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Managing Growth through Corporate Venturing

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DYSFUNCTIONS IN THE PURSUIT OF GROWTH

Current corporate attention to growth sometimes borders on the obsessive, as executives are exhorted to grow their businesses and are evaluated on the basis of their success at doing so. Analysts look to companies' track records on growth to assess their value as investments. And a cacophony of voices—from the business press to institutional investors—cheers growing firms and jeers those that do not grow.

The pressure on firms to grow—at any cost—has resulted in a great deal of dysfunctional behavior. Most of this stems from some fundamental misunderstandings of the nature of lasting growth. It is the relatively rare acquisition, for instance, that adds value to the acquiring firm. Thus, the widespread practice of buying top-line growth typically ends up destroying shareholder value.¹ Likewise, excessively ambitious growth targets can cause good, but small, new businesses within a firm to appear to be failures, because they cannot grow quickly enough to feed a voracious corporate appetite.² Furthermore, some firms chase what appear to be huge growth opportunities in a misguided way—by throwing vast resources into “big bet” investments, which means that any failure is an enormous failure (think Webvan, Iridium, or London's Millennium Dome project).³

Although we are not opposed to acquisitions, ambition, or even big bets, we have observed that executives focused on these things tend not to have a good grasp of those powerful but simple, consistent practices that generate continuous growth via expansion of current capabilities into new opportunity spaces.

This is the topic of our chapter, based on research that had its beginnings in a study of thirty-seven successful and failed corporate ventures in a major financial institution. It was followed by a five-company, thirty-five-venture study of the

process through which new ventures lead to new competences for established organizations. It builds on earlier work on the corporate venturing process and our own observations of companies involved in venturing.

Our main insight is that companies that manage to sustain a long period of growth through venturing have in place a set of relatively simple, but consistent, leadership practices that cover an entire life cycle of new businesses. When parts of the process are not handled or mishandled, we observed progress to be slowed. When large parts of the process were missing, ventures often failed.

LEADERSHIP ACTIVITIES IN A COMPREHENSIVE CORPORATE VENTURING PROGRAM

In this chapter, we describe the leadership behaviors we have observed to drive success in an integrated process of driving growth. For the sake of keeping our discussion focused, we break this process up into five major sets of activities, although we are aware that these often do not unfold in an orderly, linear way.⁴

- Identification and screening of opportunities
- Introduction of fruitful opportunities into the market
- Managing growing businesses
- Bringing the new business into the corporate core
- Business termination and exit

We call the first set of activities the process of creating an opportunity pipeline, or register—sort of like an inventory of potential opportunities. Crucial activities here involve creating the conditions for the discovery and recognition of opportunities, together with a disciplined screening process that winnows them for further investment. In the case of technology-based companies, this is often the process through which ideas from the technology development arena are introduced to business development managers for consideration of further development. The goal is to create a rich register or inventory of potential opportunities.⁵

The next set of activities, which we refer to as market entry activities, involve exposing new technologies and business concepts to the market. Sometimes, this exposure is experimental, intended primarily to find out what real and appropriate applications might be. Sometimes, this is a more aggressive and direct business launch, intended to achieve the creation of a substantial new business. In either case, a crucial challenge is managing learning—learning about the market and learning how the firms' offerings perform for that market.⁶

Following market entry, a third set of activities involves investing in and growing those opportunities that are well received. These activities require significant attention to timing and patterns of investment. Here, a key skill is the ability to recognize when growth should be aggressive versus when it should be brought forward in a more moderate way. Given multiple opportunities, focus is

also key, as companies can find their energy and ability to make a substantial impact sapped by pursuing too many attractive alternatives.

Next is the challenge of managing the core business processes, involving assimilation of the new business and incorporation of new ideas. New businesses need to be brought into the core as legitimate contributors. Supporting processes—such as reward and development mechanisms, financial activities, and inbound logistics processes—also need to be designed (and redesigned) in such a way that they align with the emerging core of the company.

Finally, any well-run business development program needs to attend to termination and exit of businesses that have run their course. This involves recognizing that businesses that no longer are able to contribute need to be scaled down and possibly eliminated. Stopping runaway projects, refocusing a corporation that has become unwieldy and making tough decisions to downsize or scale back are just as important to a healthy venturing program as initiating new sets of activities.

ROLES IN A COMPREHENSIVE VENTURING PROGRAM

Within each of these sets of activities, different individuals within an organization assume different roles, which partially reflect the level of their job. We break these roles into three different levels:

- The venturing level
- The change championing level
- The senior leader level

The venturing level roles relate primarily to managing individual ventures. The senior level is mainly responsible for setting context for the overall venturing program, and the championing level is responsible for mediating overall context and individual ventures.

At the venturing level of the organization, people's primary jobs involve those tasks that are needed to do the entrepreneurial work of building new businesses. These people do the job of finding out what customers need and how the company might address those needs in a profitable way. Their goal here is to form a set of stable transactions between the new entity and customers, suppliers, distributors, employees, and others necessary in forming the new unit.

The change championing or middle management level of the organization involves a set of tasks with the purpose of ensuring that the emerging new business is not damaged by other parts of the firm, and likewise that it does not damage the firm. At this level, resources must be allocated to new business development; plans must be established and monitored; rewards must be determined; and the often political and informal process of supporting new businesses must be carried out.⁷

At the senior leadership level, a different set of tasks becomes important. Here, goals are broader. A key task at this level is the establishment of what we call a ballpark, or overall framework for what types of new ventures are desirable and undesirable. A climate that encourages new business development is created and led. At this level, processes that ensure external and internal support for ventures are established. At this level as well, major resource allocations are determined. In addition, this level of the organization establishes company-wide cultural norms, such as how failures are handled, and what gets prioritized.

A FRAMEWORK FOR CORPORATE VENTURING PROGRAMS

Combining the three levels with the five activities yields Table 2.1, which depicts fifteen processes whose presence is a good indicator that a firm is likely to be able to support a sustained business development program leading to growth. Their absence, likewise, is a strong indicator that a venturing program is likely to encounter obstacles or even fail entirely. Each cell in Table 2.1 corresponds to specific activities that we have observed, which needs to be well managed for successful growth through corporate venturing.

