies. All of these reasons ultimately add up to the major point that without innovation, most firms fail.
2.6 Companies can realize significant benefit for their businesses by creating new ventures. Some corporate ventures, such as those recently employed by AT&T’s, provide new customers with new product and service offerings. Others, such as FedEx’s recent developments, capitalize on consumer behavior and use online interaction to redefine the notion of customer intimacy. Many build new distribution channels for old products, while others serve the entirely new customer bases that are dramatically changing current economic models. Still others extend the benefits of existing products to new segments of the market through electronic means (Saj-Nicole, Bell, and Mason 1997).

2.7 These internally generated ventures are based on new technologies that seek to create new products and services—and new levels of value—for new and existing customers. Companies that sit on the sidelines while competitors and start-ups play the venture game risk eroding their market shares and, in some cases, eventual obsolescence (Saj-Nicole, Bell, and Mason 1997).

3.1 Examples of Corporate Venturing

3.2 One example of internal corporate venturing can be seen in the following Johnson & Johnson example:

3.3 Last year, while a small unit within Johnson & Johnson’s Ethicon Endo-Surgery tools business was brainstorming about how to design a better surgical clip, a team of seven scientists and engineers fanned out to buy as many clips of any type as they could find. They grabbed a motley collection – more than 100 of them - from Wal-Mart Stores, Home Depot, and other local hardware and hobby shops. Those clips now hang on a big board in the group’s warehouse-like research and development offices outside Cincinnati. “The idea was to free [the team] up,” says Dr. Harlan Weisman, chief science and technology officer for Johnson & Johnson’s device and diagnostic unit. Let them be like kids and maybe they’ll come up with a nifty solution (Barrett 2006).

3.4 The above is one example of how the 120-year-old company promotes innovation in its increasingly important medical device business. By using approaches like these, Johnson & Johnson executives are able to replicate the fertile and fast-moving venture capital world, creating internal start-ups that hunt for financing among other Johnson & Johnson units in the same ways they would if they were independent. Johnson & Johnson also wants greater input from doctors and insurers to guarantee that it knows exactly what devices customers will want – and what sort of data they will demand before using them (Barrett 2006).

3.5 Another example can be seen in the Teleflex’s New Venture Fund. Teleflex, a 3,600-person engineering and manufacturing company located near Philadelphia, needs to consistently develop new, highly specialized products for its complex, ever-changing markets – automotive, aerospace, and industrial. More than 15 years ago, Teleflex created a “new ventures fund” to help any employee with a potentially profitable idea to obtain funding outside normal budgetary channels in order to pursue it. The hallmark of the fund is its informality. No lengthy financial justifications are required; a one or two
Page memo describing the idea, its potential, and its initial funding requirements is all an employee needs to obtain anywhere from $1,000 to $200,000 in new venture funding.

3.6 The fund is replenished annually by each operating unit, which contributes 0.5 percent of its revenues; this creates a modest incentive for those units to recoup their contribution by coming up with the sorts of innovative ideas for new products or processes that might serve them. The emphasis of Teleflex’s “new venture fund” is on the word “new.” Extensions of existing product lines or other natural evolutions of current work are not funded.

3.7 Essentially, Teleflex operates the new venture fund as a way for internal entrepreneurs to obtain “risk-free” money to pursue their ideas. During a five year period, 46 major new-venture programs were funded, resulting in 15 new product lines, two new processes, three new facilities, and numerous patents (Kanter, Ingols, Morgan and Seggerman 1987).

4.1 Drivers of Corporate Venturing Success

4.2 Mason and Rohner (2002) cite twelve areas or categories of analysis that can help characterize any venture. These dimensions include the venture’s platform, product or service, delivery, business plan, marketing, business development/sales, CEO, team, board, cash, financing, and control or operations. While all actions in these dimensions relate to each other as the venture develops, the venture team needs to analyze progress in each dimensions independently to reliably define and calibrate its performance (see Figure 1) (Mason and Rohner 2002). Figure 1 represents these twelve dimensions of a corporate venture, each of which falls within one of four areas: product, market, finance, and people. The idea behind this framework is to help ensure that each dimension of a new venture is correctly defined and measured. Using this model helps early-stage ventures make progress and stay on track toward a successful conclusion.
5.1 What is Venturing’s Track Record?

