

Successful and Failing Internal Corporate Ventures:  
An Empirical Study and Analysis

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## Abstract

Internal Corporate Venture Management is reportedly practiced by at least 25% of the 500 largest industrial companies in the United States. In this paper, we report on a study of a sample of 18 commercially successful and failing ventures.

We show that corporate venturing is successfully practiced in a wide range of industries, over a wide range of scale of investment. We note that our evidence suggests that corporate venturing is not exotic and difficult to manage, but rather that it can be regarded as a robust and simple variation of project management, and that it has potentially wide applicability. By a comparison of the successful and the failing internal corporate ventures in our sample, we identify several managerially-controllable factors which significantly discriminate between success and failure. Among these are: Prior experience by venture team members in a venture marketplace is strongly correlated with venture success; Venture Managers recruited from "low-level" positions in the parent corporation are more likely to head successful ventures than are Venture Managers recruited from "medium" or "high" level positions.

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1.0 INTRODUCTION

Corporate venturing is an activity which seeks to generate new businesses for the corporation in which it resides through the establishment of internal corporate ventures. An internal corporate venture, in turn, is an individual or group within the corporation which has taken on responsibility for all aspects of the task of:

- developing a new product;
- bringing it to market;
- carrying it through at least its initial phases of marketplace activity.

It is this characteristic of corporate venture - vesting of responsibility for all aspects of the development and marketing of a new product in one executive, the venture manager - which distinguishes corporate venturing from a range of other organizational strategems aimed at the same goal of new product development.

"Internal Corporate Venturing" came into prominence in the late 1960's, but was not invented at that time. In fact, Robert M. Adams, General Manager of 3M's New Business Ventures Division, (a practitioner of the concept), suggests that the concept was probably practiced by "our nomadic ancestors" and simply seems new today because "...from time to time new terms or expressions for old situations rise to common usage in our everyday vocabulary. Such terms become so popular and so prevalent, so discussed and so disputed that we are led to presume that they describe some amazing new social, scientific or economic phenomenon..."<sup>[2]</sup> when in fact nothing new is being described. Whatever - and whenever - the

genesis of corporate venturing, considerable attention was given it in the early 1970's by corporate innovators and innovation process researchers.

Today the first bloom of enthusiasm greeting corporate venture management is nearly gone, but the concept itself appears to have taken at least temporary root in corporate practice. In 1969-1970, Fredrick Cook<sup>[5]</sup> surveyed the 100 largest U.S. industrial companies (1970 Fortune listing) plus "several other large companies" and found that forty of these claimed to be then engaged in corporate venture management. In 1972, Jones and Willemon<sup>[8]</sup> reported on a 1970 questionnaire study of the venture management practices of twenty-four companies classified among the Fortune 500 largest industrial companies and extrapolated from their data to estimate that 25% of all Fortune 500 companies had a venture management operation at that time. In 1973, Vesper and Holmdahl<sup>[18]</sup> surveyed the "100 largest (in sales) firms on Fortune's 500 list which had also won awards from Industrial Research since 1963 for introducing "most significant new technical products, based on their importance, uniqueness and usefulness in their respective fields." In this sample of technically innovative firms, Vesper and Holmdahl found 65% claimed to be using venture management, while another 9% planned to try the approach.

In the remainder of this paper we will:

- review the literature germane to corporate venturing (Section 2.0);
- present the rationale and methodology of our own empirical study of corporate venturing (Section 3.0);
- present and discuss our findings (Section 4.0);
- summarize and note the implications of our results (Section 5.0).

## 2.0 REVIEW OF THE LITERATURE

Students of organizational behavior and research and development management should find the concept of corporate venturing of some interest. A central problem addressed by organizational theorists is the effective integration of specialists around a multidisciplinary task. New product development has long been recognized as a task requiring the input of diverse specialties - notably R&D marketing and manufacturing. The problem of integration is felt particularly keenly in new product development because that function often operates under tight time constraints. Accordingly, several researchers have examined specialization and integration in organizations in the new product development context.

