An Exploratory Study of Success and Failure Factors in Internal Corporate Venturing

by

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ABSTRACT

This thesis explores the factors contributing to the successes and failures of internal corporate ventures. There are many large companies today using internal corporate ventures as a way to develop new businesses and products while creating potential growth for the parent company. Large companies believe that they can create these new businesses by combining the agility of a small startup with the corporate resources of the large firm. However, economic pressures, corporate bureaucracy, and lack of entrepreneurial experience can significantly affect the performance of these ventures. By creating an internal venture organization the corporation hopes to protect the new startup ideas from corporate interference. By reviewing past research and interviewing individuals from companies currently having some success in internal corporate venturing, this thesis hopes to show what factors positively and negatively affect the success of internal ventures. Additionally, differences between the literature and the interviews will be identified as potential future research topics. By understanding what factors can affect an internal venture; companies may be able to help prevent venture failure in the future.

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Chapter 1: Introduction

How do large companies thrive and grow their businesses through a range of economic climates? The businesses that have found ways to be flexible and creative have been more successful. One of the tools that they use is corporate venturing. Corporate venturing is the effort to establish new business for a firm through the use of internal or external ventures. Different firms pursue this growth through funding external startups, creating joint ventures with other firms, or supporting specific internal projects designed to penetrate new markets. Some firms try multiple approaches at the same time. This thesis will focus on internal corporate ventures.

Internal corporate ventures use internal ideas and resources to create new products or businesses in an effort to spur growth. Sometimes these ideas are not started in major business units because of lack of resources or because the idea does not fit within the unit. Many business units do not even learn about these ideas because the inventors are afraid to say anything for fear of getting in trouble. One way of extracting, sorting through, and incubating these ideas is via the creation of specific internal venture organizations.

These venture organizations are usually chartered with the objectives of nurturing, culling, and protecting ideas, while building the best of them into different businesses. The groups sometimes teach entrepreneurial skills while helping innovators build business plans. The venture organizations assess ideas, providing resources to those it believes to have high potential and to be strategically important to the company. If a venture makes it through multiple checkpoints in the venture organization, the parent company can choose to do one of several things. The venture could be brought into the parent company as the basis for a new business unit, the venture could be funded as an external startup company, or the intellectual property (IP) from the venture might be licensed to other parties.

But, what kinds of things make some internal corporate ventures succeed and others fail? Can companies help or hinder ventures through their actions? Why are some companies more successful with internal ventures than others? This thesis will attempt to answer those questions.
1.1 Description of the Problem

Internal corporate ventures, by their nature, are supported by large companies. Large companies are generally not known for their entrepreneurial spirit and quick decision making skills. They are appropriately conservative. Startups, on the other hand, are aggressive, make quick decisions, and can often out-maneuver their giant counterparts. So, combining the resources and ideas of a large corporation with the nimble, quick strike of a startup seems to be an ideal combination. However, merging startup ideas within a large company can be problematic.

Internal corporate venture groups seemingly have the best of both worlds; namely, the availability of resources, a large number of ideas, and a small team to execute those ideas. In reality, however, these venture groups sometimes have the worst of both worlds. They have a huge bureaucratic company hanging over them, delaying decisions and causing frustration, while being so small that nobody in the company will give them any significant attention. This set of burdens dooms many ventures. Yet, some internal corporate ventures do succeed and some are very successful. Why is that?

1.2 Method

This thesis attempts to determine the factors contributing to the success or failure factors of internal corporate ventures. Initially, it will review historical research and literature summarizing what factors help or hurt ventures. Then, using interviews of people connected to internal venturing, a summary will describe what they believe to be success and failure factors for internal ventures. Finally, the literature and interviews will be compared, highlighting the similarities and differences, as well as conclusions regarding how a company can maximize the probability of success of internal ventures.

1.2.1 Literature Review

The literature review was an attempt to summarize internal corporate venturing research over the past 30 years. The review started with recommended books and articles. On-line searches were used to identify other possible books and articles to read. Following an initial review of these sources, a group of them was selected to be summarized.
After learning and more completely understanding the topic, a second literature review was undertaken. These articles were combined with the first effort to create the complete literature review. The references evaluated can be found in Appendix A.

The literature review summarizes what internal corporate venturing is, how it has been structured, and the known success and failure factors for those ventures.

1.2.2 Interviews

The intent of the interviews was to understand what companies are (and believe they are) doing today to create successful ventures.

Five established companies, representing both high tech and manufacturing companies, were interviewed. All of the companies that participated in the study were large enough to support an internal venturing unit. The companies, in alphabetical order, are: Boeing, Eastman Chemical, Hewlett-Packard, Intel, and Motorola. Fourteen one-on-one interviews were conducted in these companies over a six-week period. When possible, the interviews were face-to-face. However, approximately half of the interviews were conducted over the telephone. The interviews ranged from forty-five minutes to two hours in length. Interview questions can be found in Appendix B. Interviewees were encouraged to talk at length about their experiences, with open ended, guiding questions asked. All companies and participants were promised anonymity as to any specific information about their practices in exchange for giving the most accurate account of their experiences.

I attempted to interview three people per company. Each person interviewed represented one of three levels in an internal venture organization structure: a sponsor, a venture group manager, and a venture manager. Sponsors were generally very high level personnel at the senior or executive vice president level. Venture group managers were responsible for the ongoing oversight of all of the internal ventures. Venture managers were generally responsible for one specific venture. But, as each company has its own unique structure, this hierarchy was only an initial guideline for finding the closest appropriate people to interview in each company.
1.3 Objective

The purpose of this thesis is to provide a reasonably comprehensive analysis and synthesis of those factors identified in the literature and from corporate executive interviews as being important to the success or failure of internal corporate ventures. Careful study of the conclusions and implementation of the most important components will enable a company to maximize its probability of success in such endeavors.
Chapter 2: Literature Review

2.1 Introduction

Corporate venturing is an activity which seeks to generate new business for the corporation through the establishment of external or internal corporate ventures [47]. The study and analysis of corporate venturing has received a moderate degree of academic attention in the past 30 years. However, the specific study of internal corporate venturing, essentially using a company’s resources to spur growth and innovation within its own corporation, has had much less attention in that same time frame. This chapter will initially outline what an internal venture is and why it may or may not be profitable for the company. Then it will show how different internal ventures might be set up. Finally, it will discuss some of the factors that researchers believe can impact the success or failure of an internal corporate venture.

2.2 Corporate Venturing

Core businesses, such as manufacturing vacuum tubes, can easily dry up and stagnate. Companies must explore opportunities to pioneer in new directions and seek innovations that will improve or even transform the core [30]. Growth and new business is needed for the ongoing success of a company. One solution to this need to create growth is to invest in new products resulting from intensive research and development (R&D) efforts [47]. Some argue that traditional core business creation via the R&D route is too slow and conservative. To counteract this, growth-oriented companies can choose to invest in internal ventures to open up new markets. However, to keep both the current revenue generating products healthy as well as spend resources developing new products, companies must carefully balance their support of the current core business while instigating new business internal corporate ventures [32]. By utilizing a separate corporate venture project or organization, sustaining business activities and new product development may be distanced within the same company, effectively creating separate organizations responsible for the core and the new businesses.

Corporate venturing is an activity which seeks to generate new business for the corporation through the establishment of external or internal corporate ventures [47]. These
ventures can vary from completely internal to completely external activities. Corporate ventures come in several forms: venture capital investments in new or small firms, joint ventures between two firms, and specific internal activities based upon new organizational concepts [47].

Webster's dictionary defines the term "entrepreneurship" as the organization, management, and assumption of risks in a business or enterprise. The companies which pursue these internal corporate ventures believe that an important element of their future rests upon successful replication of small company entrepreneurial patterns within the firm [47]. Some believe that to be successful and to break free of the parent company, this internal corporate venture effort must develop a separate organization within the parent company, with different structures, processes and cultures [55]. Entrepreneurship can create new processes, put under-utilized resources to new uses, start the formation of new industries, and otherwise transform businesses [39]. Embracing entrepreneurship, however, implies accepting all that goes with it, particularly the uncertainty of success [39]. Companies that embrace entrepreneurship are well on their way to creating successful ventures.

If managed effectively, an internal corporate venture has the resources of a large organization and the entrepreneurial benefits of a small one [55]. Internal ventures use ideas that come from, or are created inside, the company. These ventures can utilize the parent company's tangible and intangible resources, and can help develop entrepreneurial knowledge and spirit within the parent corporation [40]. The large organization has access to significant financial and technical resources that the internal venture can access. One other benefit is that an internal corporate venture can draw upon the established company's name and reputation [43]. Internal venturing also allows the corporation to retain its own brand equity, while creating a new distinct brand to supplement its offerings in a specific market. For example, Saturn was designed to be the vehicle to revolutionize GM's new small car strategy. It was developed as an autonomous company, with alternative branding strategy, organizational structure, culture, research and development, technology, production, human resource management, and marketing. Multiple authors agree that the Saturn simply would not have happened within Chevrolet. Among other things, it required a separate and autonomous organizational structure for this internal venture to have a chance at success.
Even with these drastic measures, it is debatable whether Saturn has been a success or not [40].

Although there are these advantages of internal ventures, there are also many disadvantages. Internal ventures are the most costly type of venture in terms of managerial involvement and resource commitments. It is generally believed that the greater the strategic importance of the venture, the stronger the linkages between the corporation and the venture [55]. There can be immense opportunity cost associated with failed new business. One loss can destroy the gains made in other successful ventures [49]. In addition, a great deal of flexibility must often be created to allow for independent employee-driven creative activities [40]. Venture groups usually have a significant degree of autonomy and often possess their own marketing and R&D capabilities, further increasing costs [19, 46]. IBM used an internal venture to develop its personal computer quickly. It set up an independent team in Florida, far way from corporate headquarters. Its mandate was to do whatever was needed to create a product and get IBM established in the PC business [30]. While the result was successful, creating an entirely distinct unit added communication and financial overhead.

While it is difficult to create an entrepreneurial environment within larger organizations, the results of doing so could be beneficial. In Zahra and Covin’s 1995 study of corporate entrepreneurship entitled “Contextual Influences on the Corporate Entrepreneurship-Performance Relationship,” a positive correlation was found between the parent company’s financial performance and the presence of corporate entrepreneurial activities. While the magnitude of this gain is undefined, they believe this indicates that corporate entrepreneurship could have the double payoff of long term financial gains through the specific venture and a more holistic company benefit from the entrepreneurial activities [61]. Product, process and organizational innovations have been shown to positively contribute to a company’s profitability. While this is beneficial, the steep, up-front costs can depress the shareholders’ short-term wealth [62]. New ventures represent opportunities to create competitive advantages for firms by expanding their knowledge [38]. Yet, these very strengths can also work against success, due to the clash with existing corporate cultures, metrics and motivations [59]. Unfortunately, even with all of the benefits, most studies examining specific cases of internal venturing activities indicate that the clash between the venture and the corporation tends to doom the venture.
In his very early study [32], Norman Fast estimated that between 1965 and 1975, almost one fourth of the Fortune 500 companies had corporate venture departments. Unfortunately, the study also revealed that internal corporate venturing rarely remained a sustainable channel for new ideas. Some companies have reported that venturing activities have typically had a rather short lifetime, often to be repeated in waves similar to those experienced in the traditional venture capital industry [59]. Additionally, only between 20% and 50% of all corporate ventures that are started actually survive to the point of market entry. And even those that do survive take a long time to mature, often far longer than initially anticipated. In fact, companies expect a venture to take 4-6 years to become profitable, but research has shown that these ventures generally take between 8 and 12 years to become profitable [26].

Zenas Block’s study of corporate venturing found that the failure rate of corporate ventures was 80-90% [7]. One failure mode of internal corporate ventures may be the pursuit of the wrong objective. Objectives that produce a potential conflict of interest between the parent company and the internal venture can lead to a failure of the venture [40, 51]. One might think that large companies would be poor at thinking up new ideas, but good at organizational execution. It turns out, however, that just the reverse is true. Large companies can generate a great number of ideas, but seem to lack the ability to execute them [42]. They are poor at transforming the ideas into viable new businesses. It is believed that the inertia of past projects, built-in bureaucracy, and the inflexibility of habits, are some of the factors that doom these ideas [49].

Innovation does not mean invention. Invention is the act of creating a new product or service. But that is just part of the innovation process. Turning the invention into a business success is the key behind innovation [42]. Henry Chesbrough believes that there is currently a shift in how companies commercialize knowledge, from “closed innovation” to “open innovation.” While closed innovation takes the view that successful innovation requires control, open innovation assumes that firms can and should use external as well as internal ideas and internal as well as external paths to market [17]. For example, Schlumberger, a global technology oil field services company, now sells innovative services ideas to both customers and competitors. Schlumberger once only sold oil field technology innovations to customers that used its services, but now, selling to competitors allows the company to profit
from its ideas in any oil well anywhere in the world [13]. Roberts and Liu believe that companies need to use every form of business development, alliances, joint ventures, licensing, mergers and acquisitions, and internal ventures to perform well over a technology’s life cycle. However, they believe that not one company seems to be good at more than one mode of development [48]. Additionally, mixed objectives and unclear business models have also been found as a key to failure [12]. Even when the initial venture is successful, the venture usually succumbs to the “second-product” syndrome. Essentially, initial success is difficult to sustain [52]. Understanding how to be successful and how to avoid failure, is one step in overcoming this difficulty.

2.3 Internal Venture Structure

New ventures are created and sustained to attain certain goals. Some of these possible goals could be the growth of revenues through a new business, creating new innovation in core business, building a home for entrepreneurs who might leave if there was no outlet for their talents, and developing a training ground for entrepreneurial skills [30].

However, successful new ventures do not “just happen”. A formal emphasis is needed to get the ventures started. The research shows that employees’ time needs to be freed up, funds and rewards established, leaders developed, and official encouragement and support provided [30]. The actual venture process has three levels, individual initiative, financing for ideas, and the development of the business [30].

Ideas for internal ventures can be found by looking for ones that already exist, coaching people to try and develop seedling ideas, and inspiring staff to think up new ones by using other ideas as examples [30]. Even concepts that have been discarded by other business units within the company can be available for a new venture. This type of venturing encourages employees to develop ideas that may not attain sufficient financial support through the normal business channels [30, 40]. A key concept behind successful idea generation is that of initially accepting every idea in a welcoming manner.