5.2 Most companies have tried some form of corporate venturing, and most companies have failed at it. So why do they venture? And why do they fail? They venture because it can be an effective tool for innovating; they fail because they may not know how to do it right. These answers lead to another question: If corporate venturing is so difficult to do well, why don’t large, established companies simply stick to their core businesses and acquire new capabilities once others have developed them? Quite simply, those who wait to buy innovation “off the shelf” will often lose the opportunity to use break-through technologies to revitalize their own core business and create competitive advantages. This is a key argument for venturing, and it is why venturing often needs to be part of a larger corporate strategy (Mason and Rohner 2002).

5.3 Performance measurement, especially during the early stages of development, is extremely tricky. Most corporate managers are accustomed to using relatively unambiguous performance measures such as revenues, costs, profits, growth rates, market share, and market value, but these measures can be misleading or simply fail to work for new ventures or new venture programs (Mason and Rohner 2002). However, without usable performance measures it can be difficult for companies to evaluate the success of their ventures. Many ventures take five years or more to turn a profit. Unfortunately, due to this slow development, many companies will cut a venture before it has a chance to become successful. Performance measurements need to be established in order to give companies an idea of how their venture is doing at its current stage of development.

5.4 Only one in ten venture investments is likely to be a runaway success. Two in ten will provide a normal return. The rest fail. That means a company’s first venture will
have a 70 percent chance of being unsuccessful (Mason and Rohner 2002). If companies were aware of the failure rate of ventures, many might become discouraged, thinking that venturing is too risky. But in reality, it is risky for a company not to innovate and venture – without innovation, many companies cannot remain in business. At the same time, ventures often fail, and considerable evidence suggests that disappointments often occur during the venturing process (Porter 1987). It is not rare for an ICV to encounter problems. For example, RCA, CBS, DuPont, TRW, and Gulf & Western discontinued from 70 to 100% of their ventures (Porter 1987). Exxon Corporation’s shale oil venture lost $4 billion (Block and MacMillan 1993).

5.5 Some companies, however, have a real knack for venturing. Minnesota Mining and Manufacturing Company (3M) kept 97% of the ventures it formed in the 1980s. Starting with a venture to produce sandpaper that works underwater, 3M’s ventures have generated numerous products ranging from Post-It Notepads to street sign reflectors (Mitsch 1990). ICVs like 3M’s can accelerate new product development, re-energize employees, change competitive approaches, promote risk taking, and improve financial performance (Jolly and Kayama 1990; Garud and Van de Ven 1992). In instances like this, a company can benefit enough to compensate for its failures.

6.1 Venture Processes

6.2 The actual processes of corporate venturing are not well understood, largely, because these processes are complex and difficult to research. While large, diversified firms are clearly not representative of firms in general (Aldrich 1979), they represent such a large proportion of the total industrial activity in developed economies that efforts to construct a theory of corporate entrepreneurship appear valuable (Arrow 1982).

6.3 A model is useful to elucidate the “generative mechanisms” of corporate entrepreneurship (Pondy 1976). This model indicates how the entrepreneurial activities of individuals combine to produce entrepreneurship at the corporate level, as well as how forces at the level of the corporation influence the entrepreneurial activities of these individuals (Burgelman 1983).

6.4 During the venturing process, ideas need to be managed efficiently and effectively. Mason and Rohner (2002) created a framework to assist companies in managing the flow and management of ideas (see Figure 2).
6.6 Ideally, the venture pipeline should be as wide as possible at the entry point, to allow an unrestricted flow of ideas. But it must become narrower thereafter, so that the team can focus on those proposals that address the company’s strategic and financial priorities. The team should subject every idea or suggestion to a three-part examination, asking these questions:

- What strategic value would this idea bring to our business?
- Can we do it?
- Can we profit from it?

Figure 2 also illustrates how these questions can serve as progressively narrower filters for idea screening in this pipeline (Mason and Rohner 2002).

6.7 If the primary purpose of venturing is to yield new competences, how should progress be assessed (McGrath 1995)? A useful starting point is to consider the criteria

upon which eventual success will be judged. Measures such as profits and market share are well accepted and widely used (McGrath 1995).