Corporate venturing may be appropriately placed in the literature bearing on achievement of integration and specialization in the context of new product development, if we divide that literature into two segments. The first of these deals with means of integrating large, specialized organizational subunits through which new product development projects flow. Recent exemplars of this segment of the literature are Lawrence and Lorsch<sup>[9]</sup> and Walton and Dutton.<sup>[21]</sup> The second segment includes corporate venturing and project management. This segment focuses on organizational means of achieving the specialization and integration needed in new product development tasks via the formation of (usually) small ad hoc groups of specialists for each task who are selected to have the needed specialist skills and who achieve the needed integration via (usually) informal small group interaction. Salient studies of project management in the R&D context are those conducted

by Marquis et al. [10][11][17]

The literature to date which deals directly with internal corporate venturing only extends back to the mid-1960's. An early type of literature on the topic was provided by corporate practitioners of internal corporate venturing who described what they were doing in their respective firms and offered their anecdotal observations regarding successful practice. Notable among articles in this category are those by Peterson [13] of DuPont, Adams [2] of 3M, and Wallace [20] of Owens-Illinois. In broad terms, practitioners suggested that autonomy from the day-to-day business of the parent corporation; constant, visible, long-term top management support for internal corporate ventures; and "entrepreneurial" venture managers were essential for successful practice of internal corporate venturing.

Notable among research studies of new technological ventures are those of Roberts [14][15], whose main focus has been on technology-based ventures which "spun-off" from major corporations and government labs. Roberts found the following factors to be present in the better performing of such enterprises: (1) high degree of technology transfer from parent firm to spin-off venture; (2) moderate educational level (e.g., Masters of Science); (3) high attention to management, personnel and marketing when measured relative to that provided by lower performing entrepreneurs.

One of Roberts' students - Buddenhagen [3] - specifically addressed internal corporate venturing. He studied sixteen cases of internal corporate venturing in one major firm. His goal, as ours, was to isolate factors which discriminate significantly between internal venture success and failure. The three factors which he found to be significantly correlated with venture success were, in order of importance: (1) close

relationship between the venture's product and a major product area of the parent; (2) good cooperation between parent and venture as judged by the venture manager; (3) "new" technology involved in the venture product.

Cook<sup>[5]</sup>, Jones and Willemon<sup>[8]</sup>, and Vesper and Holmdahl<sup>[18]</sup> have reported on surveys which characterize current internal venture management practice but which do not attempt to determine whether the characteristics noted correlate with commercial success or failure of the internal ventures generated. Characteristics reported on cover a wide range - from educational background of the venture manager (Jones and Willemon) to parent corporation's reason for introducing venture management (Vesper and Holmdahl). During our discussion of findings, we will refer to data from these surveys as relevant.

Finally, James Hlavacek<sup>[7]</sup> has reported on a survey of the causes of failure in 21 internal corporate ventures - located in twelve Fortune 500 companies - as reported by both the top managements and the venture managers involved with the failing ventures. He found market-related problems to be the ones most frequently cited, including "market too small", "did not fit distribution system", "distribution problems", "inaccurate market research" and "resistance from existing sales force". Top managements' next most frequently cited reasons for failure were "sunk costs too high", "technical problems" and "wrong venture manager". Venture managers, on the other hand, reported "conflicts with divisional managers" and "impatient top management" to be the second only to market-related problems as causes of failure.

### 3.0 METHODOLOGY

From our review of the literature, preceding, we see that there exist today some few hypotheses by researchers and practitioners as to "what must be done to achieve success at corporate venturing", which have not been empirically tested, plus some survey data on what is being done in corporate venture practice. The available survey data cannot be used to test extant hypotheses regarding successful venture practice because it is not stratified according to venture success or failure. It has been our goal in the study reported on here,<sup>1</sup> therefore, to generate appropriate data and to provide an empirical test for some of the hypotheses current in the literature plus some of our own regarding factors which discriminate between success and failure at internal corporate venturing.

In essence, our study design involves selection of two samples of internal corporate ventures - one sample consisting of commercial successes<sup>2</sup> and one sample of commercial failures. Measures hypothesized to discriminate strongly between venture success and failure are tested

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<sup>1</sup>The research reported on here was conducted as part of the author's doctoral dissertation. [19]

<sup>2</sup>Our criterion of commercial success was chosen to conform as closely as possible to the criteria actually used by the companies in our study. Although the initial projection made when deciding to invest in a venture was often rosier, we found that parent corporations would in general categorize ventures achieving 10% profit before tax (initial research, development and "shakedown" expenses being excluded for purposes of this calculation) and "rapid" sales growth as commercial successes. "Rapid" sales growth was not quantified by the companies studied, and we found annual percentage growth rates in many of the successful ventures studied highly discontinuous. On a smoothed basis, however, all ventures in our sample categorized as commercially successful were achieving a minimum of 150% annual growth in sales.

A venture was judged a commercial failure if it did not meet one of the two above criteria at three or more years after venture start up and if, on examination of detailed sales and financial data, it showed no trend suggesting it might meet the criteria within two years.

against these two samples to see whether the hypothesized effect can indeed be observed.