Once ideas are generated there needs to be a process to separate the “seeds from the weeds.” Even the most financially strong firms do not have the ability to pursue every idea, even if they are all good [49]. Xerox set up a Technology Ventures Group to review potential ideas, giving some initial funding and rejecting others [15]. This review step is one
of the key advantages of an internal venture over traditional R&D. The review board can act as a “third party”, analogous to an external venture capitalist. In this way, good business ideas are less likely to be benchmarked against the core business and are more likely to be evaluated on their business potential [40].

Once the initial funding decisions are made, the parent company, through the venture group, acts as an incubator for the new business. As corporate ventures are more likely to be a part of a portfolio of products or services, this incubator period allows for greater latitude in profits or losses during the early stages of the venture. If such a project were started by an external entrepreneur, financial stresses may not allow the business to mature and become profitable before it is shut down [25]. Additional funding decisions can happen on a semi-regular basis. This continued funding process can be daunting to companies who know their current business, but are reaching into new businesses with their ventures. Jim McGroddy, the former head of IBM’s Corporate Research put it this way:

“When you’re targeting your technology to your current business, it’s like a chess game. You know the pieces; you know what they can and cannot do. You know what your competition is going to do, and you know what your customer needs from you in order to win the game. You can think out many moves in advance, and in fact you have to, if you are going to win. In a new market, you have to plan your technology entirely differently. You aren’t playing chess any more: now you’re playing poker. You don’t know all the information in advance. Instead, you have to decide whether to spend additional money to stay in the game to see the next card [17].”

Not all internal ventures stay within the corporation. Lucent’s New Ventures Group, the internal venturing part of the company, was charged with identifying under-utilized technologies within the company, and then spinning off the most promising, creating independent corporations. Whenever the group identifies a potential technology, a countdown is started. If an internal business unit does not utilize the technology within that time frame, the internal venture group gets the opportunity to spin it off. In that way the technology has a chance of getting used, instead of simply dying. Lucent invested initially in the spin-off, but looked to external venture capitalists for later rounds of funding. This strategy led to possible future profits and the ability to further develop ideas that may positively impact their industries [16].
Apple Computer used a different end strategy for its internal ventures. Instead of spinning off an idea, it “spun out” the idea. These spinouts, such as Claris, were specifically designed to be wholly owned by Apple and designed to retain a strategic relationship with the company [30].

Over the years, Xerox has used a number of different approaches to internal ventures. Initially, Xerox used spin-offs to withdraw from areas that it considered to be marginally profitable. The spin-offs were not invested in, nor financially supported by Xerox. Some of those spin-offs obtained external venture capital and were extremely successful, causing Xerox to miss out on lost profits [15]. Other companies have used spin-offs as an exit strategy for ventures that did not fit into their overall corporate strategies.

2.4 Strategic Factors

What strategic factors contribute to an internal corporate venture’s success or failure? Why do companies add and drop ventures so quickly? How can companies work to make internal corporate venturing an ongoing activity that positively contributes to the bottom line of the company?

2.4.1 Leadership

One necessary component for the success of new ventures is good leadership. A successful venture requires both the entrepreneurial flair of new aggressive managers and the measured disposition of more seasoned, risk-adverse managers [49]. Successful corporations do not just wait for leaders to come along. They design specific programs and tailor career experiences to get the best from their most promising individuals [36]. By utilizing good leaders in a new venture, the chances of success will improve.

2.4.2 Top Management

Some executives believe that they do not need to do anything special to encourage risk taking and entrepreneurship. They believe that if such a change does not happen because they desire it to happen, then they must have the wrong people. However, nothing can be further from the truth [30]. If one of the goals of internal corporate ventures is to create a
company-wide entrepreneurial spirit, then top management support is an absolute requirement. If executives do not intentionally allow such a culture change to happen, it will not take place [10].

Long lead times between initial investment and profitable returns can result in terminated funding for internal ventures. In a 2000 study, it was found that executive commitment to ventures was high when executives owned stock in the company [62]. A lack of stock ownership could cause executives to withhold long-term entrepreneurial investments, overlooking new but developing business opportunities. By owning stock, executives were found to care less about immediate short-term profits and take a longer term view of the potential future of the company [62]. To create long-lasting commitment, executives not only need to believe and support ventures, they must also have a personal investment.

2.4.3 Sponsorship

Throughout the literature about internal corporate ventures, a common theme is the importance of upper management sponsorship. A sponsor is a high ranking individual within the parent corporation perhaps with the funds and/or influence to sustain a specific venture or venture group. Some researchers suggest that gaining top management support of the internal venture is the only way that managers will initiate entrepreneurial activities [28]. Others would add that a sponsor in top management is a natural conduit of communication between the internal venture and the corporation, leading to fewer problems. It has been argued that the sponsor should also be responsible for defining the boundaries of venture, making them as wide as possible, while still keeping them under the purview of the parent company interests. [47]

One role of the sponsor can be to obtain the appropriate resources. Innovative proposals that get the funding and manpower they require may succeed; those given lower priority, whether formally or by being ignored, will flounder for lack of resources [18, 45]. However, some believe that internal ventures can be successful with a competent sponsor, even if that person is not very close to top management [58].
2.4.4 Venture Manager

In an internal corporate venture, the venture manager is responsible for all aspects of the development and marketing of a new product [58]. As this business activity passes through its life cycle, it requires different management styles to bring about the maximum gain [55]. The venture manager’s manager performs the crucial role of linking successful strategic behavior at the operational level with the corporate strategy. The venture manager needs to internalize the strategic implication of the venture in more general company terms [10]. Venture managers also play key roles in fostering communication about the venture’s mission, goals, and priorities. It has been observed that some venture managers had overly demanding work schedules that left little time for innovation and experimentation [28]. This information would suggest that capable, flexible and networked people are needed for the venture manager position.

In 1983 Burgelman found that there were very strong pressures to let the technically-oriented product champion become the venture manager. Sometimes the inventor wanted the opportunity to become the general manager of a business division. The inventor thought that leading a successful venture would be the means to get there. But, sometimes this person was forced become the venture manager because there was nobody else around who could take over and maintain the momentum [10]. A 1980 review of the Exxon Corporation’s venture group found that successful venture managers held an average of over 15 years executive experience compared to the less successful ventures where people were less experienced [52]. However, executive experience and age do not have to be linked. In Eric von Hippel’s 1977 study of successful and failing internal corporate ventures, he found that a venture manager’s age showed no correlation with the venture’s success and failure. But he found that the level of the manager PRIOR to assumption of the venture manager’s role was significant. Venture managers who had previously held medium and high level jobs in the parent company were significantly LESS likely to be associated with successful ventures than were venture managers who had previously held low-level jobs in the parent companies. Surprisingly, Von Hippel concluded by indicating that venture management was a robust concept which could be successfully practiced by venture managers who were not screened for special entrepreneurial characteristics, but were simply rotated through the venture manager role as part of their career [58].
Some believe that internal managers lack experience in understanding new ideas. They are too ingrained in the standard company system. Put simply, people who manage existing businesses are not always the best people to make decisions about new endeavors because of their pre-conceived ideas [49].

Others believe that the biggest impediment to business creation inside of large firms is the inability of managers to effectively deal with the problems encountered when navigating a creative innovation through the company’s bureaucratic maze [49]. The venture manager’s skill in dealing with the parent corporation is critical to the venture’s success.

2.4.5 Venture Champion

An intrapreneur is essentially an entrepreneur who is working to create new business within a large company [43]. One reason that intrapreneurial ventures are often successful is that intrapreneurs are willing to do whatever needs to be done to develop their ideas [43]. They are the initial champions, with their passion being instrumental in getting others to buy into their ideas [49]. The basic job of the intrapreneur is to conceive business ideas, and then turn them into reality [42].

When Texas Instruments, Inc., of Dallas, studied 50 or so of its new-product introductions, a startling fact emerged. Every failed product, without exception, lacked a zealous volunteer champion, an intrapreneur. Intrapreneurs take responsibility for the implementation of a product, wielding their strong vision to conquer the many organizational hurdles (Figure 1) [43]. The intrapreneur needs an “owner mentality.” The intrapreneur acts as a champion for cause, while working as if his/her own business is at stake. The basis of this effort is on the faith of the new venture idea [32].

Gifford Pinchot talks about the venture capitalists maxim as:

“I’d rather have a Class A entrepreneur with a Class B idea than a Class A idea with a Class B entrepreneur [42].”
In most cases, the entrepreneur is the internal venture champion. Byron L. David studied three distinct modes of venturing: i) no intrapreneur with R&D followed by a venture manager; ii) an intrapreneur who became the venture manager; and, iii) an intrapreneur and venture manager who were different individuals. The existence of an intrapreneur in the internal venturing process, as in the second and third examples, led to a greater degree of commercial success [19]. Additionally, Burgelman has found that in cases where product champions had not emerged, it severely hampered the project [10].

Fictional stories may portray the intrapreneur as a daring risk taker, but studies show that intrapreneurs avoid high risk situations, instead seeking more calculated, moderate risks. Intrapreneurs are still choosing challenging goals, but because they want their idea to survive, they do everything possible to reduce the potential risk [42]. Successful intrapreneurs are confident about their skills and possible business opportunities. They see their ideas differently, their self confidence continually empowering themselves. Failure is viewed as something to learn from and a temporary setback. These champions do not avoid mistakes; they overcome them [42]. While intrapreneurs have a high degree of intuitive skills to utilize, they also have, and need, good analytical skills [42].

An intrapreneur’s job may be the most difficult in the venturing process. In the beginning, nobody understands the intrapreneur’s ideas well enough, deeming them impossible and forcing the intrapreneur to take on multiple job roles [42]. Using social capital, built through trust, they round up the resources necessary to show that the “impossible” is actually possible [63]. To overcome the financial and organizational obstacles, the intrapreneur acts as a scavenger, harvesting resources from anywhere possible [10]. The champion’s reputation and relationship network provide the basis for the resource acquisitions needed [25]. As such, intrapreneurs possessing a high degree of social knowledge are important for the success of the venture [63]. In addition to persuasion, these skills are also used to transfer knowledge throughout the organization.

Deborah Dougherty conducted a 1995 study that compared successful and failed new ventures. She found that nearly all of the successful intrapreneurs violated institutionalized rules formed around the corporate identity. The intrapreneurs noted how important they thought that this violation was to the success of their venture. In contrast, the failed ventures followed the letter of the law within the corporation. The successful intrapreneur embodied
the new company entrepreneurial spirit, but broke the bureaucratic rules that contradicted this spirit [21].

Intrapreneurs, like entrepreneurs, are self appointed to their task. Pinchot believes that when firms begin to realize this, they will embrace existing intrapreneurs as champions, eliminating the ineffective method of “appointing” champions [42].

2.4.6 Staffing

Historically, when hiring, most managers are taught to “fit the person to the job.” Perhaps a more appropriate method in new venture hiring is to make sure that the “job fits the person,” implying that the interests of the individual may be more powerful than his or her known skills [43]. Many intrapreneural ventures become bogged down when they are staffed with people considered to be “indispensable.” These superstars may be tainted by past experiences and may not fit into a dynamic new venture team [43].

Hiring people who behave more like entrepreneurs can increase the chances of new venture success. These people tend to be young and well educated, with a technical orientation toward development, and come from families where their fathers are self-employed. They tend to have a high need for achievement. However, there has been no relationship found between good grades in college and successful entrepreneurship. The overemphasis of an exceptionally strong technical background at the exclusion of other criteria can hinder the identification of a remarkable intrapreneur [47].

Many workers in today’s society have high levels of aspiration, tending to be more assertive in their drive to fulfill their professional needs [1]. Innovation can be aided when jobs are defined broadly rather than narrowly. When employees are given the freedom to define their own job, they perform at a higher level [31].

In the initial stages of a venture, acquiring skilled staff from within the company can be a challenge and should be reserved for the most crucial roles. One of these is for a person with the venture capitalist skill set that should be called upon to assist with the venture [4]. In some stages of the venture, utilizing new hires or contract labor can be beneficial when balancing the human resource needs of the venture, with the ongoing needs of the parent company [49].
2.4.7 Teams

Successful ventures have small teams of people representing a variety of business skills [47, 31]. These teams create new sources of uniqueness for a company by establishing a new kind of thinking. These teams are essentially responsible for the organizational memory that allows firms to “learn” [26]. The innovation process is knowledge-intensive, relying on individual human intelligence and creativity, and as such, development efforts are very vulnerable [31]. Each person leaving the team removes knowledge from the pool, taking secrets with him or her. And each person entering deflects energies and attentions toward themselves and away from the venture [30, 32]. This requires stability among the participants involved in the new venture, especially the venture manager or intrapreneur [31]. Key managers entering into a venture midstream are likely to change course in order to establish their own power; or because they might not understand the scope of the venture, they may make a change that causes interruptions [32]. All team participants should agree to a high degree of commitment, so that venture efforts can be maintained, instead of being diverted by the need for reintegration of people [31].

Keeping the team members isolated from each other or keeping the team completely isolated from the rest of the company can also contribute to a venture’s failure [27]. Effective communication and stability, both within the team and external to the team, is needed to maximize the venture’s effectiveness.

Researchers agree that politics, both externally and within a company can doom ventures before they even start. A 1999 study of a cross-functional development team suggested that organizational politics had a more significant affect on the team’s success than did the team’s own internal characteristics. A series of non-venture related decisions caused lost funding, relocated team members, and team members being removed without replacement. These actions forced a well designed team to utterly collapse [27].

2.4.8 Risk and Rewards

Most companies need to re-evaluate their company’s compensation scheme to promote successful internal corporate ventures [47]. Many companies have compensation systems that actively discourage entrepreneurial thinking [37]. Such systems promote staff based upon seniority, not merit, or punish failure, instead of rewarding effort. These reward
and penalty systems work against entrepreneurial behavior. In many cases, corporate entrepreneurs can risk alienation of upper management [43]. And, although participants in an internal venture do not risk any of their own capital, they could be in jeopardy of losing their careers [30].

In intrapreneurial ventures, new markets and new products are being developed to push the company into a new field. These ventures by their very nature entail risks and failures should not be punished. The reward for successful risk taking must be much larger than the perceived, or actual, penalty for failure [47].

Specific rewards for innovative activities may be a tangible means of supporting corporate entrepreneurship programs. These rewards can include cash bonuses, stock options, accelerated promotions and salaries, as well as non-financial rewards such as praise and certificates [9]. Many companies have tied an entrepreneur’s bonus to the performance of his or her venture. In turn, this permits a much greater reward, with few negative aspects. In 3M, one’s job title and compensation are linked directly to the progress of the new venture [47].