PRACTICES THAT CREATE AN OPPORTUNITY PIPELINE

Effective growth corporations are able to create a rich stock of potential opportunities for growth. They are characterized by widespread enthusiasm for identifying opportunities and making them happen, as well as widespread understanding of what to do with a bright idea once it has been articulated. Each

Table 2.1. Major Processes for Accelerating a Sustained Corporate Organic Growth Program

	<i>Opportunity Pipeline</i>	<i>Market Entry</i>	<i>Growth</i>	<i>Renew the Core</i>	<i>Terminating</i>
Venture	Create options	Redefine: run launches and experiments	Cope	Induction and enhancement	Managing exit
Champion	Select and screen	Integrate	Shift resources	Socialize	Decouple
Senior leader	Climate and ballpark	Clear paths	Create focus	Incorporate	Pruning decisions and portfolio criteria

level of management can help this process emerge and be sustained, or can curtail it. At the most senior level, the most important responsibilities are to set overall direction and influence. At the championing level, the most important behaviors are concerned with specifically identifying challenges and clarifying where the new venture fits. And obviously at the venturing level, the key activities are to unearth ideas and get them on the agenda.

Senior Leadership Level: Climate Creation

At the senior level of a company, the ability to affect the entire climate and strategy of the firm is at its greatest. Unfortunately, this responsibility is not necessarily understood or well executed when it comes to driving growth.

We have found that one of the most significant barriers to innovation in firms is ironically that senior managers have left the definition of what kind of innovation is desirable a little too vague. For an innovation message to be invigorating, exciting, and motivating, senior leaders need to establish what we term a “ballpark” or picture of the types of arenas in which the firm seeks to compete. Many senior leaders unfortunately labor under the impression that imposing some rules and structure on the innovation process will interfere with it—we have found that this is not the case.

Before he left for Boeing, Jim McNerney and his team at 3M spent considerable time struggling with the articulation of a new ballpark for a company famous for its approach to innovation. McNerney implemented an alternative to his predecessor’s philosophy of “search for excellence” in which relatively little guidance was given as to which projects and products were desired. Under that regime, 3M systematically spun new products off into their own sales centers with their own staffs and functional departments (though not always their own manufacturing centers). McNerney’s approach toward moving from being a mature diversified technology company to being a premier diversified technology company was accompanied by the implementation of a series of initiatives, including 3M Acceleration, which imposes priorities on R&D investments; Six Sigma, which focuses on improving cost, cash, and growth; e-productivity to speed up customer service and improve customer relationships, and more aggressive management of indirect costs and reducing overlap between businesses.⁸ For the first time, 3M has become explicit about which businesses are to be driven by organic growth and which will enjoy other drivers for success—such as scale. Although change on such a large scale is always disorienting, 3M’s people responded favorably, as did the investment community, which rewarded 3M with a 30+ percent increase in stock price from 2002 to 2004.

It is not enough to simply declare a ballpark, however. At the senior leadership level, executives need to demonstrate visible and sustained commitment to that ballpark over time. Particularly in organizations in which the goal of innovative growth has been an on-again-off-again endeavor, people in the firm will understandably test the senior team to gauge the seriousness of their commitment

to growth. This calls for hard evidence of personal commitment. Such signs are easy to detect once you start looking for them.

Is venturing a priority item on the personal agenda of the senior team? Not just once or twice, but at every meeting, week in and week out, month in and month out? If it is not, there is a high probability that people will make the assumption that venturing is not important, and turn their attention to other, easier things (often with a sigh of relief!). Besides the time commitment that the agenda signals, are venturing initiatives receiving the disproportionate care and feeding that goes beyond their small size? If senior executives pay the most attention and give the most time only to those activities that are well developed, people will read this as a lack of genuine interest in newer fledglings. The allocation of time and attention to new ventures, in other words, is disproportionate to the size of the business. Just as babies need more attention in their early years, so too do new businesses demand more, relative to their size, than grown-up ones. Another signal that growth is important to the senior team is when very good people are allocated to growth initiatives. If the venture group becomes the purgatory from which people's careers never return, good people will quickly figure out that they should avoid such initiatives like the plague.

An observation that is important to make here is that this activity is not carried out with impunity. Allocating disproportionate attention does not come without a cost. Whatever resources ventures get are diverted from the ongoing business. If the base business is not healthy enough to sustain its activities without being weakened by resources going into venturing, it is highly unlikely that venturing alone will be sufficient for organizational renewal. Making the choice to divert such resources is a decision with considerable potential impact. One lesson is that the time to start a venture program is when the base business is healthy and generating solid cash flows, not when it has already begun to falter.

Championing Level: Managing Selection

As a senior executive clearly specifies the playing field of a venturing program, the championing level translates this into specific organizational processes that govern resource allocation and project selection. In successful venturing companies, the presence of uncertainty is recognized, and different management processes are employed under conditions of high versus low uncertainty. This is quite a contrast from companies in which all management resource allocation processes (such as budgeting and planning) are done in a single way, using the same process. The logic is simple: when a business is fairly predictable, one can quite comfortably use conventional heuristics, such as management by exception. When a business is unpredictable by virtue of its novelty or uncertainty, different disciplines are far more beneficial. Although this would seem like sheer common sense, we continue to be astonished by the tendency of companies to apply one-size-fits-all management to both established businesses and new ventures.

The first difference between conventional project selection and selection of projects under uncertainty is that new projects under uncertain conditions are best thought of as real options.⁹ An options orientation implies that you are making investments with substantial future upside, and that you are also preserving the right to discontinue the investment should certain assumptions not be validated.¹⁰ Among the best practices in this area is spending imagination before you allow people to spend money—the theory being that the smaller each investment is, the less you stand to lose in the event that things do not work out. Further, concern yourself far more with how much a potential failure costs than with how many failures you have. After all, you can afford hundreds of failures if each of them is inexpensive. Using options thinking is a mindset that you can easily bring to highly uncertain ventures, since most of their value lies in the future opportunities they open up.