6.8 Saj-Nicole, Bell, and Mason (1997) note that every internal venture is composed of five major stages: concept, seed, internal venture development, market realization, and internal venture maturity. Each of these stages has a different management focus, different checkpoints for continued funding, and different corporate relationship issues. A summary of these stages follows (Saj-Nicole, Bell, and Mason 1997):

1. **Concept.** This stage can take anywhere from a few days to several months. Its critical checkpoints are a business idea with a compelling value proposition, clarity about the financial opportunity and the business plan model, a market-entry strategy, and a viable venture platform. The corporate relationships for the venture are defined as the key relationships the team creates and nurtures with the rest of the company and the corporate assets the team will want to exploit. At this stage, the intent and the strategic fit of the internal venture are explained to senior management. Additionally, the roles and relationships of the venture executive officer and venture general manager are defined.

2. **Seed.** The new business is designed and simulated in this stage, which lasts, on average, from two to nine months. Management seeks to validate the uniqueness of the business model and the value proposition for its target markets. It is critical that the technological feasibility of the venture is fully tested at this stage. Checkpoints include the viability of the business model and relevant technologies, sound financial projections, appropriate operating control, and validation of the value proposition and target market. Alignment of the venture’s business plan with the corporation’s overall strategy is critical to success. Gaining the support of the venture’s board members is another of the corporate issues that should be addressed at this juncture.

3. **Venture Development.** This stage usually lasts between three months and a year. It has four major phases: (a) hiring the rest of the venture team, who will develop detailed product specifications and plan the design project; (b) designing, simulating and building the product into operational prototypes; (c) integrating and alpha testing (internal testing); and (d) beta testing (field testing the entire business system and readying the new business for launch). Checkpoints at this stage should establish a working and field-tested product and the validation of customer positioning, value proposition, profit model, and operating capability across the venture. Corporate relationship concerns include sales support of target customers, company support for establishing linkages between the venture platform and company operations, and management alignment on the venture’s development plan, including the demands it will create on company operations.

4. **Market Realization.** In this stage, the business model gets its first dose of marketplace experience. The venture must prove its ability to produce multiple versions of the produce and even start multiple, complementary product lines. The duration of this stage is typically between six months and three years. Its goals are to fine-tune the business model based on...
marketplace feedback, to seek additional market segments, and to build the platform for launching subsequent products. The three major phases are: (a) calibrating the market, (b) expanding the market, and (c) achieving business sustainability. Its checkpoints are success in launching subsequent products, the development of a new-product pipeline, an improvement in operating results, and a demonstration of operating and fiscal control. Corporate interop issues include gaining alignment on the strategy achieving venture maturity and rationalizing the venture with the corporation’s strategy.

5. **Venture Maturity.** In this last stage, venture and corporate management decide what to do with the new business they have created. Should it be absorbed into the rest of the organization, spun off, placed in a new division, or run as a joint venture?

6.9 This breakdown of the process into stages is important, because it gives the company a common language, management framework, funding framework, and shared understanding of the venture process. These components greatly increase the likelihood of successful venturing. Thus such an explicit understanding of the venture process can help senior executives chart the future and develop major new businesses (Saj-Nicole, Bell, and Mason 1997).

6.10 Burgelman’s (1983) classic study identified four stages of ICV development – a conceptual, a pre-venture, an entrepreneurial, and an organizational stage. Burgelman’s (1983) study also examines the relationship between project development and business development, showing how new organizational units developed around new businesses become integrated into the operating system of the corporation either as new freestanding divisions or as new departments in existing divisions. Table 1 depicts the number of projects observed for each of the above stages in this study.

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7.1 Venture Strategies

7.2 The primary reason to end ICV programs is their failure to deliver. But if corporate venturing programs are typically closed before they have had a chance to prove themselves, other reasons than mere performance may be involved. Recent studies of various forms of corporate venturing shed interesting new light on the role of performance in ending and ICV cycle (Gompers and Lerner 2000). In particular, some ICV programs have been terminated in spite of their apparent success. These findings suggest that both top management and the executives involved in the ICV program can fail to appreciate the role of ICVs play in a company’s strategy (Burgelman and Valikangas 2005).

7.3 Most organizations rely on several different groups to drive innovation, the most common being R&D, corporate development, and business development. R&D tends to focus on product development, often weighted toward longer-term products or their components. Corporate development tends to focus on merger acquisition (M&A) and joint venture (JV) activities, especially large acquisitions or JVs that fundamentally influence the strategy of either a business unit or the company as a whole. Business development is generally geared toward building important strategic alliances; most have revenue-enhancement objectives at their core (Mason and Rohner 2002).