Our sample of internal corporate ventures was generated by attempting to contact those responsible for venturing via the headquarters of the 33 firms in the Fortune listing of the 100 largest U.S. industrial companies which Cook had identified<sup>[5]</sup> as engaged in internal corporate venturing as of 1970. Twenty of our contact attempts brought forth preliminary information which allowed us to determine that eight of the twenty would not be appropriate for inclusion in our study for the following reasons:

- venture activity discontinued (three cases);
- "venture group" not engaged in ventures as this study defines them (three cases);
- ventures too young (less than three years since start-up) to be evaluated (two cases).

After this initial screening, we made energetic attempts to recruit the remaining twelve companies to our study. The benefit offered to firms which joined was access to detailed but aggregated and disguised data at the conclusion of the study. The conditions we felt it necessary to impose on firms joining the study were that we be allowed access to some elements of venture financial data and direct contact with venture personnel - rather than proxy contact via the corporate vice presidents in overall charge of the venture activity. In the end, only six firms were willing to join the study under these conditions. Later, a seventh firm was added (Firm E in Table 1) to the study which did not appear on Cook's list. In this instance, the corporate venture manager heard of our work via a third party and contacted us to suggest that his corporation be included.

The process described yielded a sample of 21 ventures. Three of these ventures were then eliminated by application of a final criterion - "Can it be demonstrated that the product/market concept upon which the venture was based had the potential for commercial success?"<sup>3</sup> The resulting final study sample of 18 ventures is characterized in Table 1 below.

Table 1. Structure of Study Sample

Code	Major Business	Independent Corporate Venture Sponsors	Number of:	
			Failing Ventures	Successful Ventures
A	Package and Packaging Material Mfr.	1	0	2
B	Consumer "Convenience" Food Mfr.	1	0	2
C	Industrial Chemicals and Plastics Mfr.	1	1	2
D	Glass and Glass Products Mfr.	1	2	0
E	Publishing and Direct Mail Advertising	3	1	2
F	Vegetable Protein Products Mfr.	1	0	1
G	Industrial Goods Conglomerate	4	3	2
		<u>12</u>	<u>7</u>	<u>11</u>
			<u>18</u>	

With the exception of Company C, all companies participating in our study gave us access to all their extant ventures which we found met our study criteria. (Company C felt it had to restrict our access to some

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<sup>3</sup>We apply this final selection criterion because the goal of our study is to learn what financial, organizational, etc. variables are correlated with corporate venture success. Inclusion in our sample of ventures which failed in spite of "doing everything right" because the product/market concept simply had no potential for success would have the effect of weakening these correlations. The test we used for assuring that each venture in our sample was working with a concept which was at least potentially successful was: If we could not find one or more examples of a successful commercial activity employing the same (a very close fit was required) market/product concept as that of a failing venture available for study, that venture is excluded from the sample. (Note that it was not felt necessary to apply this test to successful ventures in the sample. The fact of their success was felt to be ample demonstration that the concept which they were working with was a potential success.)

ventures whose existence was not common knowledge and which were "key to the company's future".) As can be seen from Table 1, certain ventures will not be independent on certain measures (e.g., two ventures often have the same sponsor). Possible interdependencies will be addressed as they become germane in our data analysis.

Data collection was conducted by means of face-to-face interviews using a structured interview guide with the venture sponsor and with the manager and key staff of ventures selected for study. Financial data was derived from venture financial records.

#### 4.0 FINDINGS AND DISCUSSION

As the reader may have noted from the introduction to this paper, an internal corporate venture is defined only in terms of its role: "Responsibility for all aspects of the task of developing a new product; bringing it to market; carrying it through at least its initial phases of marketplace activity." This definition allows room for many different implementations of an internal corporate venture in terms of structure, scale, etc., and we did find great variability along these and other dimensions in our sample. Two features were invariably present in our sample, however. There was always a "Venture Manager" - the CEO of the venture, as it were, and there was always what we termed a "Venture Sponsor", the executive to whom the Venture Manager reported. The Venture Sponsor funded the venture from his budget and provided the formal hierarchical linkage between the venture and the parent corporation.

In the sections which follow, we will present our findings on: The diversity of corporate ventures encountered vs. success (Section 4.1); the relationship between venture success and prior experience in the

business area addressed (Section 4.2); characteristics of the Venture Sponsor (Section 4.3) and the Venture Manager (Section 4.4) vs. venture success.