Together with the right mindset, at this level of the organization, it is critical to define what we call gravity. This means being clear about those things that are a given in your organizational environment, and those things that are open to change. At DuPont, for instance, safety is central to every business activity. It would be unthinkable for a venture in DuPont to pursue any area in which safety might be called into question—this is still, therefore, gravity for the company, a bedrock principle from which no venture is allowed to deviate. At the same time, DuPont has moved from a materials-based sensibility to a more knowledge-intensive one, meaning that things that were formerly taken for granted as set in stone—such as measuring success in terms of assets—are now open to change.

The specification of what kinds of ventures are desirable and not desirable can and should be made very crisp at this level of the organization. Among the approaches we have observed to work well are disseminating screening statements, consisting of widely disseminated criteria that will be used to evaluate ideas. The more clearly and widely disseminated these screens are, the more readily they facilitate everyone making intelligent choices about which opportunities to pursue, ideally facilitating both a more focused search for new opportunities and an ability to self-screen. We like to look at screens in two passes: first, a process through which screening out occurs—those criteria that will kill a venture completely if it is not met. Next, we look at criteria that suggest venture attractiveness as they accumulate. So the screen-out criteria are go/no go, while the screen-in criteria are cumulative.

At DuPont, venture teams we are working with have adopted a variation on this idea, specifying first no-go criteria in their screening process, then providing guidance as to what they call “where and how” growth should be built. The DuPont groups have incorporated these principles in scoring documents, which help make the criteria explicit so that they are well understood, and so that different projects can be examined in a consistent way. The DuPont scorecards draw on Six Sigma technology, making a clear distinction between extremely attractive opportunities and those that are less attractive. An example of such a

Table 2.2. A Scorecard for Screening Opportunities

<i>Dimension</i>	<i>Exceptional If</i>	<i>Acceptable If</i>	<i>Unfavorable If</i>	<i>Score Totals</i>
Strategic intent	This opportunity takes us exactly where we want to go in terms of our strategy 9	This opportunity is not inconsistent with our strategy, but offers no engine to drive it 3	This opportunity, even if we succeed, is inconsistent with our strategy 1	
Builds competitive advantage	The idea builds both short-term revenue streams and long-term competitive advantage 9	The idea has either long- or short-term benefits, but not both 3	The idea provides only short-term benefits and may interfere with a long-term opportunity 1	
Builds knowledge capabilities	The opportunity will help us enhance our capabilities significantly 9	The opportunity will let us build new capabilities, but only in very limited areas 3	The opportunity will not lead us to extend our capabilities in any meaningful way 1	
Use of existing assets	The opportunity requires no investment in new assets 9	The opportunity does require some investment but takes advantage of assets in place 3	The opportunity will require entirely new investment in assets 1	

scorecard is in Table 2.2.¹¹ Note that it is not the scorecard that is the magic—it is the thought process lying behind it, the discussion of the ventures' features that it precipitates, and its consistent use that creates results.

Finally, although it is in theory a great idea to develop screening criteria so that everyone understands which ventures are desirable and which are not, an uncomfortable part of this job is informing those proposing or involved in a new project that their project has fallen short of a screen. The wrong way to communicate these decisions is through a subordinate, through a phone call, or (worst of all) through some impersonal medium like e-mail. What is needed here is evidence of a careful, but rapid decision process, coupled with detailed feedback to facilitate learning in the organization. If ideas are rejected, a champion should always explain why, and demonstrate the logic. Doing so is a way of helping the whole organization learn how to pursue better, more strategic, opportunities.

An important mindset requirement is that venture programs should be seen in a portfolio context. Highly uncertain ventures will inevitably have relatively high failure rates, so what matters is whether costs of failure are controlled, and whether the relatively rare successes tend to be big wins. The performance of the individual venture matters less than the performance of the portfolio.

Venturing Level: Executing Launches and Creating Options

At the venturing level of the organization, the main activity in the opportunity pipeline space consists of the creation of options for further business development. Options consist of ideas for new businesses that can be managed in such a way that they create the right, but not necessarily the obligation, for the company to follow through to create a major new project. What matters here is having one or more processes that can be used to systematically uncover, and then explore, new business opportunities. The ways in which this can be done are many—but the core concept is that without signaling to the organization that new opportunities are both wanted and essential, it is far too easy to let the pressing demands of day-to-day activities squeeze out the time for thinking about future ones.

The good news is that we have found that most companies can readily identify considerable numbers of great ideas for new businesses. Contrary to what seems to be presumed in many popular business publications, finding opportunities is seldom the problem. Quite the contrary—for many companies, the real challenge is capturing the ideas in some systematic way, sorting them into different categories with respect to whether and when they might be pursued, and creating the process through which they receive assessment and attention. Practices that seem to be helpful here include having some simple, but powerful tools to identify potential opportunities and a straightforward process through which those with ideas can be heard. The tools are many, each with advantages and drawbacks.¹²

Ironically, at the venturing level of the organization, one of the most important challenges one will face consists of recognizing the uncertainties facing a team and reducing its impact for people. Some call this absorbing uncertainty. If you are running a venture, you need to be telling your people what to focus on and what to ignore, which you can only do by essentially creating an artificial feeling of certainty when in fact you are dealing still with many assumptions. Sometimes this requires a bit of bravado, for instance, when Steve Jobs of Apple Computer declares a particularly uncertain new venture to be an “insanely awesome” product that everyone can throw his or her weight behind. Sometimes, it is more mundane, as when the venture leaders behind P&G’s Spinbrush electric toothbrush venture declared that the target competition for their electric toothbrushes was a \$5 conventional brush, rather than the \$50 versions then dominating the electrical brush market.¹³ In either case, the job of the venture leader is to create a sense of certainty and conviction to free their teams from the paralyzing effects of uncertainty.