Much effort went into rewarding entrepreneurial ideas in Ohio Bell. Experts and corporate level management measured the benefit of each accepted venture. This measurement corresponded directly with entrepreneurial rewards granted to the entrepreneur. These rewards started at $50 and there was no upper limit as to what the manager could give [34].

Consideration should be given to the fact that monetary awards are not the only way to motivate and reward. Gifford Pinchot, in his 1985 book *Intrapreneuring* described the relationship of an intrapreneur to money as a simile to a football player and yards gained.

"The relationship of the entrepreneur to money is much like that of a football player toward yards. Watching a football player, you can see he cares desperately about yards and will go to great efforts to get them. But no one thinks that the football player has a fundamental desire for yards. Rather, yards are how one keeps the score on excellence as a football player. So it is with money for the entrepreneur. For intrapreneurs, a lot of the scorekeeping is done in terms of money made for the corporation rather than personal compensation [42]."

Essentially, for some people, seeing the company gain can be a reward in and of itself. Kanter talks about a company that desired to shift its culture from risk adverse to entrepreneurial. One method to share the new entrepreneurial spirit, was to have an idea fair,
where successful internal ventures, whether big or small, were “put on display” for others in the company to view. To create an authentic spirit for the fair, participants for each venture manned booths, answering questions and sharing ideas. Unknowingly, the company had created an atmosphere of praise for each venture. Individual participants felt like company heroes, explaining how they had helped generate additional revenue. Participants described the fair as being a reward almost as good as having the opportunity to participate in the venture in the first place [30]. So, not all rewards need to be financial to balance the inevitable risks of working on a new venture.

2.4.9 Culture

Many authors argue that entrepreneurial attitudes and behaviors are necessary for the firms to prosper and flourish in competitive environments [6]. In Deborah Brazeal’s 1993 study, she found that the careful construction and maintenance of an all-encompassing innovative organizational culture, rather than concern only for the venture as a separate entity, was a key to ongoing venture success [9]. To that end, corporations must institute deliberate programs to encourage innovation and entrepreneurship, including personal discretionary time [31]. However, a firm’s ability to increase its entrepreneurial behavior is largely determined by its management practices [6]. The culture at some companies unconsciously “squashes” this potential entrepreneurial spirit. For example, in one company managers wanted guarantees that the new ventures would not dilute the talent, capital, and executive attention needed for the core businesses [30]. 3M, a company who has avoided this “squashing of entrepreneurial spirit,” has had remarkable ongoing success in internal corporate entrepreneurship.

Ventures simply fail when organizational policies and procedures inhibit or do not encourage entrepreneurial activity [47]. Striving to maintain a “perpetual learning culture” can keep employees abreast of recent developments, sustaining this endeavor [37]. Operationally, a “culture of pride” can be fostered through abundant praise and recognition, perhaps via a proliferation of awards and recognition mechanisms [31]. 3M believes that the key to its success is top down encouragement of entrepreneurial behavior, with a lack of minimum size constraints for approval to start a new endeavor. Other companies believe that they are so big that pursuing small or ill-defined markets is fruitless. This causes them to
miss great markets [37]. One company spent about $10 million developing a venture. In the end, this venture was projected to contribute less than one percent of revenues and was seen as too trivial and too remote from the innovation needs of mainstream businesses for a $5 billion company. The venture funding was discontinued [30]. At 3M, the philosophy is to not reject small opportunities [47].

A challenge for large firms is to create an atmosphere where intrapreneurs can take time to shape, rework, and mold an idea before it is submitted as a proposal [49]. 3M’s “15% rule” shows one approach to how a culture of innovation can be maintained. Essentially, with the “15% rule” technical employees are allowed up to 15% of their time to work on any program or idea of their choosing. The working principle is not enforced, but it does not have to be. Specifically, the rule legitimizes different R&D activity that could lead to new business. No supervisor or manager can stop people from working on his or her program at 3M. The 15% rule preserves the employees’ opportunity to work on their ideas, while encouraging them to try new things [19]. The company prides itself on listening to its people and permitting those same people to make mistakes [1].

Historically, 3M has had a reputation for taking care of its employees. The company has had a policy of hiring at the bottom and promoting within. By placing a high priority on relocating displaced employees somewhere else in the company, it has created a culture that is less adverse to risks. And even though there are many 3M sites across the globe, it has an almost worldwide homogeneous culture [1].

Differing views, comparing the boldness of a young startup company and the ingrained culture of an existing company can create conflict. Kanter talks about a conversation she had with a new venture and its parent company.

“I was struck by the contrast between the two groups. The same changes that traditionalists saw as “too far, too fast,” were viewed as “too little, too late” by corporate radicals [30].”

What “usually” happens in a company, what management “usually” does, and what processes and procedures were “usually” necessary within a corporation point to the core of its culture. This culture can ultimately help or hinder the success of new ventures [21].
2.4.10 Organization

For successful internal corporate venturing, a company must first have clear strategic objectives and appropriate organizational structures [55]. Antoncic and Hisrich found a positive association between certain organizational characteristics and entrepreneurship [5].

Overall, highly innovative companies in the United States, Europe and Japan tend to be characterized by flatter organizational structures, smaller operating divisions and smaller projects [32]. In the early 1980s Kodak changed to a flatter organization, which resulted in the opinion that communication and marketplace changes happened much more quickly [30].

In his comments about why Hewlett-Packard had been successful in innovation, David Packard was quoted as saying,

“...As we got bigger, we decided that the way to manage this business was to break it down in small enough units so that people could have expertise in a particular field [29].”

Similarly Ted Jenkins of Intel recommends:

“We shoot for small organizations. My whole thing, including manufacturing and the whole ball of wax, is probably about 450 people to 500 people. So by the time you divide these up, everybody knows everybody else and you can just run around and say, ‘Hey guys, look at this. I just read this article, and we’ve got this technology, here’s a neat idea, what do you think? Oh, that’s good. Well, let’s do some work on this’ [29].”

Organizational adaptation, breaking from the parent company and investing in the new venture is a requirement for continuing venture success [56]. The application of mature company practices to management of new corporate ventures is not only inappropriate, but it even promotes failure [53]. Rosabeth M. Kanter, in her Ohio Bell study, talks about how the new venture organization was still mired in the old company bureaucracy. This, in turn, led to under-utilization of the new venture, keeping the parent company from reaping the maximum rewards from its ventures [34].

The organizational location of the decision maker responsible for a venture has been found to be important. Specifically, if decisions were made several levels of management above the entrepreneur in a venture, the decision was slower and less informed [47]. There was a general view that the decisions about a specific venture should be made as close to the venture as possible, while keeping corporate oversight to a minimum [37].
Internal venture organization can also affect the venture’s success. Organizational communication was viewed as a contributor to venture failure in R.G. McGrath’s 1995 study. Many of the less successful ventures neglected to develop a communication system for “bad news.” The result was that such news was de-emphasized. In contrast, more successful ventures created a forum for bad news to be heard. This allowed for an ongoing check and modification of the venture’s assumptions [38].

2.4.11 Resources

Literature recommends that corporations need to set up a department charged with the responsibility of searching for, identifying, and nurturing new ideas. This department should act as the new idea advocate [46]. In addition, the department should be given “seed money”. This is capital that does not have to show a short-term return [32]. This seed money provides the opportunity to explore and demonstrate new ventures, without having to justify the long term fiscal viability of the project [29, 30]. One company set up its new venture fund so that one-half of one percent of all sales from all divisions goes to support the fund [30].

However, spending large sums of money is not recommended either. Bloch and MacMillan observed that lax financial controls were one common cause of corporate venture failure [8]. One study found that successful ventures relied less on the corporate resources as the venture matured, while the opposite was found for less successful ventures [54]. And Von Hippel found that there was no “scale effect” between venture success and dollar investment, or between venture success and full-time employee count at the end of the first year [58]. 3M uses a management control system that allocates specific business resources, above and beyond cash, for the creation and development of new ideas. This system allows more freedom and more separation from the parent company [40].

Tensions between a new venture and the parent corporation can arise from the perceived benefits that ventures have received without having “completed” anything. People outside of the venture see that core company products were sold profitably, but instead of receiving money to upgrade equipment, new ventures receive money that they “do not deserve” [30]. Interdepartmental conflicts arise from “us vs. them” battles over human resources; time spent interacting with management, and discretionary funds [40].
2.4.12 Flexibility

Good entrepreneurial companies or ventures seize new opportunities quickly and are equally quick to abandon losing initiatives [37]. One cannot anticipate the best path forward from the very beginning. Instead, a firm must experiment, adapt and adjust in response to early feedback [17]. This operational flexibility should be built into the venture’s expectations so that the original business concept can be modified to fit reality [32]. A traditional planning cycle is shown in Figure 2. But what really happens in a venture is shown in Figure 3. By allowing for plan changes, ventures can maximize their chances of success [43].

A short planning horizon provides the venture with the capacity to quickly recognize environmental change and develop appropriate modifications [6]. Long planning cycles are time consuming and, when something unexpected happens, plans have to be redone [36]. Unfortunately, such plans are not always changed. In McGrath’s 1995 study, almost all venture failures were associated with the absence of change when things started to go wrong [38]. The thought that “good plans do not need to be changed” is false and hinders a venture’s flexibility.

Planning, by definition, has the natural tendency to limit flexibility. The more detailed the plan, the greater the inflexibility [6]. It is believed that successful startup companies often follow a radically different course from the one mapped out in their original business plan, emphasizing the importance of this flexibility [37].

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2.4.13 Familiarity

In their 1985 article entitled “Entering New Business: Selecting Strategies for Success,” Edward B. Roberts and Charles A. Berry created what they call a “Familiarity Matrix.” This matrix is shown in Figure 4. The familiarity matrix is a chart designed to help people understand the risks and probability of success or failure in different types of new business creation. They argue that development methods requiring high corporate involvement, such as internal ventures, should keep their technology and markets close to known technology and markets to attain success [46]. Supporting this, Thornhill and Amit found that the business similarity between a venture and its parent company did affect the success of the venture [54].

A slightly different view is that firms with a strong corporate image should pursue ventures highly related to existing businesses, increasing the probability of venture success. Low-image firms, on the other hand, should avoid businesses similar to the parent company, because the poor name brand can negatively affect the new venture, lowering its market share [50].

Familiarity of organizations is defined and refined by the types of problems companies have tackled in the past. This, in turn, creates specific abilities, based on previous experience [18]. Such understanding might be acquired through a new market channel that was developed or a better understanding of a customer segment. By keeping internal ventures in the New Familiar/Base areas, the required business and technical expertise can be obtained from within the company. Roberts and Berry indicate that large-scale entry decisions outside this approved area are liable to miss important characteristics of the technology or market, reducing the probability of the venture’s success. They even suggest
that if companies desire to get into both unfamiliar technologies and unfamiliar markets, that they should take a two-step or even multi-step approach. First, a venture, though not necessarily an internal venture, should be devoted to building greater corporate familiarity with the business segment. Once that has been achieved, the parent company can then decide whether or not to invest more resources for developing a full-blown business [46].

As an example, thirteen of Exxon’s nineteen internal ventures involved entirely new technologies with unproven markets and greater risk. In cases where both the technology and market were new, the risk was doubled, leading to very high failure rates [52]. As another example to support the familiarity concept, the only successful ventures in Ohio Bell were those that were tied to mainstream businesses in some way [34].

Roberts and Meyer’s research found that new product development ventures were most successful in terms of growth when they concentrated on one key technological area and introduced product enhancements related to the parent firm. In contrast, the poorest performing ventures had tackled “unrelated” new technologies in attempts to enter new product-market areas [46]. Von Hippel also found a strong correlation between the venture’s success and the prior experience of the parent corporation and/or the venture team personnel with the area addressed by the specific venture [58]. Surprisingly, Exxon found no meaningful correlation between technical experience and a venture’s success [52]. However, while Exxon’s internal ventures had varying levels of technical experience associated with them, as a whole, Exxon had much less technical experience than the companies in Von Hippel’s study. This scale difference may help explain the difference between the Von Hippel and Exxon findings.

2.4.14 Market Understanding

Good intrapreneurial ideas do not usually occur as a flash of genius. These ideas are the one or two refined ideas created through the mental grinding and straining process of understanding a specific field, market or business. Constantly scanning the environment and recognizing opportunities is paramount in the creation of these ideas [6]. It is thought that intimate knowledge of a customer and market can help to polish these ideas. Conversely, the lack of any hands-on contact with customers or products can adversely affect a new venture [21].
2.4.15 Measures

Mainstream activities are commonly evaluated by whether they are profitable, offering a return on past investment. These activities are possible because of previous knowledge about a product or business. But mainstream projects also carry a burdensome accumulation of sunk costs, commitments, expectations or traditions from the past. Realistic expectations for a new venture need to be understood by both the parent company and the internal venture organization [9]. New activities, such as an internal corporate venture, may require a great deal of investment without a clear picture of any immediate return [32]. Unfortunately, the most widely used accounting measures of success (such as return on investment, return on equity, and profitability) are unavailable at the outset, when the key funding decisions must be made [38]. Subsequent funding can be based on projected performance, but not initial funding [47]. There is no past experience with these activities, meaning there is very little in the way of prediction or scheduling capability [32].

These beliefs have led to the recommendation that corporations pursuing internal corporate ventures must institute deliberate new business performance measures and remove the use of short-term oriented criteria [31]. The short-term criterion, such as return on investment or time to break even, is imperfect because it only emphasizes the obvious dollars and not intangibles or possible new markets.

Risk-averse firms have relied on milestone-driven processes that are outcome-oriented. These processes laboriously evaluate each proposal in minutia, trying to minimize the chances of making bad choices. However, other firms recognize the stifling effects of such a process. While the process minimizes the chances of a large failure, it can miss opportunities. Some ideas are unknown or so new that they cannot begin to gather enough concrete data to meet all the requirements of the process [49].

Using strategic controls to base performance on strategically relevant criteria, as opposed to objective financial information, would be consistent with the entrepreneurial process [6]. Any lack of appropriate assessment metrics can be a prelude to failure. When goals are inconsistent, difficult to obtain, vague, not understood by decision-makers, or process-oriented (as opposed to outcome-oriented), companies could not tell if the ventures were successful or failing [38]. McGrath found disturbing evidence that a lack of true venture measures led to unprofitable behavior. Even with evidence of market success, some
projects were unable to capture the support of senior managers. With other ventures, even poor performance in the marketplace failed to convince some senior managers from backing particular ventures. When ventures were valued by a firm, they might continue to be funded, even when independent observers would doubt their viability. Conversely, ventures without company value can be doomed, no matter how attractive they might appear to an objective observer [38].