#### 4.1 Diversity in Internal Corporate Ventures

There is no initially apparent reason why Internal Corporate Venturing should be successful only within a certain market, product or technology area, or within a certain size range. The literature does not suggest that any field of business activity is inappropriate for such ventures. As may be seen from Table 2, our sample shows the concept is in fact currently being applied "across the board": To materials (Ventures # 1, 2, 3, 5 and 16), components (Ventures 4, 6, 17), and to finished industrial goods (Ventures 1, 2, 7, 12, 13, 14) and services (Venture 18), as well as to consumer goods (Ventures 8, 9, 15) and services (Ventures 10, 11). Examples of both success and failure can be seen in each of the enumerated categories, except industrial and consumer services. Given the size of our sample, the strongest statement we can make is that venture management is being practiced currently in all of these areas and can at least potentially succeed (and fail) in all.

Table 2 documents the wide range in the scale upon which ventures in our sample were conducted, as measured both by dollars invested and by numbers of full-time employees. Given the diversity in venture businesses represented, one would expect some diversity in these measures even if all ventures were carried out on the minimum practicable scale. (Clearly, it takes more investment to get a product manufacturing venture going than it does a "products-by-mail-order" service.) Diversity on

Table 2

NO.	BUSINESS	Characterization of <u>SUCCESSFUL VENTURE</u>				Total Investment		Total Full-Time Employees	
		TO FIRST SALE		TO BREAKEVEN		1 YEAR AFTER START-UP	AT TIME OF FIRST SALE		
		\$(000)	Years	\$(000)	Years				
1	Shrink Film Packaging Systems	100	2	145	4	1	1		
2	Produce Wrap Packaging Systems	550	4	650	5	1	1		
3	New Plastic Resin & Molded Items	8,000	4	30,250	8	80	137		
4	Solid State Devices	9,000	4	21,250	8	20	170		
5	Protein from Dairy Waste	1,500	1	1,500	1	2	10		
6	Electronic Digital Displays	1,500	2	2,300	3	4	50		
7	Numerical Machine Tool Controls	NA	NA	5,200	8	36	NA		
8	Disposable Plastic Dishes	500	2	NA	3 (est.)	3	3		
9	Home Sewing Kits	400	2	1,540	2	2	2		
10	Products by Mail Order	5	1	55	1.5	1	1		
11	Magazine Sales by 'Stamps'	5	1	110	4.5	1	1		

NO.	BUSINESS	Characterization of <u>FAILING VENTURE</u>				Total Investment		Total Full-Time Employees	
		TO FIRST SALE		TO DATE		1 YEAR AFTER START-UP	AT TIME OF FIRST SALE		
		\$(000)	Years	\$(000)	Years				
12	New Plastic Floor Tile	2,400	1	7,500	4*	50	50		
13	Computer Traffic Light Controls	50	1	1,000	5	5	10		
14	Computer Medical Diagnostic Systems	2,600	4	2,600	4	5	22		
15	Snowmobiles, Trail Bikes	480	2	4,500	4*	5	50		
16	Ceramic Products	2,000*	3	32,080	8	NA	NA		
17	Large Digital Displays	2,100	4	10,596	8	NA	NA		
18	Shoppers Directory for Industrial Goods	150	1	1,150	3*	NA	NA		

\*Terminated as of April 1973.

the employee count measure was further increased by the practice of some ventures - notably those with one employee - to contract out functions such as product development which were performed internally by ventures with higher employee counts.

Some internal venture practitioners<sup>[2][13]</sup> and consultants<sup>[6]</sup> suggest that a small scale is most appropriate to successful venturing, without quantifying "small", on the grounds that necessary integration of specialties and fast reaction time is thus ensured. In our sample, however, we find no "scale effect" large enough to show up as a significant correlation (as assessed by the Mann-Whitney U Test) between venture success and dollar investment to first product sale, nor between venture success and full-time employee count at the end of the first year or at the time of first product sale.

#### 4.2 Prior Relationship to Market

Although corporate venture management appears potentially successful over a wide range of product areas and scales of effort, we find a strong relationship between venture success and the prior experience of the parent corporation and/or the venture team personnel with the customers addressed by a given venture.