Options thinking has implications for the quantity of ideas to be considered. Why? Because the whole concept behind options is to skew the distribution of potential outcomes—limiting the downside risk while uncertainty is still high, and making sure that the potential upside is substantial. One implication is that at the opportunity development stage, you want to be able to consider many options—many more, in fact, than you could possibly develop given the resources that you have. The concept at the venturing stage is to pursue many ideas, recognizing that most of them will be discarded or redirected as resource commitments to them become more substantial. Think of this like a funnel, with many ideas at the beginning that will be winnowed down to a few very robust ideas over time. At 3M, former chief executive officer (CEO) Jim McNerney used this idea as a cornerstone of his venturing strategy, pushing the company to deliver what he calls 2X/3X performance in venturing—twice the number of ideas considered, three times the number pushed through to development. At the venture level, this translates into operationally considering many opportunities.

THE RIGHT WAY TO GET INTO NEW MARKETS

Offering a new product or service to the market is a process rich with new information. The more uncertain your venture is, the more vital it is to take full advantage of this information and use the unfolding insights to improve the concept. Unfortunately, here too we see that companies often take the same approach to launching new ventures as they would to launching line extensions or enhancements to their core business. The reality is that very few projects work out exactly as expected. Most of the time, you would not really know what customers are looking for until you get feedback from them. Moreover, most of the time customers would not really know what they want until they have experienced an offering.

The uncertainty of this process creates several challenges. Senior leaders need to judge when to take action to remove obstacles blocking a venture's path. At the championing level, projects need to be appropriately integrated with other processes in the organization, while at the time the organization needs to benefit from the learning done in the venture. At the venturing level, the process of going from a pipeline of many options to a few focused launches needs to take place. Throughout, the goal is for the company to engage in continuous experimentation to convert assumptions into knowledge at the lowest possible cost. While uncertainty is still high, key objectives are learning and redirecting.

Senior Executive Level: Path-Clearing Processes

A reality of any new venture is that it has the potential to upset the status quo (at least one would hope it has—otherwise why bother doing it to begin with?). Predictable challenges that this creates are the perception of risk on the part

of potential customers; perceptions of threat from those whose jobs might be changed as a consequence of a venture's possible success; wariness on the part of potential supply chain partners, and so on. Overcoming the sources of resistance to a new venture's success is a vitally important obligation of the senior leader; however, ventures often stumble because such path clearing has not taken place.

The first paths that need to be cleared for a venture to enter the market are often internal. Established businesses frequently resist giving time, talent, or resources to launch the new venture, which can result in their failing to gain benefit from their association with the parent company to begin with. Worse, new ventures are often forced to go to market in the same way that existing businesses do, which can completely undermine them. One of our clients, for instance, is attempting to develop a venture that will move the company beyond an established customer base of corporate IT managers who buy specific products from them to a solutions sale at the enterprise level. Among the challenges the venture teams are facing is that the presumption at a corporate level is that they will use the same marketing and distribution channels for the new business as the existing businesses use—a potentially fatal problem, as the new business appeals to a different level in target companies and offers benefits that extend beyond the sphere of a typical IT manager. Someone at a senior level needs to clear away that particular obstacle—by giving the venture team permission to develop an alternative channel and managing the accompanying channel conflict (fortunately, this problem has now been recognized and the appropriate paths are being cleared).

Similar conflicts and obstacles need to be addressed with parties external to the firm. Even great products and services can be met with resistance from customers, who are rightly concerned with the costs versus benefits of trying something new.¹⁴ At a senior leadership level, assurances need to be given that the company is committed to the offering; that it is prepared to support it; and that the risks to customers are manageable. For instance, in the global new elevator construction business, Finland's KONE Corporation developed a radically new elevator technology, which eliminated the need for a separate machine room, creating substantial cost and design advantages for customers. Before this innovation could be converted to growth, however, an enormous amount of external path clearing needed to take place. Not only did the new technology have to run a gamut of demanding regulatory approvals, potential customers needed to be assured of its safety and reliability. KONE management created enormous focus and drive around this activity, with its most senior leaders making sure that the obstacles to the adoption of the new technology (based on a patented innovation called the EcoDisc) were removed, enabling a five-year period of rapid growth based on that innovation.

Convincing customers also requires that other members of the supply chain—distributors, suppliers, joint venture partners, and so forth—are prepared to facilitate the new business launch. All too often, ventures have failed because of either resistance on the part of these essential collaborators or because they were not adequately prepared. The standards battle between Circuit City's Divx

technology and the technology that is now commonplace in DVD players is an interesting example. Suppliers of DVD technology (learning perhaps from the history of technological innovations, such as the VCR player) forged agreements between Hollywood content producers who were eager for long playing time, high image and audio quality, manufacturers such as Toshiba and Sony, and distributors around a common standard. Circuit City's Divx technology was an attempted replacement for the video store rental. Consumers would pay the price of a regular video rental to bring a disk home and view it within forty-eight hours, then either throw it away or pay an additional \$15 to keep it permanently. Circuit City, however, failed to create critical mass around the new technology—only three manufacturers agreed to produce Divx disks (mostly, according to published reports, to avoid annoying the giant distributor). At the same time, other retailers flatly refused to carry the Divx product because of Circuit City's sponsorship, while video store rental outlets accelerated their move to offer DVD rentals because they viewed the success of Divx as a threat to their traffic. Circuit City ended up terminating the Divx venture at a reported loss of US\$375 million.¹⁵ Regardless of the merits of the technology, clearly an inadequate job of aligning key stakeholders was done.

And for publicly traded firms, a final constituency that needs to be attended to are a firm's stockholders and the analysts who assess its prospects. Failure to properly manage expectations, while, at the same time signaling growth potential are both ways in which firms can suffer in the assessment of the market.¹⁶

All this sounds pretty straightforward, and so it is, once a senior executive has decided to make a significant commitment to launching a new venture. The dilemma is that this judgment typically needs to be made before the potential risks and gains from a project are well understood. Waiting to get absolute confirmation of a venture's potential causes paralyzing delays. Jumping in too early can do enormous damage as well—witness the years of disappointing launches for personal digital assistants, which led to ridicule and brand-image damage to the firms leaping too early in the market. The skill here requires making these often difficult decisions, looking for evidence that the potential benefits are worth the risk. Option reasoning is useful in making this judgment, because it mandates limiting downside exposure until the upside potential of a venture is demonstrated.