Corporate accounting procedures should be modified for an internal venture, as they can burden the venture with the company overhead that a small, external startup would avoid. Unique provisions need to be made between the venture and the corporation, in order to avoid prematurely ending a new venture [47]. These new ventures may not need all of the costly services designed for the core business [32]. The new venture needs to have the ability to shun traditional corporate costs. Entrepreneurs in start-ups typically start with very little money. They ask, “What’s the absolute minimum we can spend to do something [37]?” By allowing ventures to break free of corporate financial burdens, the ventures will have a greater chance of success.

2.4.16 New Technology

The presence of new technology in a venture is believed to be correlated with venture success [58]. Perhaps this is because opportunity-seeking intrapreneurs find and exploit markets that others have missed or that new technologies have created [37]. However, Sykes found an inverse relationship between venture success and the level of market and technical risk at the time of the venture investment [52]. This seems to indicate that at Exxon when new technologies were successfully utilized in a venture, they were not radically different than existing technologies. In its internal R&D Xerox had little trouble dealing with very high degrees of technical uncertainties. When new printer and copier technologies threatened Xerox’s product line in the late 1960’s, the company responded quickly and decisively, out-designing and out-selling their competitors in only a few years. However, when Xerox worked on new ventures with technical uncertainty combined with market uncertainty, these new ventures utterly failed. Successful commercialization of a new technology involves managing both the technical and market uncertainty.
A survey of internal technical audits in 3M showed similar results (Figure 5) [2]. By studying market relatedness and technical uniqueness of projects in comparison to known 3M products or fields of expertise within 3M, 3M found a clear relation between how much the company knew about the market, how new the project was and how successful it was. Simply put, the less 3M knew about the market and the newer the technology was, the less successful it was.

### 2.4.17 Education

Intrapreneural ventures need as much analysis and preparation as entrepreneurial ventures [2]. However, the lack of a well thought out business plan and common business knowledge were two of the main reasons why sponsors chose to not fund specific ventures [35]. New ventures are not completed by individuals, but are usually started by individuals. As such, intrapreneurs need team building skills, and a firm grasp of business and marketplace reality in order to be effective [42]. One company uses “coaches” to help develop and refine ideas [30]. While this helps create a better proposal, it may still not meet minimum objectives, simply because the intrapreneur is inexperienced and unknowledgeable.

In his 2000 study, Peter Koen observed a university providing “executive education” specifically for the purpose of educating intrapreneurs. In the 14 week class, teams had to generate and develop a venture proposal. Lectures and homework guided the students through the business plan creation. Students were required to learn about their company’s venture process as well as to study successful and unsuccessful ventures. Subsequently, the team had to submit their proposal through one of their sponsoring company’s internal venturing processes. Through this class, 19 of 33 ventures were given funding [35]. Such

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<th>NEW PRODUCT PROGRAMS AT 3M IN AREAS OF UNRELATED TECHNOLOGY (n = 100 internal audits)</th>
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<td><strong>MARKET</strong></td>
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<td>(25% success)</td>
<td><strong>Examples:</strong> Transparent Tape, &quot;Bul-pul&quot; products</td>
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education shows how more skilled and informed employees could give the company a “head start” in its venture efforts.

2.4.18 Reflection

All companies that have started internal ventures have had internal ventures that have failed. What a company does with these failed ventures can affect the outcome of subsequent ventures. If failed ventures are viewed negatively and “swept under the rug” lessons will be lost [24, 39]. However, when the efforts of a failed venture remain valued by the company, the knowledge developed is retained and becomes the basis for future entrepreneurial activities. While not classified as an internal venture, spectacular new product failures, like the Ford Edsel, are well-known. What might not be so well-known is that Ford learned from the failure of the Edsel. New markets and a different type of buyer segmentation were discovered. Wielding this new knowledge, Ford developed the Mustang, which is one of its all-time best selling cars [39]. Such failure and subsequent learning events can benefit both standard R&D projects as well as internal ventures.

2.4.19 Geography

According to Michael E. Porter and Scott Stern, the location of innovation matters. Innovation and the commercialization of new technologies take place in clusters. The clusters are geographic concentrations of similar companies and institutions in a particular field. A company within a cluster can often source new components, services and personnel more rapidly than competitors outside of the cluster. For example, the United States was an especially attractive environment for innovation in the pharmaceuticals in the 1990s, while Scandinavia was the center of high rates of innovation in wireless technology [44]. Most internal ventures are located within the corporation. However, if there are multiple corporate sites available to choose from, then locating the venture close to a relevant cluster may improve the chances of success.

Location of the venture internally or externally to the company is another consideration. If the venture is located within an existing corporate site, the new venture may never be able to develop its own “personality,” because it may be overshadowed by the corporation’s identity. If a unique style is able to bloom, and the venture is located on site
with the parent company, conflict may arise between the now distinctive groups. However, if a venture is located “off site” and separated by too much distance, the key benefits of having an internal venture, human capital and shared knowledge may be lost [30].

2.5 Summary

The literature that was reviewed generally agreed upon what were believed to be the key factors of internal corporate venture successes and failures. While each factor was not mentioned in each reference, there was a great deal of overlap. The one contentious area was “company familiarity,” discussed in 2.4.13. Literature in the ‘80s and ‘90s disagreed as to the relevance of this role. However, in the past 5 years, there has been much more acceptance that the company’s familiarity with a business is an important factor for achieving success.

The top five factors in creating a successful internal venture are seen in the literature to be the venture champion, well executed teams, effective sponsorship, dynamic leadership, and a well thought out plan for dealing with the risks and rewards of internal ventures. These factors were accumulated through various studies of different corporations.

It is possible that key or critical factors differed from company to company based on the company’s situation. For example, the company culture could be a major influence on success for all internal ventures. The study of one company might show how the culture destroyed the internal venture. In the study of another company, the culture may not be believed to be critical, because the culture was such that it did not seem to benefit or interfere with the internal corporate venturing activities. In such a case, the culture was still a critical factor; it might have just been overlooked because of its innate existence.
Chapter 3: Interviews

While the previous chapter recounts historical research and literature about internal corporate venturing, this chapter summarizes recent one-on-one interviews with 14 venture-related individuals from 5 companies that have carried out internal venture programs. The intent of these interviews is to create a modern-day picture of what companies are doing, and what they would like to be doing, given the time and resources, to maximize the success of internal ventures. Initially, the structure of these companies’ venture organizations will be described. Then the chapter will discuss success and failure factors for these companies. The factors are grouped similarly to the previous chapter.

3.1 Internal Venture Structures

Internal venture organizations exist for various reasons at the different companies. All but one company specifically stated that it desired to create an entrepreneurial culture within the parent organization through the creation of internal ventures. Many interviewees believed that by starting new businesses within the new venture organization, they could create entrepreneurial skills that were then transferred to the rest of the company. These skills could lead to a better understanding of how business and technology interact. In some cases, this was through new venture and parent company one-on-one interactions. In other cases, this was primarily accomplished through rotating new venture employees back into the parent company, to use the new skills that they learned in the venturing process. After venture team members returned to the core business they were said to have a much better understanding of how their work impacted the larger organization.

Improving the financial success of the parent company was another goal of the internal ventures. Some firms measured this through the money that the ventures returned to the corporation when they were sold. Other firms just believed that by creating cultural change, the effect over time would be to increase the individual employee’s performance, and therefore the company’s performance. This type of benefit was much harder to measure and confirm. One interviewee supported the desire for financial rewards, while indicating that the possible losses were much lower than a typical business unit might have incurred:

“The whole reason the new venture organization exists is to play. It is an option for the company to invest in an area that might be very fruitful, without having to write
a $100 million check. When you are spending small sums of money you gate your growth rate. You are either going to get going in a new business space at a far cheaper cost than any other way you can if you had a product division do it, simply because the overhead cost is so much less. So we are going to spend pennies on the dollar compared to anywhere else in the corporation. If you are successful, the ROI (return on investment) is huge for these, because there is very little I (investment). If you are not successful, you haven’t lost much. If you are going to fail, at least you have failed at the lowest possible cost.”

The final frequent goal for internal ventures was to retain respected and key employees. It was thought that without the opportunity to work on new businesses or develop new creative ideas, entrepreneurial employees would leave the company, seriously affecting its future performance.

Most participating companies had created an internal venturing organization. This organization was funded to create and incubate new business opportunities. All of these organizations solicited new ideas from their parent company employees. A few actively pursued searching for ideas within the company, either through talking with people or reviewing invention disclosures. Ideas had to fit the company’s strategic objective or interested markets, or they would not be considered for funding. Initial efforts in building the idea centered on identifying the biggest risks and addressing them one by one.

Once potential ideas were envisioned, they had to overcome a number of “gates” and “review boards.” Essentially, the gates were pre-assigned stages in the business planning cycle where funding reviews were held. At each gate presentations about the business, market and product were made to different levels of the review board. At the idea stage the review boards were comprised of people within the venture organization itself. Alternatively, the ideas were peer-reviewed by business and technical individuals who stated whether they were impossible or not. As time and funding grew, the review boards comprised of higher and higher levels of management within the parent and venture organizations. In general, the internal venture organizations were viewed as incubators of ideas. Once the idea reached a certain stage, what to do with it depended on the company.

When ventures were successful, companies either focused their efforts on building the venture into an internal business unit in the parent corporation or spinning off the venture into a new company. One company tried to both spin out and absorb different ventures during the same time period. They found that these efforts were very different, requiring
unique skills. To reintegrate a venture with the company, skills in dealing with company politics, finances and personnel were needed. When spinning off companies, people needed to know how to deal with new external investors, legal challenges and living without the company resources. To increase success, one company decided to focus only on absorbing the ventures into the parent company by creating new business units and avoiding spin offs. The only other exit strategy mentioned by the companies for these new ventures was licensing the Intellectual Property (IP). This had the advantage of high financial return with little capital investment. While most of these companies desired to license IP, none had created an ongoing program to successfully support such an effort.

3.2 Success and Failure Factors

If internal venture organizations were created to develop entrepreneurial culture, create financial returns and retain key employees, what did they find helped or hurt these objectives?

3.2.1 Leadership

Leadership throughout the internal venturing process was seen as important to the viability of ventures. Leaders were recognized at the sponsor, venture manager, and venture champion roles. Each of these people provided motivation and direction for the people working around and under them.

When leadership was poor in the venture manager role, ventures failed. When leadership was poor in the venture champion role, ventures failed. When leadership was poor in the sponsor role, time and money were wasted, multiple ventures became irrelevant, and ventures failed. One interviewee noted:

“I worked hard in choosing the best venture manager for a specific project. He was technically astute, well liked, and had a good grasp of the potential business. Unfortunately he could not get his troops [team members working under him] aligned in a single direction. The team was brilliant, coming up with new ideas constantly. But they needed to buckle down and pursue one or two of their ideas in depth to move on with the business. The venture manager could not inspire the team to build a focused idea. Within four months, two different checkpoints had been missed and the venture was cancelled.”
Without a leader to guide the team toward a single goal, there was no team direction, no furthering of the business, and no success.

By changing leaders, the short term effectiveness of the venture and venturing organizations was decreased significantly. People spent time trying to figure out the new direction, the new goals and if they had a job. However, multiple interviewees noted that when poor leaders were replaced with good leaders, longer term or new ventures had higher rates of success. One interviewee recalled his transition into a new team as a replacement venture manager:

"I was given an opportunity to become a manager on an existing project. Two weeks previously, the project had missed a gate [go/no go funding decision]. Apparently some people higher up believed strongly in the project. They didn’t believe in the manager though. Wham-Bang! The old guy [previous project manager] is out and I’m in. The team was demoralized by the gate miss, spending most of their time in those two weeks looking for a new job. I met with each team member, asked them if they believed in the project, and then asked them if they would help me make it go. To a “T” everybody said “yes”, and “yes”. We modified our approach, redoubled our efforts, and then made the next two gates without a hitch.”

While this type of leadership change has the potential to waste time and money, someone with true leadership skills can help to salvage a struggling venture.

3.2.2 Top Management

During the interviews, it was clear that top management had the ability to make or break the company’s internal venturing group and process. Initially, it was viewed as important for top management to set a strategic direction for the internal venturing group. The lack of such a strategy caused some venture groups to become confused about their goals, try to “do everything” and then fail.

In cases where top management had publicly committed to venturing and then followed through, there was more success. Top management teams that reinforced their commitment by encouraging other business units to support the venture group’s requests ensured that the ventures themselves would have an easier time acquiring internal resources. When ventures were unable to utilize the parent company’s resource base, they were much more likely to fail, since one of the main benefits of creating internal ventures instead of
external ventures is the access to the parent company. If top management failed to promote this access, the ventures tended fail.

Multiple interviewees also stressed the importance of the attention span of the top management team. One person said:

“If you are committing yourself to this kind of effort and aren’t in it for at least 5 years, the likelihood of seeing anything big come out of it is very small. If you aren’t willing to dedicate the resources, even during the tough times, then don’t even start in the first place.”

This person had lived through multiple down cycles in the economy. During each down cycle, there was a need to justify the money spent on new ventures. No matter what the justification though, new ventures were lumped with traditional R&D and had 10-20% budget cuts imposed. He continued with this though:

“Sure, my projects take a number of years to become fruitful. They might stay in my area [internal ventures] for a couple of years, get transferred to a division, then take 4-6 more years before they are even breaking even. But we are talking about the future of our company. I have my own process for determining the viability and funding of my ventures. If a venture isn’t cutting it, it doesn’t get money. Period. To have somebody at corporate arbitrarily cut my budget means that I have to disband or put on hold some number of projects that I believe are the future of our company. When our corporate group (?) does not realize that they are short sighted, they only hurt themselves.”

It takes multiple years for internal ventures to start positively affecting the company. If the top management cannot commit to supporting the venture group for the long term, then it is better to not even start internal venture projects.