7.4 Venture managers emphasizing high quality innovation strategies may achieve greater success than those striving for a low-cost position (Miller and Camp 1985; Shrader and Simon 1997).

7.5 Research suggests that ventures that attack broad markets, enter markets early, pursue high market share, and introduce a wide range of products are also more likely to achieve superior financial performance (Miller and Camp 1985; Shrader and Simon 1997). An aggressive posture allows ventures to amortize fixed costs and initial investments across a larger product base, thus increasing profitability. This initial aggressiveness also protects the venture after it achieves short-term success. The venture is more likely to have a multi-product portfolio and an infrastructure to handle mass production when competitors retaliate with price cutting and aggressive advertising (George and MacMilllan 1985).

7.6 Astute top executives also recognize that ICV is a discovery process that should be evaluated first and foremost in terms of the information that it generates, not viewed only in terms of dollars added to the revenue line (Burgelman and Sayles).

8.1 Venture Leadership

8.2 Simon, Houghton, and Gurney (1999) note that managing an ICV requires highly entrepreneurial individuals at the venture’s helm. Specifically, in a venture’s embryonic state its manager must perform two fundamental tasks: choosing the venture’s strategies and molding the venture’s internal conditions and processes (Miller and Camp 1985; Shrader and Simon 1997).
8.3 When looking at venture leadership one needs to make the clear distinction between the internal entrepreneur and the venture manager. Internal entrepreneurs fit into two basic categories: those who perform in an entrepreneurial manner to generate administrative or process innovations for the firm (de Chambeau and Mackenzie 1986; Doescher 1985; Nielsen, Peters, and Hisrich 1985; Sussman and Kuzmits 1986); and those who champion the development of new products, sometimes all the way from idea generation to full commercialization (Duerr 1986; Pinchot 1987; Pinchot 1985).

8.4 David and Chanin highlight the distinction between internal entrepreneurs and venture managers that emerges from the literature on these roles (David and Chanin 1989). They find that venture managers and internal entrepreneurs have different orientations and that they have distinguishable characteristics. They noted that the internal entrepreneur is often characterized as someone who emerges spontaneously, ideally in a favorable corporate environment, whereas the venture manager and her or his organization appear to be part of what is often a largely preconceived corporate process responding to an opportunity (David 1994). It is important to identify these differences for the purposes of internal corporate venture projects. The venture manager will be someone who is identified early on in the venturing process, while the internal entrepreneur will usually emerge because he or she possesses some of the key characteristics identified by Ringler and Wilemon. This is likely to occur since the internal entrepreneur, given an appropriate environment, is largely self-motivated and therefore, in some respects, perhaps more of a champion—as opposed to a venture manager, who is often someone “assigned” the role.

8.5 David (1994) found that the existence of an internal entrepreneur in the internal venturing process can lead to a greater degree of commercial success than would have been the case had the product come from traditional R&D. This study is of particular importance for managers, who need to ensure that there is an assigned internal entrepreneur or venture manager for every internal corporate venture project, as the success of the project is more likely when there is this type of leader associated with the group.

9.1 Product Championing and ICVs

9.2 Bobrow (1991) states that a product champion is someone who intensely believes in the product, is willing to fight for it, and has the stamina, energy, and creativity to push it through, around, or over internal barriers in an organization. Maidique (1980), on the other hand, describes the product champion as an individual who makes a decisive contribution to the innovation by “actively and enthusiastically promoting its progress through critical stages.” These authors have found in effective champions a willingness to go above and beyond what is required, along with active and enthusiastic project promotion. Others have also found that a product champion has to be willing to assume significant risk (Hutt, Reingen and Ronchetto 1988) and must be able to generate needed project support from other people throughout the organization (Aiman-Smith and Markham 2001). High degrees of individualism (low degrees of collectivism) promote new product development during the initiation phase through the kind of drive, nonconformity, and personal vision associated with product champions and key innovators (Nakata and Sivakumar 1999). Finally, as Chandy and Tellis (1998) note,
“The product champion is generally a person with drive, aggressiveness, political astuteness, technical competence, and knowledge of the market.”