Championing Level: Integration Processes

As a venture team begins to enter the market, and the senior leadership group becomes engaged in clearing the necessary paths, a subtle but hugely important job is to make sure that the activities of the two are integrated in a holistic way. This implies fitting the venture to the strategy of the firm (however emergent) and also some degree of fitting the strategy to the venture, particularly, if early market entry suggests significant new opportunities that had not been perceived

before. While most people will agree that such integration is important, we often find that the tasks necessary to create real alignment are neglected. This can occur because it is nobody's job; the existing players are too preoccupied with other things; or simply because its importance has not been recognized.

The first challenge of creating alignment is concerned with the resources. Finding the right resources and getting them to the right places involves more than making sure that the budget lines are approved. It has to do with creating venture teams with the right mix of process and content experience, and with providing them with appropriate incentives to grow the ventures in an appropriate way. One of the most difficult challenges is that in aligning new ventures with the organization's strategy, political considerations start to become very noticeable.¹⁷ In particular, if resources going into a new venture are also coveted by managers of established businesses, a champion has to be prepared to engage in the political process of negotiating their release.

A second integration challenge involves negotiating the terms under which the venture must operate. Rules must often be bent to get a new venture going—for instance, rules about job titles or hierarchical position that are perfectly appropriate for a large mainstream business typically make no sense for a small team working on a new venture. When you think about it, most large and complex organizations are chock full of rules that are there for good reasons, but which can choke the momentum of a small venture—everything from building use policies to internal corporate “taxes” to human resource restrictions. It falls to the change champions to decide which rules need to be heeded and which can be subtly bent.

Of particular concern are internal corporate accounting policies that may distort venture performance. In the case of one venture we studied, the leaders continually moaned that they were deeply burdened by internal accounting. This particular venture had its roots in an external acquisition for which, it was widely believed, the parent company had overpaid. The internal accounting rules carried the cost of the acquisition forward from the past into the performance numbers of the business, with the results that (as the venture leader observed), “we have to constantly live with brackets around our numbers,” a sign that the business was making losses. When accounted for without the acquisition cost, however, the venture would have been past the break-even point and been even slightly cash-flow positive at the time of the interview. We persuaded the champion for this venture to permit them to report two numbers: one, the original debt-burdened data, and the other, which we called a “forward-only thinking” number, in which the sunk costs of the excessive acquisition premium were not included. The effect on both the morale and the progress in the venture was remarkable—simply because a modest shift in corporate policy helped their progress and contribution become visible, while previously these were buried amid the bad news of a past corporate pricing decision.

A particular challenge for champions engaged in the integration task is that, to succeed, they must influence processes at the venture level, as well as at the senior

management level, without being in formal control of either. This can be immensely frustrating, as seemingly vast amounts of time are consumed by the delicate processes of negotiating agreements; keeping the necessary parties informed of progress; and making sure that senior leaders are sending the right signals. Managing both up and down in the organization requires some skill, but more so a willingness to dedicate time and thoughtful planning to the task.¹⁸

Venturing Level: Redefinition and Pruning Processes

At the venture management level, market entry can seem paradoxical. On the one hand, venture managers must be ruthlessly determined to drive results, bull-headedly breaking down obstacles to the venture's success. On the other hand, market entry usually reveals lots of new information, which can suggest that a venture's path forward needs to be redirected. We would argue that the first set of behaviors applies when uncertainty has to some extent been reduced, and the goal is to break into a market quickly. The second, involving the capacity to redirect and change the venture, makes sense when uncertainty is high and the clear business model does not yet exist.

In either case, venture launch is facilitated by the extent to which a team can create focus, initially around the first few important customer sets. It is further facilitated by the use of a process that forces assumptions to be tested, and which imposes regular overall checks on the business at key milestones, as well as by the willingness of venture leaders to take in new information and act on it.¹⁹ This is the time to build new competences, which we define as a combination of skills, assets, and systems, which are most powerful when they leverage an insight or discovery that is unique. Competences require the creation of effective teams and an increase in understanding of what the business really is—properties that we have elsewhere called *deftness* and *comprehension* as a new venture develops.²⁰

One of the great dangers of this part of the venturing process is the risk of falling victim to what psychologists call the *confirmation bias*. This is quite simply the natural human tendency not to take in new information that calls into question strongly held assumptions. Thus, if a venture team has formed a set of beliefs, it will be very difficult to shake those beliefs, even in the face of disconfirming evidence, unless the venture leader makes it clear that even cherished assumptions are open for discussion. When one examines great venturing flops, one often sees a pattern in which teams fix early on some guiding assumptions and never look back to reexamine them. The frenzied bidding by telecommunications companies for so-called 3G UMTS spectrum licenses fits this pattern—everyone bidding assumed that spectrum would be scarce and that operators would rapidly move to deploy the new networks. Despite challenges to this assumption and some pointed observations from firms electing to bid, the dominant assumptions about the benefits of these 3G networks were not really questioned until some time after the bidding concluded, leaving many firms, such

as Deutsche Telekom, with expensive assets that, at least in the near term, do not show promise of generating new profits.

IT WORKED! NOW WHAT? MANAGING VENTURING

After all the hard work of finding opportunities and breaking into the market, the joy of participating in a rapidly growing business is considerable. This joy, unfortunately, is often tempered by a host of new problems that were very hard to even conceive of when the venture was in its fledgling stage. Instead of a few tough challenges of learning and decision making, problems appear to pop up everywhere. Nobody is getting any sleep; facilities and people are strained to their limit; and it begins to become difficult to see the longer-term goals in the face of immediate critical problems. Growing ventures can also have unexpected consequences for the rest of the firm—both positive and negative.