It was shown that top management can negatively affect the health of a venture. When the top management got intimately involved with a venture, there were dire consequences. In one venture, top management got involved with funding details causing the venture’s business plan to shift dramatically. This, in turn, negatively affected the long term growth and profit of the venture. More specifically, the business was initially started as an internal venture, but was modified into a venture utilizing external venture capital funding. It was based on a neutral 3rd party company acting as an intermediary between competing companies and relied on neutral ownership and funding. The venture got, but did not take any of the funding. When top management discovered how big the potential profits were involved, and how excited the venture capitalists were, the project was ordered to revert back
to a fully owned spin-off. The venture team argued extensively that such a spin-off would not be viewed as neutral, severely limiting the upside potential. The top management disagreed, and the venture was spun-off as a subsidiary. The subsidiary became a multi-million dollar company, but the venture team expected that the neutral company would become a multi-billion dollar company. Ultimately, the business became profitable but, was not the fabulous success that the venture team believed that it could be.

In another venture, top management was too excited and focused on a small venture team, pressuring them to get their venture to market. The venture team was developing a new and exciting service. Moreover, such a service could be expanded into a whole family of services and was central to top management’s vision of the company’s future direction. One person in the top management excitedly mentioned the new service introduction date during a public event. The venture ran into some difficulties that were jeopardizing the promised release date. The top management team decided to release the service on the announced date, rather than absorb a potential stock price drop upon news of delay. The venture was unable to overcome the difficulties before releasing, causing widespread dissatisfaction with customers. Within six months, the service was halted and no “family” of services was ever introduced. While it was unclear whether the venture would have succeeded or not, rushing to market was seen as a large contributor to the venture’s failure.

Top management set the stage for internal venturing in each corporation. Through the top managers’ long term, hands off support, ventures had the maximum chance for success.

### 3.2.3 Sponsorship

The companies interviewed agreed that the sponsor was responsible for the initial creation of the venturing organization. Sponsors were described as being more hands-on than top management. They needed to secure the venture group’s funding and provide up-to-date, clear expectations of what the venture organization was to deliver. One sponsor held monthly informal “coffee talks” with all of the internal venture participants. These coffee talks gave the sponsor an opportunity to share thoughts and issues while fielding and answering questions about the direction that the venture groups were heading.
Good sponsors were seen as having the vision and strategy to drive others to execute internal venturing. They were excited about developing new businesses and believed that venturing was critical to the company’s future. Sponsors helped the ventures by changing perceptions of parent company employees about the venturing organization. One sponsor dedicated many hours each week to thank managers in the parent company who were willingly (or unknowingly) donating resources and time to a specific venture. In this conversation, the sponsor had the ability to share their thoughts and excitement about the opportunities the new venture opened for the company. In this way the sponsor was able to actively rally the company around the new venture project. Parent company managers’ feelings changed from being annoyed about the “drain on resources” to being pleased about the usefulness of specific ventures.

When a sponsor was not sure what he or she really wanted, the ventures became uncoordinated, lacked focus, and had no discernable direction. One company mentioned how the ineffective vision and strategy of a sponsor led to poor venturing results. Top management had been supporting an internal venturing activity for many years. However, during the time that the poor performing sponsor had been running the venturing activities, the success rate of ventures was surprisingly low. Removing the sponsor and inserting a sponsor with a new and different vision has put the venturing organization back on track. The new sponsor dictated changes, such as lowering the quantity of ventures and increasing the number of full time employees on each venture. By making these changes, the sponsor showed that concentration on a few critical ventures, instead of spreading resources too thin, was an important strategy guiding the success of the ventures.

It is clear from these interviews that a good sponsor is one with effective vision and strategy and who could positively interact with the rest of the corporation. A poor sponsor is one who lets the venturing organization and ventures struggle, providing no help or direction.

3.2.4 Venture Organization

Four of the five companies interviewed had a structured internal venturing organization. A typical internal venture organization chart is shown in Figure 6. In this organization, the sponsor oversees both the venture director and venture organizer. Below the sponsor, the venture director has multiple venture managers reporting to him or her.
Each of the venture managers is responsible for managing both a team and a specific venture. Reporting to the sponsor, the venture coordinator has a business manager and an initial manager reporting to him or her. The business manager hosts specific business functions, such as accounting, finance, business plan creation and a venture capital expert, that all venture participants can utilize. The initial manager is responsible for starting the evaluation of those ideas. Generally, the overall organization is charged with the identification and nurturing of new internal ventures. However, the most common charge with such an organization is the duty to protect and insulate the ventures from the parent company.

Some people described this need as “preventing the company anti-bodies from killing you” or even “preventing the company from loving you to death”. Company support was
viewed as a good thing, but too much attention was thought to be bad. One manager put it this way:

“Most people would say, ‘Hey it’s a good thing if the Chairman or CEO wants to use your product in the [trade show] demo.’ Most people would say, ‘Wow, that’s a good thing.’ But you know what? When you are a small business that is not a good thing at all. This project isn’t supported by a group of 1500 people. There isn’t a bunch of tech marketing engineers and techs and demo people. So, if someone is building a demo for two weeks, the product isn’t getting built.”

Internal ventures needed the resources and help from the parent company. But those same ventures did not have the manpower to respond to repeated requests for information, demonstrations or even just interest from other parties. The venturing organization was seen as the one-way shield between the ventures and the parent company. Interviewees understood that this shield would not last forever though. As a venture took on a life of its own, the demands put on it would become much greater. One person summarized this difficulty by reciting what a colleague had told him, “It is difficult to provide adequate insulation from the company. You can’t hold back the Nile with a cup!”

 Nonetheless, internal venturing organizations, in general, make it a practice to provide as much insulation from the parent company as long as they can to give ventures the greatest chance of success.

### 3.2.5 Venture Manager

All companies interviewed saw the venture manager’s responsibilities as building a team, leading a team, and creating an environment in which the team could succeed. The venture managers were viewed as “a shepherd and guide, but not a hands-on ‘doer.’” The manager’s role was seen, in all interviews, to change over time. Initially the manager’s role is to drive the team and make things happen. As the venture matures though, the venture manager needs to utilize more business sense, in effect, run a small company.

In all cases, venture managers were chosen for specific reasons. Sometimes the venture manager was brought from the inside of the company. Such venture managers usually had been small business owners or general managers of divisions in large companies. They were well-liked in the parent company and had multiple years of experience within the company. These managers were chosen for their entrepreneurial and business knowledge, as
well as their social capital and ability to understand and plow through the parent company bureaucracy. Interviewees cite instances where serial entrepreneurs (starting businesses both internally and externally) were positively utilized to give maximum potential success to the venture. Other people mention how some of the parent company’s internal managers desired to work their way into becoming venture managers. These people believed that becoming a venture manager was a “golden opportunity” to demonstrate their leadership potential. Some companies have worked hard to bring in external entrepreneurs to make up for lack of entrepreneurial knowledge in the team. However, where or how the venture manager came from did not seem to correlate with the venture’s success or failure. On the other hand, the qualities of the venture manager did affect the venture’s performance.

There were similar features noted for successful venture managers. They generally had some type of entrepreneurial experience. One interviewee talked about a successful internal venture manager:

“This guy was good. He had gobs of experience. He had started 3 separate companies on his own time. One was successful, the others folded. But, he learned from each one. He’s now run half a dozen of our projects. Sometimes he is the guy who comes up with the new idea. Other times he is asked to help out because of his ability. Always, he is the guy with the biggest drive and motivation to make the project succeed. And you know what, he does. His projects just work. He knows how to spot good ideas and assess the risks. He kills projects quickly and makes the others successful. He is an entrepreneur and he knows how to lead his team.”

Interviewees mentioned that the successful venture managers had the leadership and business skills to motivate and set direction for the team. These managers had personal credibility with the internal organization and social capital to use on behalf of the venture. And perhaps most importantly, these managers had the desire to lead the new venture.

3.2.6 Venture Champion

The people interviewed believed that some person, such as a venture champion with the drive and desire to see a new venture succeed, was important to the success of venturing. Interviewees noted that not all ventures that had a champion succeeded, but all ventures that lacked a champion failed.

A venture champion was somebody who was committed to the venture wholeheartedly. The champion did not necessarily manage the group and was not responsible for
budgeting, hiring or organizing in the typical sense, but did do whatever was necessary to get the project to progress. This person had some entrepreneurial experience and was sometimes the originator of ideas. In interviews, venture champions were most easily recognized by their ability to get things done, even with no official project started. They lured people into working on their team, to making commitments when needed, and they obtained the resources needed any way that they could. As the venture progressed, the champion sometimes changed. One company even expected new champions to arise and thrive as the venture progressed.

Multiple interviewees believed that the initial inventor of an idea or product was not always the best venture champion. The inventor could be creative, fun and exciting, but perhaps he/she lacked real leadership skills and got too egotistical as the venture grew. These types of inventors dragged ventures to failure when there was no capable venture champion in the team to support the inventor.

Venture champions are important to the success of ventures. All interviewed companies believed that these champions could seemingly come, go and change, but if they did not exist, ventures lost a certain amount of drive and leadership. Without these skills, the internal ventures quickly failed.

### 3.2.7 Staffing

Staffing a new venture was described as a challenging proposition. People who worked on the venture could come from within the corporation or from the outside. Both internal and external people had their advantages and disadvantages. Additionally, entrepreneurial experience of individuals was seen as a contributing factor to success of the venture.

When venture managers started to staff a new venture, there was a tendency to look within the company for workers. One company described their internal venture process as taking internal employees with an engineering background and moving them onto new venture teams. As each venture wrapped up, these same employees were rotated to new ventures. This process was similar to how the parent company utilized normal employees. Unfortunately, these people generally had no entrepreneurial or business experience and their ventures were not very successful.
Another interviewee talked about employees who wanted “welfare, wanting the group to bend to their needs and using threats to get jobs.” Such people were generally excess to the needs of the parent company and were looking for any opportunity to stay working. Venture managers did not feel that such people would positively contribute to the venture, citing their lack of skills and lack of enthusiasm to see the venture succeed.

On the positive side, using internal employees in some companies allowed existing personal networks or social capital to benefit the venture. One company even required that venture team members bring social capital to the venture. Venture participation was limited to people with parent company experience and good, well-cultured relationships with a wide range of internal employees and divisions. These participants were then able to contact others in the company to obtain resources or get things done. These contacts helped bring awareness of the ventures to the parent company, increasing acceptance of the work the venture was trying to do. By utilizing this social capital, venture success increased.

Using external employees, such as contractors or even new hires, had its advantages and disadvantages as well. When companies were able to acquire external employees with significant entrepreneurial and startup experience, the venture benefited. And, when crucial skills were needed for only a short period of time, using a temporary workforce allowed work to be done without incurring long term overhead.

But there were downsides to using external employees for new ventures. New hires had a severe lack of social capital, knowing nobody and nothing about the company. The time it took to train and orient new people affected the productivity of the venture. And, when there were company veterans and external people on the same team, conflicts arose about “the way to do things.” Internal employees tried to do things the same way they had for 20 years... but new employees brought a different perspective.

When venture managers discussed the staffing for their ventures, they believed that the most successful ventures had a mix of new people and old people, while trying to get as much entrepreneurial experience on the team as possible.

### 3.2.8 Teams

The specific makeup and stability of the team were thought to be contributors to the success of internal ventures. Having the right people at the right time was necessary. The
right people were team members with the correct technical, business and entrepreneurial backgrounds to create a functioning team. They all needed to be dedicated to the venture as well as excited about the venture. For the success of a venture, it seems that, beyond the venture manager, all team members should be equal in rank, with no function subservient to the other.

When contractors or non-permanent team members were brought into one failed venture, they reported into an existing team member. This created essentially two teams with a communication filter between them. Another interview revealed a venture that failed when the venture manager was unable to build any team unity. Without such cohesiveness it was difficult for the team to perform at maximum efficiency.

Perhaps the single most stated comment about internal ventures was the importance of team stability. When team members were lost or replaced, the teams had to “start over,” training new people, learning new jobs, and dealing with the transition. During this time there was very little productive venture effort. One successful venture manager took the need for stability to an extreme. When a technical member of the team was not working hard enough and doing his job, the other team members became upset. Most members wanted the unproductive team member replaced. However, because of the recognition that such a replacement would be a serious issue for the venture; the manager used other methods to deal with the problem. By talking with the deficient team member and devising incentives to get him to work harder, the venture manager turned an underachieving person into a team player. The modified behavior did not make him the ideal employee, but he did change enough to complete his part of the project. Such effort on the part of the venture manager was seen as averting disaster, by keeping the venture team together.

One interviewee underscored the importance of having a well rounded, functioning team. He said, “Give me a “B” (business) plan and an “A” team over an “A” (business) plan and a “B” team any day.” Another interviewee described a challenging venture that he was involved in. Every month a critical new issue would arise in the business plan. One time, it was a law being unexpectedly implemented in Europe. Another time, a key customer withdrew its participation and pledged purchase of product because of economic issues in a separate division. But the interviewee described how the team members tackled each new challenge with renewed vigor and creativity. Time after time the team astounded the venture
organization with the problems that it overcame. Today, that same venture destined to be doomed each month, is a thriving division in the parent company. The team was viewed as paramount to the venture’s success.

3.2.9 Risk and Rewards

In discussing various risks and rewards for individuals in internal corporate ventures, there were no unilateral consistencies between rewards and venture success. Instead, there was a strong feeling that rewards had to be balanced with risks to achieve optimal success. When risk and rewards were out of balance, ventures tended to fail.

The corporations interviewed used different exit strategies for their internal ventures. Some firms invested in internal ventures and then grew those ventures into company business units. Other firms invested in internal ventures with the primary goal of spinning out businesses. Because of this, the risks involved to the individual participants varied greatly. In the first case, team members are generally rotated through different ventures or continue with the business unit when the venture was completed. These rotations lead to a relatively stable employment situation and are therefore low risk. In the case where companies were spinning out ideas, team members generally left the parent organization to start the new company. This could be very high risk as the likelihood of failure was large.

Companies that had low risk, stable employment situations for their internal ventures paid venture employees similar salaries to what other parent company employees would expect to earn. This salary level was seen as a contributing factor to failed ventures when there were no other types of rewards being given.

Team members in low-risk, stable-employment, successful ventures still had similar base salaries compared to parent company employees. However, these team members seemed to gain some motivation from the personal visibility they received from company executives and peers during product and poster fairs showcasing their ventures. Additionally, successful ventures were more likely to give higher levels of stock options.