From Column 1 of Table 3, we find that ventures addressed to classes of customers the parent corporation has previously dealt with have a high probability of success - while those addressed to new customers invariably fail. (Fisher's exact  $p = .01$ )

From Column 2, we see that, if a parent corporation had experience with a particular class of customers, someone from the parent with that

Table 3. Factors Involving Prior Relationship to Market

	SELL TO ESTABLISHED CUSTOMERS? FROM PARENT?	VENTURE MEMBER EXPERIENCED WITH VENTURE MARKET FROM OUTSIDE?	VENTURE INITIATED BY MARKET NEED? (VS. TECHNOLOGICAL CAPABILITY)	VENTURE DESCRIPTION
				<u>SUCCESS (n = 11)</u>
X	:	X		Shrink Film Pkg Systems
X	X			Produce Wrap Pkg Systems
		X		Plastic Resin and Molded Items
X	X			Solid State Devices
		X		Protein from Dairy Waste
X	X			Electronic Digital Displays
X	X			Numerical Machine Tool Controls
X	X	X		Disposable Plastic Dishes
X	X			Home Sewing Kits
X	X	X		Products by Mail Order
X	X	X		Magazine Sales by 'Stamps'
				<u>FAILURE (n = 7)</u>
				New Plastic Floor Tile
				Computer Traffic Light Controls
				Computer Medical Diagnostic Systems
		X		Snowmobiles, Trail Bikes
				Ceramic Products, Zero Thermal Expansion
				Large Digital Displays
				Shoppers Directory, Industrial Goods

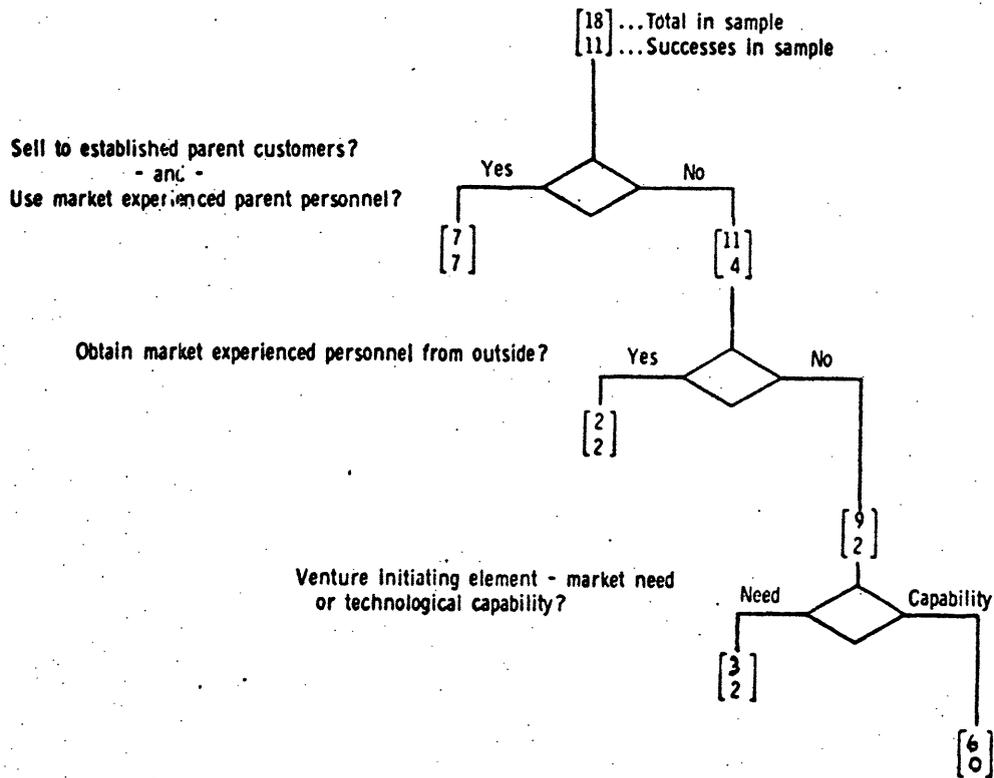
experience<sup>4</sup> was invariably included on the venture team - and thus the correlation between the presence of a venture team member with such experience and venture success was also  $p = .01$ .

<sup>4</sup>The experience referred to in Columns 2 and 3 of Table 3 is defined as marketing/sales experience with precisely the customers whom the venture is trying to address. In order for a digital display venture to qualify for a "Yes" answer to this question, it would not be sufficient that they have on board a man with experience selling electronic components such as resistors. They must have on board a man who has sold to the very same people who are now interested in digital displays. Thus, in the particular instance of this example, the current market (as of 1972) for solid state digital displays lies overwhelmingly with the manufacturers of electronic calculators. Therefore, to qualify for a "Yes" to the market experience question, a venture manufacturing solid-state displays would have to have a man on board who had previously sold to precisely these electronic calculator manufacturers (but had not necessarily sold displays to them).