Senior Executive Level: Creating Focus

A key task of senior leaders when a venture starts to take off is to make sure that everyone in the organization stays focused, despite the temptations of enormous distractions. This means reinforcing the kinds of messages that were important during the ballparking activities, but even more specifically and operationally. Insisting that quality and safety remain at high levels, for instance, can counterbalance the temptation to shortcut these processes, because they can slow a venture down. Making sure that the firm-level strategy is consistent with the venture—either by reinforcing the existing strategy or by shifting it to reflect the venture's potential contribution—is also critical. Absent focus, a short period of high growth often ends with rapid competitive entry into the same opportunity space, and a defeat snatched from potential victory.

Together with focus, senior leaders need to be prepared to find and release resources—fast—for the growing operations of the new business. Together with the championing level, critical decisions need to be made with respect to reallocating resources to growth. In some cases, the growth of a new venture implies a complete overhaul of a company's budget structure. In the case of a very rapidly growing financial services business we were observing, rapid growth essentially consumed all the available free cash flow in the business. At a corporate level, money had to be found from wherever it could be released—necessitating complete budget reviews with every company division to find ways in which to free resources. That year, the organization nearly imploded as the success of the new business overwhelmed the previous financial structure of the company. Obviously, these decisions are not popular, but they have to be taken at the most senior level of the company and taken decisively, lest the venture strangle from lack of resources to support growth. Such restrictions for a new venture do nothing but create a window of opportunity for competition.

Championing Level: Shifting Resources

While support for shifting resources is essential at the most senior level of the corporation, the tasks needed to make the actual shifts often fall to the championing level of the organization. At this level, leadership involves anticipating a host of problems that are likely to arise and proactively avoiding them. In fact, it is highly likely that the venture-level managers, engaged in growth, will be so distracted that they find being proactive difficult. The task then often is not handled, or falls to the champion to initiate.

Production capacity, for instance, may suddenly become scarce. If the new venture is operating with common capacity with existing businesses, tensions can erupt into deep internal conflict, as different groups battle for their share of the line. Good people become scarcer than ever, creating enormous pressure on staffing plans and heavy workloads for support operations, such as training, customer service, and human resources. In addition, quality can become strained, which creates competitive vulnerability. Somewhat more subtle are the decisions involving who receives deliveries or services and who does not. In the absence of a strategic approach to rationing capacity, distributors or value chain partners can become disgruntled and disenchanted, again creating an opportunity for competition. The wrong way to ration capacity is first-come-first-served. The right way is through some system that customers find fair, but which aligns with the corporation's strategic goals.

One thing to consider carefully is whether and where to outsource capacity. If you anticipate and carefully focus your resources on those parts of the value chain that are strategically important to control, you may be able to save considerable resources by outsourcing the less strategic parts of the chain.

Among the most subtle processes to try to anticipate proactively are the requirements for training. This might include training in the customer service operations; training for people who actually work with the offerings; or even training for customers and outside supply chain partners. Since training is not an instantaneous process, failing to anticipate the need for it can become a huge setback. Similarly, recruitment (ahead of need) of operations and service staff and qualified middle managers is often left to chance, and then managed haphazardly, unless someone is proactively leading the charge.

Companies often also overlook the problem that their rapid growth can put enormous pressure on their suppliers—in which case all the difficulties of proactive anticipation apply to the supply chain as well. A lack of quality or efficiency on the part of suppliers can lead to problems in the offerings that were not anticipated.

Finally, at the championing level it makes sense to put in place processes to anticipate and counteract competitive attack. A golden rule in strategy is that all attractive markets attract competition, and visible, rapid growth markets do so dramatically. At the championing level, someone needs to anticipate the attacks

and figure out how to mount the most effective counterstrategy, without overreacting.

Venturing Level: Coping

Although experiencing rapid growth can be exhilarating, at a venturing level one can feel totally overwhelmed. In an organization in which the championing job is well managed, fortunately the venture manager will be freed from some of the problems of coping with growth.

The time has now come for the emergent venture to start putting into place the processes and systems (or routines) that are necessary for it to become a real business. The more that growth challenges can be addressed by making certain activities routine or systematized, the less has to be invented on the spot and the more effectively the challenge will be met. Thus, at this point one should begin to see standardization of some activities, the development of systems for customer service and production, and the installation of policies and procedures. Standardization, not invention, begins to become important, and the infrastructure on which the later business will be built starts to develop. The process of creating robust company competences begins to unfold, as the essential skills, assets, and systems are put in place that are the essence of corporate capabilities.

One common but often overlooked aspect of this process is that the person with the skills to initiate a new business and launch it into the market may not be the right person to create the processes and systems to smoothly handle rapid growth. The very rule-breaking, innovative qualities that are crucial when the chief task is initiation can become liabilities when the job is trying to bring order to a chaotic situation. At a venture level, this requires the ability to know one's own limitations. Often, the solution is to bring in a different manager or management team to handle the challenges of growth. An alternative, however, is for the venture manager to recognize that the time has come to introduce such skills into the management team and bring in people who have appropriate experience. With many organizations, the reward for starting a venture is to be given the opportunity to run the business that emerges from it; unfortunately, this often means that a person with the skill set to start a business is in the wrong role.

Coping with growth, therefore, often means a transition in the management skills that are most needed and may imply a transition in management. All the techniques of effective change management come into play here, as the entire organization goes through a series of often-wrenching changes in people, processes, and systems.²¹

The goal during this phase of the venturing process is no longer creating something new, but imposing order and bringing discipline to a much better understood context. Effective venture managers thus begin to focus on standardization, quality, and reliability. The right people for this task are able to define a set of core key priorities; manage the details of the business; make sure that loops are

closed; and create the right culture to make the transition from a fledgling business to one that is increasingly mature.

RENEWING THE CORE

The goal of a venturing program is to drive the profitable growth of the parent company. One of the least-understood processes of venturing is the subtle mechanism through which a new venture becomes part of the corporate core, and in fact begins to influence the future of that core. When we review companies that have succeeded at transforming themselves through venturing—companies like 3M, Nokia, Nissan, and DuPont—a distinguishing characteristic is that the corporate center of gravity has shifted over time as a consequence of new business development.