9.3 Mason and Rohner (2002) call the venturing executive officer (VEO) the venture “godparent.” They note that, the VO needs to be someone who is “sold” on the concept and practice of the venturing, who sees its potential from mainstream impact on the corporation’s core business and strategic path, and who has the ability to influence the actions of the core business (Mason and Rohner 2002, pg. 76). To use a more medical metaphor, the VEO is the first line of defense inside the company against corporate antibodies, providing advice, counsel, and influence to ensure the VBO obtains needed resources. Outside the company, she or he engages in networking, creating partnering arrangements, and deal-making (Mason and Rohner 2002, pg. 76). Top-down championing can help provide legitimacy to the venture and make funds easier to obtain. Given that ventures are often costly and may either reconfigure the firm or create whole new strategic directions, they represent risky propositions. Because these ventures need senior management’s support and influence to achieve their results, it is critical that management engage in championing ventures (Day 1994).

10.1 Venture Teamwork

10.2 Corporate venture groups have to interact with other groups both within and external to the organization. Mason and Rohner (2002) establish a framework of interactions that helps explain some of the relationships necessary between the corporation, corporate venture groups, venture and the external community (see Figure 3).
Figure 3: Corporate Venture Group Interactions


10.3 Figure 3 helps illustrate these points and is based on these recommendations:

- Linkages between every venture, the corporate strategy, and the executives responsible for that strategy need to be explicit and monitored. Accordingly, the strategic value of these ventures to the parent company should be identifiable and measurable.
- Financing should be based on objective measures of progress marked against key milestones.
- Combining the strengths of individual members, the team as a whole must be able to demonstrate substantial experience with three different skill groups: venture building, venture investing, and operating the core business of the parent.
• Corporate venturing should be based on a portfolio of investments (either internal or external) and should set forth specific financial and strategic metrics and milestones (Mason and Rohnner 2002).

11.1 Managing New Venture Disappointment

11.2 Even with all of the above strategies in place, some ventures will inevitably fail. Having experienced a venturing disappointment, senior managers face a further challenge, namely to ensure that something is done about it. Observation in the field suggests that managerial recognition of a problem and the subsequent decision to do something about it is not necessarily followed by organizational action, and the more senior the manager, the more likely this appears (McGrath 1995).

11.3 An article by McGrath (1995) utilizes the trajectory template to assess venture performance in three crucial arenas: the external marketplace, the internal marketplace of the firm, and the competitive arenas wherein ventures are pitted against one another.

11.4 The sample for this study consists of 23 corporate ventures initiated within a single U.S.-based financial services company. For reasons of confidentiality, the organization will be called “Alpha.” In the Alpha study, three factors occur that appear to inhibit the recognition of disappointments. These were the absence of metrics, the lack of visceral contact with sources of problems, and the lack of incentives that encourage attention to disappointing events (McGrath 1995).

11.5 Disappointment represents a “negative gap” between goals and results. To the extent that goals are not measurable or performance not measured, feedback is apt to be weak and easy to misinterpret (see Levitt and March 1988, pg. 334; Huber 1991, pg. 91-95). Observations from the Alpha case corroborate a fairly well-accepted tenet of learning theory: that a lack of visceral understanding tends to inhibit learning. Writers on innovation and learning often emphasize the importance of personal, visceral contact with problems (see, for example, Dougherty 1992). But even if metrics are in place and there is visceral contact with the sources of problems, disappointment still needs to be brought to the attention of those who can do something about it. As in the Alpha study, the signals of disappointment are often subtle, lacking the drama that commands attention, so they escape notice unless people feel empowered to seek signals out and bring them to light (McGrath 1995).

12.1 Key Success Drivers in Corporate Venturing

12.2 What are considered the key success drivers for new ventures? Saj-Nicole, Bell, and Mason (1997), in an analysis of large corporations and start-up companies, identify eight elements for successful internal corporate ventures (we have adopted and slightly modified some of their terminology):

• **Senior Executive Alignment and Commitment.** Senior management needs to understand how the intraventure fits with the company’s future and capitalizes on the organization’s core competencies.

• **The Ability to Pick the Best Shots.** The most successful companies will be those who scan both the market and the technological environment for opportunities to meet unfilled customer needs. Moreover, they will
understand how to exploit their core competencies to fill those needs. They will also excel at articulating market and technological opportunities as well as competitor activities.

- **A Corporate Interop.** “Interoperability” refers to the ease with which two disparate information systems work together to leverage corporate assets effectively and to operate more quickly than the usual company pace. Venture demands a different type of interoperability than many other corporate actions. Governance, decision rules, and strategies must be clear to all involved: this is “corporate interop.”