The firms that relied more heavily on spin offs viewed the venture employees’ risk as higher. When internal employees were recruited, monetary compensation tended to increase the closer the venture got to spinning off. Venture employees that were recruited externally for spin off-focused ventures generally had very high levels of entrepreneurial experience. In
this situation, venture managers and sponsors felt added need to stretch the parent company’s compensation package to reward these recruits as much as possible. One company used phantom stock options as incentives to these employees. A phantom stock option is an option to take “venture value” and turn it into cash, based on either a formula or an independent, third-party venture valuation, to determine the worth of the venture. The venturing organization did not believe that stock options in the parent company would help motivate new people working on these ventures. The parent company’s stock had done OK, but because the company was large and mature, the potential increase in value of the parent company’s stock was limited. On the other hand a start up company stock has much higher potential for increased value through an initial public offering or an acquisition by a larger company. By tying the participants’ rewards to the specific venture through phantom stock options, the parent company was able to create a high reward startup environment while still under the umbrella of the larger corporation. A person in this company talked about his rationale of maximizing financial rewards for external hires:

“The minute you attract external people to your venture, using a ‘big company’ comp package, you have gotten the wrong person. You have attracted somebody that is risk adverse, (who is) more (concerned) about short term cash, and can’t drive a startup the way a serial entrepreneur can.”

So, while no interviewee directly linked individual participant rewards to success, all of them believed that getting the best people and best team was critical to venture success. One way to attract the best people is to offer rewards, whether they are financial or include other types of recognition.

3.2.10 Culture

Parent company culture was viewed as a factor contributing to success or failure of the internal ventures. Companies in this study were large, successful corporations, viewed as conservative, from both an external and internal perspective. As such, when ventures took forays into unknown businesses, many company managers became uneasy about the negative prospects. This conservatism extended to aspects such as “brand name equity.” A successful, established brand name is a large potential advantage to an internal venture. The brand name can be used to endorse a new product or service, giving internal ventures a head start when compared to external startup companies. However, more often than not, new ventures were
discouraged from using the parent company’s brand because of the potential financial liability.

In some areas though, the company culture helped ventures be successful. The best example of this that was mentioned was the practice of “post-mortems.” A post-mortem is a discussion or group of meetings at the end of a project designed to understand what went well and what went wrong with the project. Two of the companies mentioned the use of a post-mortem to understand what went wrong with a failed project. One company however, used post-mortems at the end of every project, whether successful or failed. This practice was so instilled in the venture employees, that every venture had a post-mortem. By using the strength of this learned practice, ventures had a greater chance of success.

3.2.11 Organization

The way that ventures were run, how decisions were made, and the interactions between venture and parent company, all affected the success and failure of various internal ventures.

The employee of one company commented that how the new ventures organization was perceived within the parent company significantly affected the support that the ventures received. The interviewee said, “In a large organization, there are only 10-20% of the people who understand new ventures. The rest of the guys are just asking, ‘Why in the world are we spending money over there?’”

When the organization seemed to lack good business knowledge, it was viewed as “draining resources”. But when that same new venture group was reorganized with a flatter reporting structure and more business savvy people, they gained respect. This positive perception directly affected the amount of parent company resources that the ventures received, increasing the success of the new ventures.

Decisions that took too long were noted as a factor for failure. In a startup-type world, entrepreneurs can make quick decisions about company direction and resources. In an internal venture, the more something cost, the higher up the management chain the approval decision was made. Not only did this take time, but the further away the managers were from the actual venture, the less informed and poorer the decision was. These factors have contributed to some failed ventures.
Companies that utilized a spin-off-type approach to their internal venturing faced a unique organizational challenge. Simply put, the new venture could not “sell” anything while under the parent company umbrella. The parent companies did not want to be the sole source of funding for the spin-offs. These limitations lead to the problem of trying to raise money from venture capitalists (VC) before having proof of sales. Most VCs were not interested in investing in ideas at such early unproven stages, but the ventures could not prove themselves without some VC money. This Catch-22 situation led to more than one failed venture among the companies interviewed.

Visibility and communication of the venture also affected its success. One venture had no “safe” environment for forthright communication to upper management. The middle management team only wanted to hear good things about projects, tending to eschew bad news or even punish its bearer. When real communication stopped happening, the venture was doomed to follow direction based on faulty information.

Another company believed a venture failed because upper management made preemptive press releases. These announcements caused too much external pressure on the venture, distracting team members from doing their jobs. Within that company, the venture organization has since taken a much more secretive approach about their ventures. Venture information is now granted on a “need to know” basis, reducing outside interference and helping the ventures to succeed.

3.2.12 Resources

When firms gave resources, new ventures started, and when those same firms eliminated resources, ventures failed. Companies were seen as having dedication to the internal venturing process when they gave funds to start supporting new ventures. Multiple interviews revealed instances in which companies quickly eliminated new venture funds when the parent company started to enter hard times, with very little understanding of the effect. When the funds were cut, ventures were cut. To eliminate this failure mode, interviewees believed that venture groups needed a stable and consistent source of money.

The internal venture organizations generally funded new ventures for a one to two year period. On the short side, one company felt comfortable in making decisions about a venture’s potential success in approximately 6 months. However, most companies needed
one year to decide to cancel a venture once some amount of funds had been committed. Ventures neared the end of their internal venture organization funding at about two years. Certainly some projects were funded longer than this, but at the two year mark the venture organization looked to execute its exit strategy through many channels: the creation of a new division, integration of the venture with an existing division, or spin-off and external venture capital funding of the venture. Typically a minimum of four additional years was required before the “venture” arrived at a cash flow break-even point.

One company committed large sums of money to internal ventures. They were pre-disposed to funding as many ideas as they could. The belief was that funding those ideas in a venturing organization was very inexpensive, costing pennies on the dollar compared to what a business unit might spend. Funding those immature ideas allowed business plans to become more developed with large risks being identified. When a more mature business plan showed a smaller market or lower profits, or risks were seen to be unassailable, the venture received no subsequent funding. This practice effectively sorted out the really good ventures from the average ventures, increasing their chances of overall success.

3.2.13 Flexibility

Flexibility was seen to be important to internal ventures. When plans were too rigid and not able to change, ventures failed. In fact, one person was even more forceful in his view about change: “If the business plan doesn’t change through the process, the venture will fail.” Without constantly checking assumptions and making modifications, the ventures were not as fruitful as they could have been.

3.2.14 Familiarity

Multiple companies mentioned the effect of business and technical familiarity in an area with the success or failure of certain ventures. One company noted that when going into a previously unknown business, their expectations were unrealistic. They underestimated how difficult it would be to manage a business that was so foreign to their own. Expenses were higher and product development took much longer than anticipated. While the parent company was very interested in entering the new business space, it eventually gave up after ten years of losing money.
Another company used familiarity as a way to gauge how much external review new ventures should have. When the business or technology was less familiar, they used external venture capitalists to size up the venture, thereby mitigating long term risk.

However, being familiar with business or technology did not prevent new venture failure either. Companies that recognized how familiar they were with a business or technology were able to use this familiarity to prevent too big a failure.

3.2.15 Market Understanding

Failing to understand the customer or the customer requirements was a sure way to create a new venture failure. Interviewees indicated that technically heavy teams had a harder time understanding the need to do market research and to talk with the customers. One person noted that poor validation of customer value and what they were willing to pay cost one venture its life. The working team assumed that certain product features would be valuable to the customers. While the features were liked by the customer, they were not things that the customer was willing to pay more for. Had the team talked with the customer to understand the price sensitivity correlated to desired features, either a more efficient less costly product could have been made or a higher value more costly product. What the team created though, was simply a more costly product, keeping the customers from buying it.

Two different companies talked about new ventures releasing products “too soon.” This was not in a sense that the products were not ready, but that the buyers were not ready. The teams had excellent forethought and belief that the products were right. And the products were right, but were successful 5 years later. The ventures did not last that long and other companies, who timed their introductions better, had very profitable products. The lack of market understanding caused these ventures to fail.

When the venture teams took the time to look at marketing studies and spent time face-to-face with the users, they gained a very different understanding of the product and sometimes even the business model. One manager said, “As employees started to understand the market, their technology advances changed to meet the market needs instead of just creating technology because it was cool.” Spending the time to gain market understanding did not necessarily guarantee a success, but it certainly averted many failures.
3.2.16 Measures

Measurements in the venturing organization affected the success and failure of ventures. However, most companies lacked any structured form of measuring critical aspects of ventures. One measurement that companies believe could have affected the overall funding and quantity of ventures was how the ventures were positively impacting the company. If a venture was sold or IP was licensed, there was some amount of concrete worth. But, no company had yet devised a viable way to measure the impact of a venture penetrating a new market, or transforming employees to entrepreneurs. Without ways to measure these aspects of internal venturing, new venture groups had a hard time justifying their existence on a long term basis. No groups were shut down because of this, but some struggled to retain a working budget.

Other measurements in the venturing process were far too subjective. Venturing organizations tended to have limited staff, relying on review boards and other types of groups to make large decisions about the termination or funding of a specific venture. However, interviewees admitted that the venturing staff internal consultant could arbitrarily help or kill a project. The review boards did exist, but they relied so heavily on the venturing staff’s experience that they created a very subjective atmosphere. Others talked about the review board having too little information to make good decisions. An interviewee stated:

“If it is a heavy asset company, they tend to ignore when you make a wrong decision about putting a big piece of steel in the ground. They’ll let that go on for 10 years! But, when it is a (sector) that is so foreign that they get fed up early and they say, ‘Shut it down.’ I would point and say that we have that big steel monster over there that you spent $X millions 10 years ago and that thing is still running and losing money... What’s the difference here?”

It was believed that by installing as many concrete measurements as possible, some of this subjectivity could be removed, increasing the success rate of ventures.

3.2.17 New Technology

Technology was not seen as a key indicator of new venture success or failure. Certainly, technology development was the basis for many ventures. After all, these are internal ventures designed to utilize internally developed ideas in highly technical firms. The utilization of technology was expected most of the time. The problem was that new
technology became a “lure” in creating some failed ventures. In one case the venture was initially funded and pursued because the technology was exciting and easy to understand. In the end though the business was less straightforward and the venture failed. Perhaps the best interview quote summarizing many people’s thoughts about new technology was this: “The technology is NOT the business. The technology goes from 100% of value of a startup to 10% by the time the business plan is done… and then continues to drop.” Technology was seen as a possible starting point, but was not a primary factor in influencing the success or failure of ventures.

### 3.2.18 Education

Poor business knowledge was cited over and over again as a leading contributor to ventures failing. One primary driver for creating internal ventures was the generation of entrepreneurial knowledge in the parent organization, but if a company is trying to create that knowledge, the knowledge did not previously exist in a widespread fashion. An interviewee talked about his executive education training sessions with the parent company:

“I asked the question, ‘How many of you in this room have signed your name on the front side of a payroll check and handed that check to one of your employees on a Friday afternoon?’ Nobody’s hand goes up.”

Such a statement illustrates how few entrepreneurial employees and executives the company actually had. Another interviewee talked about the early years of their internal venturing program:

“Early on, there was a belief that you had the basic resources you needed. You had the cash, you had the endorsement from up top, and that good people should just intuitively get it. This was great if it happened, but generally doesn’t. We learned from that. Now people appreciate the EDUCATION they get, whether the venture was successful or not.”

Companies were seeing increased knowledge transfer and more successful ventures through education. In one company, new venture teams were given a two-day entrepreneurial workshop, teaching them both how to work through the venturing process and what it means to be an entrepreneur and businessman. Homework from the workshop started the team working on aspects of their business plan and getting them engaged with the rest of the new venture organization.
A different interviewee mentioned how important it was to educate employees on how to give good presentations. Communication through presentations was critical to the ongoing funding of ventures. When people gave poor presentations, it seriously compromised their venture.

Education is something that the companies were very pleased about. One person talked about team members of a failed venture: “The employees actually transformed themselves into (people who) really understand business.” Even when the ventures are failing, firms are meeting their goal of creating an entrepreneurial culture.

3.2.19 Reflection

The review and reflection of ventures was thought to be a critical learning mode for the success of future ventures. While all companies seemed to learn something from their success and failures, only one company had a specific post-mortem process that was implemented at the end of each venture.

By reviewing each and every venture, whether it was a success or failure, information can be learned to change the venturing process, the relationship with the company, or even the strategy within the company. Most companies only review failed projects in a post-mortem, but there is as much, or more, to gain from reviewing successful projects. As one person put it, “If you accidentally do something well, you want to do it again!”

The rigorous application of this process was important to the company because the ventures were so different that there was no single commonality. The similarities were very diffuse, so identifying what they were was very helpful. Timing was also important to the review. When a venture was shut down, they gave it three months to cool off. After it was initially cancelled, people were upset, the morale was low, and any information gathered immediately was likely to be prejudiced. By doing the post-mortem after three months, it was still fresh in people’s minds, but sufficient time had passed that they could review things objectively.

Utilizing a post-mortem process for every venture, and then making modifications based on that learning, will increase the chances that future ventures will succeed.
3.2.20 Coaching/Mentoring

The severe lack of business and entrepreneurial experience in the companies interviewed led to a significant investment in coaching and mentoring. When venture groups were initially started in some companies, very few people knew what they were doing. New teams would be formed, start some type of venture and simply struggle to keep their small team viable while trying to build a business. These ventures failed. After those failures however, the same companies are now using coaches and mentors, at all levels, to create more successful ventures.

One company has successfully brought in entrepreneurs and venture capitalists to mentor new venture managers. These mentors have significant experience in the business world and have helped the venture manager create a viable business. Using the down turn in the US economy and slow venture capital market in the 2001-2003 timeframe, the company was able to hire very experienced venture managers who had been laid off from their previous employers. The company made extraordinary efforts to create compensation packages that were attractive to the individuals. Still, the parent company had standards and regulations for pay that could not be exceeded. As such, these mentors were skilled enough that they were not expected to stay around forever. However, by mentoring venture managers today the company hopes to cultivate new mentors from the current venture managers to retain this knowledge in-house.

Other companies used their existing venture managers as coaches for less-experienced, technical team members. When such a system was used, failed ventures tended to be the ones in which teams did not heed the coach’s advice. One manager put it this way: “Their inability to listen to coaching was the downfall of their venture. The team had an amazing resilience when you beat on them.” So coaching was not always enough; team members had to want to learn and succeed.

By instilling the need for mentors and coaching, companies hoped to create an ongoing cycle of learning. The desired purpose of this cycle was to retain entrepreneurial knowledge, while helping the ventures to succeed.
3.2.21 External Environment

The external corporate environment was blamed for the failure of numerous ventures. Most of these issues were economic, but some ventures were created during unfortunate timing.