A recent history of Nokia, for instance, notes that Ollila's rise to become company CEO was sparked in part by his success at managing the then-faltering (despite strong growth) Mobile Phones division. "As Ollila saw it, the main problems at Mobile Phones were low morale and a lack of integration with the Nokia organization."²² Ollila took the company through a radical transformation in which it disposed of its traditional businesses and focused efforts almost entirely on telecommunications—a business that had begun as a new venture in the 1960s and had grown at a 30 to 50 percent rate annually.²³ Indeed, the Nokia story might be considered a textbook case of renewal through innovation.

Once a new venture has traveled through its growth phase, its managers must be able to capture positions of influence within the parent company. If they do not, it is highly likely that the long-run strategy of the parent will continue as it did before the venture got started—undermining the whole point of engaging in venturing to begin with. Think of the people who worked on the venture as powerful carriers of the message of necessary change. Evidence that people are moving into positions of influence includes access by leaders in the new entity to the established corridors of power, influence, and resource allocation decisions.

Beware, however, of the danger of assuming that all people who are successful with ventures are automatically good at managing ongoing businesses, or even interested in doing so. Many would do better being "recycled" back into the new start-ups. The point here is that the winners need to be accorded recognition and influence in the corridors of power, not necessarily position in the organization.

As this process unfolds, both old and new businesses come to the point at which decisions—often-difficult decisions—need to be made about the extent of integration. Which decisions should be made in a centralized way? Which can be made at an operating level? How much consistency should there be in measurements and objectives? Does the company have one overarching strategy or a sequence of strategies at operating levels? How are ideas and practices shared (or not)?

Senior Executive Level—Incorporation and Perspective

A key task at the senior level is to symbolically, and in reality, make it clear that the new business is a welcome and valued member of the corporate body. In particular, the people from the venture need to be recognized as a legitimate and welcome part of the corporate center. Symbolic and substantive actions—such as promoting people from the venture team to positions of authority; featuring the venture in publications and in the annual report; mentioning it in discussions with analysts and the media—reinforce the message. In the same sense, neglecting to do these things sends an equally strong message—that the venture, however successful, is not a driver for the company's future.

Mixed messages can happen when the senior leader has grown up in another, different business, and finds it hard to acknowledge that its star has been overshadowed. It takes enormous discipline and insight for a senior executive to realize that the time has come to leave the past behind. We have always admired the way Andy Grove described the transition he personally had to make to shift Intel's strategy from a focus on memory chips to microprocessors:

I remember a time in the middle of 1985, after this aimless wandering had been going on for almost a year. I was in my office with Intel's chairman and CEO, Gordon Moore, and we were discussing our quandary. Our mood was downbeat. I looked out the window at the Ferris wheel of the Great America amusement park revolving in the distance, then I turned back to Gordon and I asked, "If we got kicked out and the board brought in a new CEO, what do you think he would do?" Gordon answered without hesitation, "He would get us out of memories." I stared at him, numb, then said, "Why shouldn't you and I walk out the door, come back and do it ourselves?"²⁴

As the growing business and the previous core businesses begin to come together, senior executives need to revisit the ballpark for the firm—is it still relevant? Does the success of the new business suggest a change in overall strategic direction for the firm? And does this likewise suggest the need to update the ballpark for other new businesses? As of this writing, IBM CEO Sam Palmisano is in the process of reshaping the firm's ballpark to a concept he calls on-demand computing. Part of the underpinnings of this change in direction comes from the success of IBM's software business, a US\$13 billion sales division, which generates 31 percent of its pretax income and 78 percent of its bottom-line growth, according to a recent published report.²⁵

One of the most significant tasks of the senior executive team is to provide perspective on the evolving core of the company. Senior leaders suggest what data are important to a firm, and help interpret vague and ambiguous information in the environment. The best are adept at spotting early warnings of potential threats, as well as of potential opportunities. This task is helped by the development of leading indicators. Unlike much information in business that is a reflection of past activities, leading indicators help focus attention on the future.

Finally senior leaders need to provide guidance on the company's overall resource allocation priorities and competitive positioning, as well as acting in a symbolic capacity as the visible symbol of the firm to outside stakeholders.

Championing Level: Socializing

As a new venture becomes a substantive contributor to the core business, it also needs to become a good citizen. At the championing level, this can feel like the imposition of adult supervision on a rowdy adolescent. The venture has to begin now abiding by the corporate rules it may have flouted earlier. Rules about corporate overhead and transfer payments; rules about human resource policies; and rules about harmonization with centralized systems begin to become important. Budgets need to be done, and done properly. Targets need to begin to be met more consistently, and accountability for performance starts to matter. If a venture had its roots in a skunk works, with an us-versus-them attitude toward the parent company, barriers to cooperation now need to be taken down and the people in the venture need to be acquainted with the social life of the company. In addition, as a venture gets larger, its impact on the parent can grow as well. Missing a target by 5 percent is no big deal when it is a tiny business—once you are talking about a big business, however, the impact can be far more substantial.

Challenges facing senior leaders during this set of activities are very similar to those they face when incorporating acquisitions, and many of the same principles apply: thought needs to be given to the nature of the integration of the business and transition strategies need to be developed for each of the key people.²⁶ The challenge is to create alignment and make the necessary changes without excessive disruption to the business. Fortunately, there are a number of alignment and change management tools that reflect years of excellent research into the process of realigning an organization.²⁷

Venturing Level: Renewal Processes

At the point at which a venture becomes a “grown up,” the venture leaders' most significant obstacle is overcoming complacency and arrogance. With successful growth in vivid recent memory, it is all too easy to underestimate competitive threats and overlook changing customer requirements. When the venture needs to be focusing on making enhancements to its offerings, the team can sometimes lose focus, particularly if it is having a difficult time with the integration of the new venture with the corporate parent. Goals here include building in processes for routine innovation, enhancing, and improving the offering, as well as building a stable and competent team to lead the developing business.

Given an accelerating pace of technological evolution, it is easy to overlook just how quickly things can change. Even Motorola, a leader in many of its industries, missed a major transition from analog to digital platforms in its mobile

phones business and found itself having to struggle back into a leadership position in that industry. Right now, in the United States, the rapidly developing cable television business is showing signs of denial with respect to the threat posed by satellite-based services. A crucial task of the venture leader is thus to keep the organization focused on what it needs to do to maintain customer loyalty and further develop the business.