In two instances (Column 3) in which venture teams did not include members recruited from the parent corporation with experience in the proposed venture marketplace, members with such experience were recruited from outside the parent. In both of these instances, the resulting venture was a commercial success. If the data from Columns 2 and 3 are combined, we find that the presence of a person on the venture team (either from the parent or outside) correlates very strongly with venture success (Fisher's exact  $p = .001$ ). From Column 4, we see that a venture product/market concept initiated on the basis of perception of a market need rather than on the basis of a technological capability (as in: "What can we sell which will use our 'X' material?") was more likely to be commercially successful (Fisher's exact  $p = .057$ ).

The data of Table 3 may also be displayed in what is called a "gatekeeping" method by Dave Montgomery.<sup>[12]</sup> In this method, a series of questions are asked of a (in this instance) corporate venture, with the goal of finding answers which clearly and completely discriminate successes and failures by means of the fewest possible questions. This method improves upon the 2 X 2 test of significance in that it clearly indicates any sample subset which may not be included in the statistically significant majority of any of the answers to the questions asked in format one.

The gatekeeping chart below discriminates between successes and failures with near total accuracy by asking only three questions - a good performance.



Our finding regarding the strong ability of the above market-related variables to discriminate between commercially successful and failing internal corporate ventures fits very well with the findings of other studies which have examined new product success vs. failure in a range of contexts. As the reader will recall from our review of the literature, preceding, the strongest success-related factor which Buddenhagen's study<sup>[3]</sup> of internal corporate ventures found was "close relationship between the venture's product and a major product area of the parent". Roberts, in his study<sup>[14]</sup> of ventures spun off from major corporations and government labs, found one of the factors which discriminated between higher and lower performance was attention to marketing, as indicated by the explicit presence of a marketing department. In addition, Project Sappho<sup>[1][16]</sup>, a study of success-failure pairs of new products developed

within conventional corporate R&D contexts, found that "accurate understanding of user needs" - however acquired - was the strongest of their many measures in its ability to discriminate commercially successful projects from failures. Finally, recall that Hlavacek, in his survey of the major causes of internal corporate venture failure<sup>[7]</sup>, found market-related factors topping the list.

One of the virtues of the internal corporate venture is often suggested to be its utility as a mechanism for getting a major corporation into business areas new to it. Do our findings regarding the correlation of internal venture success with a parent corporation's prior relationship with a given set of customers indicate that corporate venturing is in fact unsuited to that role? For two reasons, we would not argue so:

(1) Although we found that successful ventures sold to extant parent company customers, they sold new products via new, venture-controlled distribution channels to these customers. In some instances, these new products were clearly distinct enough from present products of the parent to constitute a "new business area" for the parent (e.g., the first products in the electronic component area for a plastics manufacturer).

(2) Our data cannot distinguish between venture success being caused by the parent firm having a prior relationship with the venture customer and/or the venture personnel having such a relationship. If further research shows the key variable to be personnel experience (and data in the third column of Table 3 suggests that this might be the case), then parent firms may start internal corporate ventures addressed to any customers, so long as they have a person on the venture team - recruited from either inside or outside the parent - who has had prior experience in marketing to precisely those customers.

#### 4.3 The Venture Sponsor

The venture sponsor role involves generating ideas for new ventures and/or screening ideas provided by others; forming venture teams and/or screening suggested teams for suitability; and then, eventually, funding the idea-team package(s) which one thinks will be successful. The venture sponsor role is very much the corporate equivalent of the role which "venture capitalists" play relative to non-corporate ventures. As is the case with venture capitalists, expectations regarding the help and monitoring a venture receives from its sponsor beyond funding are not firm, and practice is quite variable in our sample.

Those vested with the responsibility of venture sponsorship within our sample did not necessarily regard it as a boon - "I wonder what they're trying to tell me," muttered an executive vice-president so honored. The reason for this attitude is clear. Compared with a normal line responsibility of equivalent level, the venture sponsorship responsibility involves more risk (it is generally accepted wisdom that most ventures in a portfolio will fail) and less resources (pumping a few million dollars per year into a few ventures is not considered high finance in the context of a multi-billion dollar corporation). Also, the job has an unpleasant dynamic: Successful ventures are often supposed to be "spun off" into independent divisions; absorbed by existing divisions, etc. - a process which leaves even the successful venture sponsor with a portfolio of marginal and failing ventures. A man in this position may be forgiven for feeling a bit vulnerable.