- **Clearly Defined Stages and Metrics.** As identified earlier, internal ventures have five stages: concept, seed, venture development, market realization and venture maturity. Well-defined measurements to determine the progress of each stage need to be in place.

- **A Top-notch Team.** Companies need to assign the best leaders and highly competent team members to their venture teams. The venture’s leadership often includes a venture manager, who “owns” how the venture works, and a venture executive officer, who mobilizes the corporation and its resources on the venture’s behalf.

- **Management of the Venture Portfolio.** Each venture in a company’s venture portfolio should be evaluated against standard criteria: its stage, its performance to date, and how the corporate interop is performing. Managing the portfolio well will enable the company to support the most promising ventures and kill the “losers” early.

- **A Platform for the Launching Multiple Products.** Rather than focus all of their resources on a single product, managers should look at each venture as a platform from which new releases of the product, or whole new products, can be launched. A venture will go through a rapid product life cycle and will require frequent updates.

- **The Right Operating State.** The venture team needs to know how to “pull the right levers” in the corporation as well as how to maintain the spirit of a start-up company, as characteristics of start-up companies resemble characteristics of successful venturing teams in several key ways. Both benefit from an attitude of openness to possibility and from team members with broad accountability and unrestricted learning opportunities. Fostering such an environment can help counteract the natural tendency of the venture team to drift back into corporate habits that limit performance.

### 13.1 Securing Resources for New Venture Groups

Securing resources for new ventures is one of the most difficult obstacles to overcome when starting from scratch, and the slow pace of resource allocation in large corporations can be a significant handicap to these corporations’ ability to launch new ventures. Mason and Rohner (2002) state that three factors should drive the size of an allotted fund: the experience of the venture team (more experience warrants larger funds), the number of investments needed to diversify the portfolio and provide adequate strategic coverage, and the average size of the investment, which itself usually depends
on the stage of investment (later stages often require larger investments). When executives are putting together a venture group, they need to take into account these different factors in order to ensure the optimal combination for the venture.

13.3 For a $40 million company to grow by 25%, for instance, it would need to find $10 million in new business in the next year, but a $40 billion company would need to find $10 billion in new business to grow at the same rate. One of the bittersweet results of success, in fact, is that as companies become large, they lose the ability to enter small, emerging markets (Christensen and Overdorf 2000).

13.4 Carefully managing the ICV cycle allows executives to rationalize resource allocation. This will reduce the temptation to flood ICV with resources in good times, which take away entrepreneurial hunger, and to starve it in bad times, which aborts potential successes. Rationalizing resource allocation demands careful early experimenting with small numbers of resources to gain insight into radically new opportunities that inherently involve high technological and market uncertainties. It also requires the consistent nurturing of new businesses that pass strategic and financial milestone reviews, and the carefully calibrated increase of resource commitments over extended periods (Campbell and Harris). It is also important to maintain some predictability in resource allocation, so that, once milestones have been met, further funding will result independently of the business cycle (Burgelman and Valikangas 2005). The point that these authors make is that, if the quality of the ventures warrants support, it is necessary to consistently provide them with funding.

14.1 Summary & Future Research Directions

14.2 First, one of the main gaps we have identified in our paper is in understanding the relationships among venture managers, venture sponsors, and product/venture champions. Managers and scholars can benefit from additional studies that examine these different roles and evaluate how each of these roles can contribute to the success of corporate ventures.

14.3 Second, a potentially useful perspective could be gained by studying how companies fare comparatively when they venture inside their organizations versus investing in ventures external to their organizations.

14.4 Third, research evaluating the temporal and monetary aspects of venturing is needed. How much is spent on successful ventures versus unsuccessful ventures? How much time does it take for an average corporate venture to become successful, compared to the average time companies wait for a venture to show signs of success before they abandon it?

14.5 Fourth, research needs to create a process model of interactions between corporations and their venture groups that, in the past, have had successful corporate ventures. This might allow companies to begin to standardize their venture processes in order to increase the probability of success.

14.6 Fifth, research should identify performance measure for ventures. Currently managers measure return on investment and consult customer surveys or users to determine how an existing venture is performing; however, these modes of performance measurement are not appropriate for the development of new ventures still in the process of being formed.
Sixth, research is needed on the specific factors that help a company know whether it is on track for success or its ventures are likely to fail. The identification of early indicators would help companies venture more efficiently.

We suggest that research on the above will make corporate venturing a more productive, less random corporate, strategic initiative.

References