One venture failed in the aftermath of the terrorist events of September 11, 2001. This venture was scheduled to make a significant sale on September 12. After the terrorist attacks, all US travel stopped, markets closed, and meetings were postponed. This event caused critical buyers to rethink strategies and put money into other projects, ultimately dooming the new venture.

Other ventures failed when the internet bubble burst, causing a severe cutback in corporate spending. When the clients disappeared, so did the venture. But, just because an economy was very strong does not mean ventures were not at risk. A manager noted how one venture failed during a very strong economy. Simply stated, because employees were in such high demand, he could not fill critical technical roles in the venture, dooming it.

Events outside of the venture’s control pushed these ventures to failure.

3.2.22 Cost

All of the companies interviewed were major corporations with considerable cash reserves. And some viewed their internal venture organizations as the most likely way to create “the next $1 billion business.” But all of the venture groups had limited funds. As such, these funds limited the scope of the venture organization’s investments.

While nobody specifically mentioned venture cost as a reason for failure, it was how multiple ventures were “discontinued.” In one case a venture was progressing well but needed a sizable investment to develop the next stage of a product. While the potential market was large, the funds were not granted, being reserved for better risk/reward ratio projects. Another venture was cancelled when IP acquisition became too costly. But, perhaps the most telling factor was the abundance of funded ventures based on some type of service. These ventures had very small capital requirements, making them attractive for funding.

Certainly, not all ventures that failed were capital intensive and the successes cheap. There were some instances of expensive ventures succeeding and being very profitable. The
fact was, however, that these organizations generally had limited budgets and desired the biggest return for their investment. By putting those limited resources into less expensive projects, there appeared to be more projects supported with a greater chance of success. This attitude capped the size of projects, making high cost a factor for failure.

3.2.23 IP/Standards

Intellectual property (IP) and industry standards were two examples of causes of failure for internal ventures. IP was a failure factor based on cost or strategy. Development of and compliance with standards was a failure factor due to the complexity involved and the time needed.

Two of the interviewed companies specifically stated that a goal of internal ventures was to utilize company-owned IP as a strategic advantage. Simply put, ventures that were based on well-documented and protected company IP were more likely to be supported initially and more likely to ultimately succeed in the marketplace. Conversely, when ventures discovered that they lacked a critical piece of IP, it caused problems. In one venture, fortuitous timing allowed for the acquisition of IP from a “distressed company.” This inexpensive IP then became a strategic advantage, positively affecting the outcome of the venture. Aside from this one success, most interviewees said that the lack of critical IP caused the failure of the venture.

Industry standards are multi-company platform, agreed-upon standards that allow companies to create products that are interchangeable. Generally the creation of such standards takes many years. As such, all of the companies agreed that if the need to create an industry standard was part of a business idea, it would never become a new venture. But what happened to ventures when this “need” was discovered while trying to create a business?

In one venture, the need for a standard contributed to the venture’s failure. The initial venture idea was to create a product that would in turn manufacture parts. But the team discovered that there was no standard interface between the user input and the product. Creating a product that would work on the numerous existing proprietary interfaces would take a great deal of development time. It also promised the need for an ongoing commitment to debug the product each time a proprietary interface was changed. This was deemed too
expensive. The team made some initial attempts to partner with some of the companies who proliferated the proprietary interfaces to start an informal creation of a new standard. Unfortunately, each company believed that its proprietary interface was a critical component to its own business model and was reluctant to change. Even if the team had tried to spend three or four years to develop a national or international standard interface and have it approved by the appropriate sanctioning organizations, there was no indication that any company designing new interfaces would use the standard. The venture was cancelled.

However, in another company, the new venture utilized parent company resources to help quickly create an industry standard. The creation of such a standard by the venture allowed the venture an advantageous “head-start” in product design. While this venture was viewed as an anomaly, it did show how internal ventures have some advantage in accessing company resources.

In general, when a venture lacked key IP, or needed to create a standard, it caused the venture to fail. Working around these issues was possible, but not trivial.

### 3.3 Summary

There are many ways that an internal venture could fail. However, the interviewees cited numerous examples of ways that they had found to increase the success of their ventures. Not every company utilized the “best practice” in each of the areas identified as affecting ventures. Some areas, such as familiarity of the business and technology in the venture, led to different conclusions from different companies. This discrepancy could be due to the different environments or industries that the companies occupy.

Two interviewees from different companies mentioned that they had talked with each other. In this discussion they shared their venture groups’ processes. On the surface both processes seemed very similar. However, once they discussed what actually happened within each of their companies, they realized that the implementation of these processes was very different from one another. Their methods had evolved over time, creating the most effective process in their own corporate environment. While there were many similar factors described contributing to the success and failure of a venture, these factors were not absolute. Each company tailored its efforts to create an environment to give that particular company’s venture the best chance of success in that firm.
Chapter 4: Analysis and Synthesis of Data

Chapter 2 reviewed some of the published literature pertaining to internal corporate venturing research. Chapter 3 summarized the responses of fourteen interviews conducted around success and failure factors of internal venturing. This chapter will compare the literature statements with the interview findings. Differences between the literature and the interviews will be discussed. Then, the summary and interpretation of these learnings will be assembled into a table.

4.1 Comparisons between Literature and Interviews

4.1.1 Leadership

Leadership was cited as important by both past research and in the interviews conducted, indicating its importance in internal corporate ventures. While the literature review suggested ways in which leaders could be developed for internal ventures, companies had no type of internal venture-specific leadership development. Leadership development programs exist in all of the five companies interviewed; however, the lack of a direct connection between internal ventures and leadership development could be an opportunity for companies to increase their venture success.

4.1.2 Top Management

The long term attention span was seen as critical in the interviews and research. Top management was seen as the key to long term funding through both the good and bad financial times at the company.

The interviews also mentioned how top management interference with ventures was detrimental to numerous projects. One company went as far as keeping venture information on a need-to-know basis, to remove as much top management interference as possible. The concept that top management could negatively affect the performance of ventures through too much intimate involvement was not mentioned in any of the literature reviewed. As such, this could be one opportunity for further research and confirmation.
4.1.3 Sponsorship

There were no discernable differences of the role of a sponsor between the literature review and the interviews. Both sources agreed on the financial, strategic and visionary roles of the sponsor and their contribution to venture’s successes.

4.1.4 Venture Organization

In the interviews the internal venturing organization was viewed as a protective shield between the new ventures and the parent company. However, in the research the venturing organization’s charter was simply to find and exploit ideas. Certainly, one role of the venturing organization was to locate ideas and decide how or whether to fund them, while providing a structure for execution. But this role could have been designated to either an internal or external venture. The interviews point out a specific internal venturing task, namely that of protection, which was unique to the needs of internal ventures. There may be other internal-venture-specific roles and tasks that can affect the success of internal ventures. Further study on the role that venturing organizations play on the success and failure of internal ventures may reveal more insights.

4.1.5 Venture Manager

The venture manager was seen as a central figure in the success and failure of ventures. Both the interviews and research noted that a manager’s skills and where he or she came from, particularly in the entrepreneurial arena, could help an internal corporate venture to succeed. The one area that the interviews pointed out, yet the research failed to mention, was the importance of the team building skills of the venture manager. The teams were central to venture execution, but without a cohesive, functional team there was little execution. This can only be accomplished with a successful venture manager. Sometimes team members could naturally “gel,” but in most cases active effort by the venture manager was required to maximize the chance of venture success.

4.1.6 Venture Champion

The venture champion was a highly regarded key role, which was talked about in the literature. While the interviews indicated the importance of having a venture champion, it
was less easily defined. The literature discusses how the legendary venture champions single
handedly change the world. In reality, however, the venture champion seemed much less
well defined, with roles changing at different points in time. Having dedicated, excited,
committed people to drive the venture was cited in the interviews as being critical, but these
people could change. The inventor did not always become the champion. But, sometimes
the inventor was able to transfer excitement to other individuals as the venture progressed,
creating a chain of champions. It is unclear why this discrepancy exists between the
literature and the interviews. Perhaps the lack of entrepreneurs (people who understand
business, technology and how to make things happen) in the large companies makes it
impossible for one person to carry the excitement through the whole process. It is even
possible that the new mode of a greater “collective” champion is a more efficient process
than the individual champion. In either case, this discrepancy could use some more
investigation to understand its full impact on the success or failure of ventures.

4.1.7 Staffing

Where to find people and what skills they need are two of the main consistencies
between the interviews and the previous research. However, in the interviews, much more
emphasis was given to external hires and the issues of integration into the company and
ventures. This difference was primarily due to the lack of entrepreneurial knowledge within
the companies interviewed. The companies were looking for external entrepreneurial hires
because they believed that their internal skill set was inadequate, and that such skills were
critical to the success of new ventures.

4.1.8 Teams

The interviews and the prior research both agreed that team make up and team
stability was critical to the success of ventures. Without the right people the ventures would fail. If team members or staff changed too often, or even at all, ventures would fail.

4.1.9 Risk and Rewards

The interviews and research had somewhat differing views on risks and rewards for
internal corporate ventures. The literature stated that internal ventures are more risky and
should therefore be more highly compensated. The companies, however, viewed internal venturing differently, depending on their end game strategy for their ventures. With companies that focused on using internal ventures to grow new parent company business units, risks to the employees were low. Therefore, compensation was similar to that found in the parent company. When companies focused on spin offs, the employee risks were higher. While not all companies created higher rewards for these employees, most companies agreed that higher rewards were needed to attract the best people. Follow-up work could attempt to understand the success of ventures given specific rewards. This work would be best completed by separating groups based on their exit strategy.

4.1.10 Culture

An entrepreneurial culture was seen as important to successful ventures by both the literature and interviewees. However, the participating companies did not yet have such a culture. In fact, one of the primary goals for creating internal ventures was to motivate and foster those goals.

4.1.11 Organization

Decisions and organizational communication were both highlighted as internal venture success and failure factors in the previous research and interviews. Decisions that took too long, or were made by the wrong people, caused ventures to fail. The unique independent organizational structure contributed to the long decision paths and time. Poor communication between the ventures and managers higher in the organization allowed decisions to be based on poor or overly optimistic information. Such lack of good communication also caused ventures to fail. In general, there were no differences between what the literature and interviews expressed as important.

4.1.12 Resources

In the previous research, having too many resources assigned to a venture was found as a potential cause of failure. However, there was no such mention of that in the interviews. Even though overall funding levels between the companies interviewed was quite different, all companies used a minimalist approach to funding individual ventures. Teams were
limited in size and cash was not freely given. Too many resources never seemed to be an issue with the interviewees. This may be because the companies understand the literature concept that too many resources can cause a venture to fail. This may also be because of the poor economic conditions. Venture organizations struggle to get money and therefore spend that money as frugally as possible. If the ventures understood that too much money was a potential issue or if the ventures simply did not have money to spend, the failure cause of over funding was avoided.

4.1.13 Flexibility

Flexibility was deemed important in the previous research, but flexibility was expected in the venturing organizations interviewed. Once again the venturing organizations have either learned or already knew that flexibility in planning and execution was critical to the success of ventures. As the venturing organizations mature, keeping this flexibility will continue to be important.

4.1.14 Familiarity

Familiarity was a contentious factor in the historical literature, with researchers arguing both for and against its relevance to success. This potential success factor has been internalized by the interviewed companies. Some companies bounded their ventures to fit within a certain strategic area, limiting the quantity of businesses or technologies that they tried to understand at any one time. Other companies used familiarity to determine their level of aggressiveness and expectations. In new markets, they tried to be more conservative and set lower expectations. While there is still disagreement to whether this factor is important or not, it would seem that companies are aware of the potential problems and are acting accordingly.

4.1.15 Market Understanding

The research and interviews both indicate that understanding the market and customer is paramount to creating a successful new venture. They both indicated that teams who gained “personal” experience in the new venture’s market increased their chances of success. In companies, internal ventures were often used to gain knowledge or enter into a new
market. In this way, companies could start learning with much less investment than a typical business unit. By purposefully entering into new markets with little understanding, the failure rate of these ventures was high. Even though companies knew the dangers of not understanding a market, they still created ventures in new markets to fulfill specific strategic objectives.

4.1.16 Measures

The instigation of objective measurements for a venture and the removal of subjective measurements was a way to increase success mentioned both in the previous research and interviews. Such measurements were very difficult to come by, with companies today still struggling. The biggest question that interviewed companies need answered is, “What is the value of encouraging entrepreneurship in the corporation?” The ability to answer such a question would give companies a means to measure the value of internal corporate ventures versus the cost of those ventures. Without such a measurement, companies shut down whole venture organizations, not knowing the real impact that those ventures are having on their company.

4.1.17 New Technology

The historical literature believed that new technology was a contributing factor to the success of a venture. The interviewees did not believe that such technology helped ventures. In fact, experiences with new technology generally had negative consequences to new ventures. Interviewees indicated that it was much more successful to utilize an existing technology in a new way or a new market, rather than to try to use a new technology for a new market.

Interviewees also indicated that new technology that was used in an existing market was not very successful either. When presented with new technology that could tackle an existing problem, teams tended to shy away suggesting that doing things a different way probably wasn’t worth the effort. The thought of “competing” with the parent company in a specific business got in the way of being productive.

If the technology was relatively stable with only minor modifications needed, then it was one less thing to go wrong with the venture.
4.1.18 Education

Lack of entrepreneurial and business knowledge was a leading cause of failure for the interviewed companies and the research cited. Some companies gained this understanding a number of years ago and have implemented “on the job” entrepreneurial education programs to support the new ventures. Other companies simply rely on external hires to come in and provide the knowledge. Creating some type of internal education to help new inventors and venture teams succeed has paid off by not only increasing venture success, but by helping team members learn life-long skills. These skills are transferred back to the parent company, increasing its success.

4.1.19 Reflection

Past literature indicates that learning from mistakes is important, but gives no concrete ways to do this. One company that was interviewed has created a robust post-mortem process that has allowed them to actively document both their successful and failed ventures. By comparing and contrasting these ventures on a regular basis, they are able to learn from their mistakes, increasing their venture success rate. Studying how companies learn from their successes and failures, as well as how much this affects future success, could be a rich opportunity for future research.