Sponsors of corporate ventures who are not formally charged with that responsibility, but "just do it on the side" with budgetary slack, avoid much of the exposure and risk accruing to those who are formally

charged with the task. Our sample of 12 venture sponsors includes seven not formally charged with the function and five who were: the difference in venture success between the two populations was not statistically significant - nor was the difference in total dollars at risk to venture first sale in a venture sponsor's venture portfolio.

Practitioners of venture sponsorship - especially those formally charged with the task - assert strongly (cf. Wallace, Peterson) that close contact with the parent CEO is necessary (presumably to weather the storms involved in venture failures' long time to breakeven, etc.). We found no significant correlation between distance of venture sponsor from parent company CEO (measured by number of hierarchical levels which separated the two) and venture success.

#### 4.4 The Venture Manager

Researchers (Roberts<sup>[14]</sup>), practitioners (Adams<sup>[2]</sup>, Wallace<sup>[20]</sup>), and consultants (Hanan<sup>[6]</sup>) all agree that the characteristics of the manager of an internal corporate venture are key to the success of that venture. Data on what the characteristics of such a manager should be, however, are sparse. Some studies exist which characterize the entrepreneur founders of successful new independent businesses, but it is not clear that these characterizations are generalizable to the successful manager of internal corporate ventures. Our concerns on this score are increased by the observation that the characteristics of a successful founder of a new independent business apparently are a strong function of the type of business engaged in. Roberts found that the type of individual who started a technology-based company had an average age of 31-32 years and had attained a Master's degree level of education - generally in an engineering field. Further, Roberts found that these

individuals had been successful in the jobs they had held prior to starting their own companies. Collins and Moore<sup>[4]</sup>, on the other hand, studied a sample of "light manufacturers of hard goods" located in Michigan, and observed the founders of these to be in their forties, to have a high-school degree or less, and to be notable for a history of failure at previous employment.

The only published data available prior to our present study on what the characteristics of managers of internal corporate ventures actually are in present practice comes from the Jones and Willemon<sup>[8]</sup> and Buddenhagen<sup>[3]</sup> studies cited previously. In two categories - age and education - the data we collected regarding venture managers was also collected by those studies. Jones and Willemon found that in the twenty-four industrial and consumer good companies they surveyed, venture managers "tend to be in their early forties, although the ages ranged from the late twenties to the early sixties." Highest education level achieved by the venture managers in their survey was Bachelors 48%, MBA 32%, and Ph.D. 10%. (Four percent had "no higher education".) Buddenhagen found the "entrepreneurs" (venture managers) in his study to have a median age of 36 and education to the Master's level.

The findings of both studies were reasonably congruent with our own on age and education levels of corporate venture managers. We found a median age of 41 years, with a range of 35-50 years (n = 11) and found the highest educational level achieved to be the Bachelors degree in all but one case - the one exception having achieved an MBA (n = 11). We do not know whether these characteristics of venture managers differ from the characteristics of other classes of managers at the parent company. We do know that age level shows no differential correlation between venture success and failure.

We measured a few other variables bearing on the venture manager which serve the useful purpose of further characterizing the current population of corporate venture managers but which proved to not discriminate significantly between managers of successful and managers of failing corporate ventures. All venture managers in our sample were selected from inside the parent company. The median level of pre-venture service with the parent company was substantial, 17 years, with a range from 8 to 27 years. Venture manager age and length of service with the parent company were highly correlated, to the net effect that all venture managers in our sample had been "company men" since their twenties. Practitioners of venture management (e.g., Peterson, Adams) suggest that a very high level of dedication to the venture on the part of the venture manager is important to success. We found no extraordinary dedication to the ventures in our sample at least in terms of the following measure: All of our venture managers perceived their future in terms of movement up the career ladder of the parent company as a whole, rather than in terms of growing with the venture. Commitment to the venture was seen as temporary - a career development step of limited duration. As another possible measure of extraordinary dedication to doing the venture management task well, we asked venture managers if they felt a protege relationship to their immediate superior, the venture sponsor (Measure: an affirmative answer to, "Would you leave the parent company to follow the venture sponsor?"). Only two venture managers - one managing a successful venture and one a failing venture - felt such a strong relationship.

The venture manager-related variable which we found did discriminate

significantly between venture success and failure was "level"<sup>5</sup> of venture manager in the company prior to assumption of the venture manager role. We found that venture managers who had previously held medium and high level jobs in the parent company were significantly less likely (Fisher's exact  $p = .02$ ) to be associated with successful ventures than were venture managers who had previously held low level jobs in the parent companies.

Interestingly, venture managers who had previously held medium and high positions in the parent company seemed to regard their venture managerships as demotions, in effect. This issue was obviously a sensitive one for these interviewees, and they often weren't really sure they had been demoted - after all, the opportunity had been painted as full of potential, albeit along with a bit of risk. In objective terms, their present positions did involve a reduction in resources and employees relative to their previous positions.

A previous study of research and development project management by Rubin<sup>[17]</sup> generated a finding similar to ours, viz: management of a project by a manager whose previous project responsibility had been larger in terms of resources allocated was significantly correlated with project failure ( $p < .02$ ). Neither that study nor ours, however, has the data to objectively determine whether the demotion (in terms of resources controlled) caused failure by, perhaps, lowering the self-esteem of a previously successful manager, or whether the demotion involved a negative judgment by the parent about the competence of the manager - in which case the high failure rate might be competence related. Whatever

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<sup>5</sup>"Previous level in company" was coded as "high", "medium", or "low": Venture managers who had "high" previous positions had been divisional managers or "line" vice presidents; those in "medium" levels had been responsible for multimillion dollar programs or activities within a division; and those who had "low" previous positions had been responsible for at most ten persons.

the reason, it would appear to be wise to avoid assigning managers to venture management tasks if they have previously managed an amount of resources greater than that involved in the venture.

## 5.0 SUMMARY

Practitioners and consultants have sometimes addressed internal corporate venturing as if it were an exotic - requiring very precise conditions if it is to flourish within a major corporation. This point of view apparently derives from the assumption that one is trying to replicate an independent, small business start-up within the major corporation; that the key to doing this successfully is the "entrepreneur" (venture manager); and that potential entrepreneurs are rare and seldom found (or retained) within the confines of a major corporation. No documentation is adduced for this last point - indeed, none exists - but acceptance of the assumption can make life very difficult for a Venture Sponsor trying to practice internal corporate venturing "properly". Witness an anecdote from Cook: "...The head of this [study] participant's venture function realized that of his over 20,000 employees, only about 100 could even be considered for the venture manager position. He finally narrowed this number down to two and found both of these candidates lacked qualifications." (!)<sup>6</sup>

Taken in aggregate, our findings disprove the above notion. We have found corporate venture management to be a robust concept which can be successfully practiced (1) in a wide range of industries, (2) on a wide range of scales, (3) by venture sponsors who may or may not be specifically charged with the responsibility and who may or may not be "close to top management", and (4) by venture managers who are not screened for

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<sup>6</sup>See Cook [5], page 31.

special "entrepreneurial" characteristics but are simply "rotated through" management of a venture as part of their career with the parent corporation.

The robustness we have observed makes sense, we suggest, if one views a corporate venture not as an independent venture taken indoors but rather as an important variation on the tried and true organizational practice of project management. The key variation on ordinary project management practice demanded by the concept of corporate venturing is the vesting of responsibility for the complete new product development process, from concept through initial marketplace activity, in one venture manager. The potential utility of substituting this concept for other organizational means of performing new product development - at least under some circumstances - is supported both by the literature and by anecdotal data:

- As we noted earlier, the literature supports the importance of integration of various phases of the new product development task and emphasizes the importance of accurate understanding of user need to achievement of marketplace success. The internal venture concept would seem to offer a good format for the achievement of both of these elements: integration is achieved by small group interaction and accurate understanding of user is achieved by the experience of venture team members, probably enhanced by the direct interface of the venture to the marketplace.
- Anecdotally, we were often told by venture sponsors and managers that a given product - developed successfully in the context of corporate venturing - could not have been developed within the confines of the corporation's ordinary product development organization. Reasons adduced for this were various. As an example, we were told in one company that the compensation scheme for the regular sales force was such that

it was more profitable for salesmen to get re-orders for standard products from established customers than it was to get trial orders for new products. New products offered through this sales force thus had a dismal track record. Given political realities at this company, it was considered more expedient to leave the present sales compensation structure intact, and to develop new products in a venture format. Successful products were then transferred to the regular sales force when repeat orders had reached a level which was appropriate to that compensation structure.

Internal Corporate Venturing is now apparently in widespread use. Rules for its successful management can be developed via the type of comparison of successful and failing practice which we conducted in the present study. Our small sample demonstrated several factors significantly correlated with successful corporate venture practice - notably the need for venture team members to have prior experience in a proposed venture marketplace and the negative correlation between previous corporate level of a venture manager and venture success. Similar studies based on larger samples would doubtless identify more such factors, and we suggest that it would be of value to both corporate venture practitioners and to researchers if such studies were carried out.

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