4.1.20 Coaching/Mentoring

Coaching and mentoring was a central topic for some interviews, but hardly mentioned in the literature. As entrepreneurial knowledge is relatively sparse in the companies interviewed, external employees have been hired to coach and mentor other managers in the entrepreneurial process. Other companies have used their internal entrepreneurial people to coach and mentor in the same way. It seems to be of less consequence who is used, but rather that entrepreneurial knowledge is being dispersed. Through this coaching and mentoring program, companies are able to better identify good ideas, make informed decisions, and grow their entrepreneurial culture. Learning the specific effects that coaching has on a venture’s success or failure could make this process more valuable to other companies.
4.1.21 External Environment

The previous research briefly mentioned the effect that the economy had on the cyclical nature of supporting and disbanding internal venture programs. Essentially these articles stated that the creation of internal venture groups within corporations had boom and bust cycles matched to the economic state of the country. Companies too mention that the economy could affect their financial support. But the economy did not have to be bad for the ventures to fail. One company talked about the negative effect that a growing, positive economy had on ventures. Too much growth left too few people to hire, causing the ventures to fail because of lack of employees. Another interviewee talked about a venture collapsing in the aftermath of global terrorist events. The effect that the external environment has on internal ventures could be an interesting topic for future study.

4.1.22 Cost

Venture cost was implied as a failure factor during the interviews, but was not found in the literature. The high cost of certain ventures kept them from being funded initially, while the growing cost of some ventures got them cancelled. All interviewees wanted the best return for their investment, but they also wanted an array of different projects. If one project was too expensive, it did not leave room for other ventures. There was only so much money to go around and companies were averse to spending all of their money on one project. These factors limited venture funding. It is unclear why this was never discussed in the historical literature, but it could be a topic of further research.

4.1.23 IP/Standards

IP and standards were not at all mentioned in the previous research as possible success or failure factors for internal ventures. However, in the interviews, venture leaders mentioned how the lack of IP or the need to create standards could cause a venture to fail. In general, IP was considered a strategic base for new ventures. The lack of IP and the need to obtain it caused some ventures to become too expensive. The need to create standards was a burden that impacted the size, effort and timeline of ventures. If an industry standard needed to be created for a venture to go to market, the venture would be cancelled or simply fail. These factors were recognized by the interviewees, but not by the literature.
4.1.24 Geography

The academic literature considered geography as a potential factor in the success and failure of new ventures, broadly speaking. But, no mention of anything relating to geography was found in the interviews related to internal ventures. This could have been because there were no questions about geography asked during the interviews. Or it could have been because companies do not believe that geography was a critical factor.

4.2 Company Strategies for Maximizing the Probability of Success

This research has identified some significant factors, and components of these factors, for maximizing the probability of success for internal ventures. The key components have been tabulated, grouped according to their likely importance to success, and an indication has been given as to whether the component was identified via the literature search, company staff interviews or both. Table 1 shows the factors believed to be of high importance to internal venture success, Table 2 shows the factors of medium importance, and Table 3 shows the factors of low importance to success.
### 4.2.1 Factors of High Importance for Success

<table>
<thead>
<tr>
<th>Factor</th>
<th>Characteristic</th>
<th>Specific Component</th>
<th>Identified in:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership</strong></td>
<td>Balanced leadership combining entrepreneurial flair and seasoned management</td>
<td>Pro-actively identify promising leaders.</td>
<td>Literature</td>
<td>Interviews</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use/develop a corporate program</td>
<td>X</td>
<td>X</td>
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<td></td>
<td></td>
<td>specifically for training venture</td>
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<td></td>
<td></td>
<td>leaders.</td>
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<tr>
<td><strong>Sponsorship</strong></td>
<td>Created venture organization</td>
<td>Strategic and visionary direction</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Venture</strong></td>
<td>Structure and Organizational independence from parent company</td>
<td>Shield ventures from outside influences</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td></td>
<td>Find ideas within the company</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Venture</strong></td>
<td>Heart, soul, and drive of the venture</td>
<td>Dedicated, excited, committed</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Champion</strong></td>
<td></td>
<td>Single person carrying the project</td>
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<td>X</td>
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<tr>
<td></td>
<td></td>
<td>Role is attained by different people</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>as project evolves</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Teams</strong></td>
<td>Well running and balanced team</td>
<td>Changing team members</td>
<td>Literature</td>
<td>Interviews</td>
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<tr>
<td></td>
<td></td>
<td>Small team with technical and business</td>
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<td>experience</td>
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<tr>
<td><strong>Organization</strong></td>
<td>Large company Bureaucracy applied to small ventures</td>
<td>Long decision times</td>
<td></td>
<td>X</td>
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<td></td>
<td></td>
<td>Wrong people (too high up) making</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>decisions</td>
<td></td>
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<tr>
<td><strong>Flexibility</strong></td>
<td>Creating plans but continually questioning them</td>
<td>Making sure that the venture is</td>
<td></td>
<td>X</td>
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<tr>
<td></td>
<td></td>
<td>continually updating its business</td>
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<td>X</td>
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<tr>
<td></td>
<td></td>
<td>plan based on current information</td>
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<tr>
<td><strong>Market</strong></td>
<td>Knowing the market before entering the business</td>
<td>Personal market experience</td>
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</tr>
<tr>
<td><strong>Understanding</strong></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Education</strong></td>
<td>Entrepreneurial and business skills are needed for every person involved in</td>
<td>Lack of business understanding</td>
<td>Literature</td>
<td>Interviews</td>
</tr>
<tr>
<td></td>
<td>venturing</td>
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<td></td>
<td></td>
<td>Creating entrepreneurial and</td>
<td></td>
<td>X</td>
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<tr>
<td></td>
<td></td>
<td>business classes</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Teaching ventures how to write business</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>plans</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Reflection</strong></td>
<td>Learning from mistakes</td>
<td>Post-Mortems for every successful or</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>failed venture</td>
<td></td>
<td>X</td>
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<tr>
<td></td>
<td></td>
<td>No understanding of what went wrong</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

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### 4.2.2 Factors of Medium Importance for Success

**Table 2**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Characteristic</th>
<th>Specific Component</th>
<th>Identified in:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Success</td>
<td>Literature</td>
</tr>
<tr>
<td>Top Management</td>
<td>Uncompromising support</td>
<td>Ownership of stock.</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Long-term commitment via funding.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hands-off</td>
<td>Too intimate an involvement.</td>
<td></td>
</tr>
<tr>
<td>Venture Manager</td>
<td>Management and Entrepreneurial Skill</td>
<td>Ability to build teams</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Entrepreneurial application</td>
<td></td>
</tr>
<tr>
<td>IP</td>
<td>IP is strategic for ventures</td>
<td>Lack of key IP</td>
<td>X</td>
</tr>
<tr>
<td>Standards</td>
<td>Industry standard in part of technology</td>
<td>Needing to create standard</td>
<td></td>
</tr>
<tr>
<td>Staffing</td>
<td>The correct skill set</td>
<td>Balancing internal and external hiring</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Integration of internal and external hires</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finding entrepreneurial minded people</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Cost</td>
<td>Funding limitations for venture organization</td>
<td>Individual project is too expensive</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Multiple, inexpensive projects providing venture diversity</td>
<td></td>
</tr>
<tr>
<td>Risk and Rewards</td>
<td>Balancing the venture risk with the appropriate rewards</td>
<td>Rewarding people in a mix of monetary and intrapersonal ways</td>
<td>X</td>
</tr>
<tr>
<td>Culture</td>
<td>Mindset of the parent company</td>
<td>Entrepreneurial emphasis</td>
<td>X</td>
</tr>
<tr>
<td>Coaching/Mentoring</td>
<td>Helping individuals learn specific skills during the actual venturing</td>
<td>Experienced entrepreneur guiding the venture manager</td>
<td></td>
</tr>
<tr>
<td>Resources</td>
<td>Giving the correct resources to each venture</td>
<td>Enough money to sustain venturing during good and bad economic times</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Too many people or too large of a budget</td>
<td></td>
</tr>
<tr>
<td>Measures</td>
<td>Accurate assessment of what is happening in the venture</td>
<td>Lack of data about how experience affects parent company</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Objective assessments of business</td>
<td></td>
</tr>
</tbody>
</table>
### 4.2.3 Factors of Low Importance for Success

#### Table 3

<table>
<thead>
<tr>
<th>Factor</th>
<th>Characteristic</th>
<th>Specific Component</th>
<th>Identified in:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Success</td>
<td>Failure</td>
</tr>
<tr>
<td>Geography</td>
<td>Where ventures are located</td>
<td>Venture located near clusters of related business</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Venture located too close to parent company</td>
<td>X</td>
</tr>
<tr>
<td>External Environment</td>
<td>Things happening outside of company’s control</td>
<td>“Acts of God,” &amp; terrorist activities</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Poor economy means little new business support</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Good economy leaves too few qualified people to hire</td>
<td>X</td>
</tr>
<tr>
<td>Familiarity</td>
<td>Experience and success correlation</td>
<td>Well known market and technology</td>
<td>disagreement</td>
</tr>
<tr>
<td>New Technology</td>
<td>New technology impacts business model of venture</td>
<td>New technology creates new markets</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New technology puts venture at risk</td>
<td>X</td>
</tr>
</tbody>
</table>

#### 4.3 Summary

Many differences were found between what companies are doing today and what the literature says needs to be done. In some cases, companies can learn from the literature and modify their processes to increase potential success of their internal ventures. However, in most cases companies were already enacting the best practices recommended by past research. In some instances, companies had new ideas on what might contribute to the success or failure of ventures. These new ideas are possible areas of learning for other companies and researchers.
Chapter 5: Conclusion

5.1 Summary of Findings

Through the review of literature and the interviews conducted, a great many factors contributing to the success and failure of internal corporate ventures were identified. The most important factors identified were leadership, sponsorship, the venturing organization, venture champion’s role, teams, organizational factors, flexibility, market understanding, education and reflection (Table 1 section 4.2.1). However, there were some differences in how companies had interpreted or implemented changes to affect success.

Some aspects that companies might improve upon were: i) successfully training leaders specifically for new ventures; ii) adequately compensating individuals in high risk roles; and iii) accurately developing objective venture measurements.

Some ways that companies were improving success above and beyond those identified in the literature were: i) keeping new ventures on a need to know basis to lessen interference from above; ii) utilizing the venture manager to build venture team unity; iii) acknowledging that the venture champion is not limited to one individual; iv) associating reward levels with risk levels; v) implementing educational programs; vi) creating an active post venture review process; vii) coaching and mentoring the next generation entrepreneurs; and viii) identifying IP and standards risks.

The literature review and interviews identified many potential success and failure factors for internal corporate ventures. This comparison has helped to highlight the similarities and differences between the literature and the interviews. Companies have some areas where they can change to increase their potential venture success. But they have also taken the lead in identifying new ways to increase their success and avoid failure. These company-identified success and failure factors could be the basis for further research and understanding.

5.2 Suggestions for Further Research

A number of potential opportunities arose for further research. The most exciting of these opportunities was in the areas that companies have identified as success or failure
factors, but that the current literature has not yet identified. The most significant ideas were: keeping new ventures on a need to know basis, implementing educational programs, creating an active post venture review process, and coaching and mentoring the next generation entrepreneurs. Any one of these topics could be of great interest for further study.

5.3 Recommendations for Action

The interview results were synthesized into overall themes. From that the companies in the interviews could improve their venture success by developing leaders specifically for new ventures, adequately compensating individuals in high risk roles, and developing objective venture measurements. However, as each company is unique, it is up to the reader to understand the possible success and failure factors and compare those factors with what is happening in his or her own company. Only in this way can a company create an action plan based on this thesis.

5.4 Final Words

This thesis is a distillation of the current understanding of the “formula for successful internal venturing.” It has attempted to combine historical research with the author’s own recent interviews to provide a holistic interpretation of how to create the most fruitful internal corporate ventures (4.2). If companies compare this interpretation with their current actions, they should be able to find out where potential holes are and make efforts to rectify them, increasing their chances of having successful internal corporate ventures.
Appendix A  References


Appendix B  Interview Introduction and Guiding Questions

Introduction:
Hello, _____, thank you for taking the time to talk with me today. As we have previously discussed, I am trying to understand potential success and failure factors in internal corporate ventures.

The work I am doing is for my thesis for the Management of Technology SM degree at MIT. I would appreciate your most sincere and honest answers as I will be publishing the aggregate interview information and sharing this with all other participants. Please rest assured that you will be anonymous, meaning nobody but ourselves will know who you are or what you have said. The information that you provide me will also remain confidential. To ensure that no confidential information is revealed, you will be provided with drafts of the thesis so that you might review it. You will also receive a final electronic copy of this thesis.

I’d like you to think of two specific internal venture ventures for us to talk about. For our purposes, we will define an internal venture as a venture completely supported by internal company resources, but usually structured in a unique non-traditional R&D manner. Sometimes these ventures are designed to produce a new product or development more rapidly than usual. Sometimes the ventures are setup to drive development in an area new to the company. But all of these ventures define a group or individual within the corporation who has taken the responsibility of developing a new product, bringing it to market, and carrying it through its initial phase of marketplace activity. The first venture needs to be viewed as a failure in some way. The second venture needs to be successful. When answering my questions, please try to use these ventures as specific examples to give us a better platform for discussion.

Before we get started, I would like to ask, “Can I tape record this conversation?” This recording will allow me to interact with you more fully, while enabling me to quote you precisely.
Questions:

Successful/Failed Venture:
- Give me some background on this venture.
  - Could you please describe the goals of this venture?
  - What were the risks involved in the venture?
  - What was the basis for this venture... how did it come about?

- Tell me about your involvement in this venture.
  - How did you come to be a part of this venture?
  - What role did you play in this venture?

- Personal view (initial questions)
  - Tell me about the timeline of this venture and your perspective of the venture at different points in time.
  - How did your perspective change over the life of the venture?
  - How did this venture compare to others that you were a part of?

- Structure
  - Describe how this venture was organized.
  - Tell me about the decision making process.
  - How was the venture supported?

- Status in the Company
  - Describe the interaction between the venture and the rest of the company.
  - What actions did the company take to support the venture?
  - How was this venture viewed by your peers?
  - How was this venture viewed by the company when it was started?

- Personnel
  - Could you tell me how the venture team was chosen?
  - How were the venture team members compensated?
  - Describe the people that cared about this venture.

- Company
  - Describe things that your company does well.
  - Tell me some areas that your company could improve upon.

- Tell me about when you knew this venture would succeed/fail?
  - What made this venture successful/unsuccessful from your company’s viewpoint?
  - What similarities do you see with other successful/unsuccessful ventures?
  - How was this venture successful/unsuccessful from your own viewpoint?
  - Could you describe why you believe the venture succeeded/failed?