Managing productivity starts to become important as well. Since success always attracts competitive response, price pressure is an ever-present threat. By the time competitors have caught up with the concept or the technology, it is vital that your business be efficient and running smoothly. It is all too easy to get sloppy when margins are substantial and growth prevalent.

The people challenge during these activities is considerable as well. Sometimes new skills need to be brought on to the team. Sometimes, people with connections to the markets, technologies, or people in the core business are important for the venture's future growth. And some of your teams are highly likely to find the task of running a day-to-day operation with a lot of standard operating procedures boring. They (and you) will be happier if you find them a challenge suited to their talents.

WHEN IT'S CLOSING TIME: THE PROCESS OF TERMINATION

It is a truism that in today's competitive environment, no competitive advantage lasts forever and that companies that do not change and adapt will fall victim to those that do. It is somewhat surprising to us to observe that in comparison with the mountains of ink devoted to innovation and growth, much less attention is given to the equally important process of termination of businesses and ventures (as opposed to a boatload of material on reengineering and downsizing). The two have to go together, not least because most markets are not rapidly growing. Research by Harrigan found, for instance, when looking at industrywide unit shipments of manufactured goods that "75 percent of all industries comprising the economies of Japan, Western Europe and the United States were experiencing slow growth, no growth or negative growth." Only about 12 percent of the industries in her study were rapidly growing.²⁸ Markets that grow slowly or not at all may require consolidation or a shift in the way they are served for companies operating within them to be successful—at the same time, not all companies will be equally suited to make the shift from operating in a rapid growth environment to one that grows more slowly. Exit is, therefore, just as crucial as entry.

Senior Executive Level: Pruning

Among the least comfortable jobs at a senior executive level is initiating activities that will lead to the restructuring of a company and the sale or closure of

some of its lines of business. Several practices are associated with doing this uncomfortable task well.

First is building a clear and compelling case that changes are needed. Typically, this will be the result of poor or worse-than-expected performance, although changes can also be precipitated by looming marketplace threats, competition, changes in regulations, or other circumstances facing a firm. In the absence of a compelling story, efforts to prune businesses can end up demoralizing and angering essential employees and confusing customers rather than providing the energy for renewed focus.

Next, make clear the criteria for what businesses will stay in the corporate portfolio and which will not, and do this as completely and rapidly as possible. Thomas Engibous, who unexpectedly became the president of Texas Instruments in 1996 after the sudden death of previous CEO Jerry Junkins, decided to accelerate the restructuring of the corporate portfolio that had been initiated in a moderate way under his predecessor. Within his first eighteen months in office, Engibous sold TI's defense business to Raytheon, its notebook computer operations to Acer of Taiwan, its printer business to Genicom, and also exited inspection equipment, chemical, telecommunications systems, wireless equipment, and software. Engibous was widely praised for his ability to explain the need for the changes and provide people in the company with a compelling vision for the future—which boiled down to redefining the TI ballpark to becoming the leading player in digital signal processing. As he observed to a reporter, "When somebody says DSP, I want them to think of TI, just like they think of Intel when they say microprocessors."²⁹ Such a major transition does not come without pain, of course. As one former TI executive commented, "some people don't feel part of the mainstream" now that the company has shifted focus.³⁰

Another important element of pruning at a senior level is concerned with addressing the power dynamics that result in coalitions of support for businesses, even if they are not performing well.³¹ At IBM, for instance, Steve Mills, the head of its software group, perceived that IBM's thrust into so-called middleware for computers of all types could be complemented by partnering with providers of application software. Unfortunately, IBM also had many products in the application space that competed directly with potential partners, each of which had a constituency within IBM's power structure. Eventually, after years of persistent effort, Mills and his colleagues were able to persuade the senior team to exit in-house application efforts in 1999. As of 2003, IBM reportedly has cross-marketing agreements with 9,000 application vendors, with partnerships driving US\$12 billion in software sales across the company, compared with US\$3 billion in 2001.³² It is important to remember that you cannot win these kinds of battles on logic alone—political and change management skills are key here. And this is not a task that can easily be delegated—senior leaders have to take a stand.

Finally, be fair. Considerable research suggests that a process perceived as fair, even if its consequences are unpleasant, does less damage to morale and allows changes to proceed more smoothly than a process that generates resentment.

Championing Level: Decoupling

At a change championing level, the actual activity sets that will decouple a business from its parent or result in its closure are initiated. This is particularly problematic for new ventures that need to be terminated. Having encouraged people to leave other kinds of jobs and join a venture, it is really tough to have to inform them that cherished projects are to be ended. The reality however is that a certain level of ruthlessness is essential here. The firm cannot afford to waste its talent on dead projects that are going nowhere. Talented people would be better deployed in a business with a future. Ending a project sooner, rather than later, and in an honorable way can actually create substantial benefits in the long run.

Sometimes, the cause of a venture's failure has nothing to do with the people on the venture. Thus, a technology that is slow to take off, a complex product in which complementary technologies are not yet available, or a venture in which assumptions about price were wrong, are not necessarily a reflection of poor management. One of the judgment calls to make when ending a venture has to do with making the distinction between bad luck and bad management. The goal is to keep people motivated and enthused about venturing, while at the same time removing those who simply do not think in an appropriate way from the venturing process. On occasion, executives will be called into a venture that has fallen into what the academics call an "escalation of commitment" situation.³³ This means that commitment to funding the venture has remained high, while mounting evidence suggests that it is doomed. In such cases, strong interventions may be needed to de-escalate the situation and bring decision makers to the point where they can stop the runaway project. Montealegre and Keil, building on the work of Brockner, Shaw, and Rubin, Heath, and Northcraft and Neale have suggested a list of ways in which the context for de-escalation of commitment can occur, including:

- Changes in top management or project championship
- Publicly stated limits on expenditure
- Availability of alternative internal investments
- Setting minimum target levels for achievement
- Making negative outcomes less threatening
- Engaging in regular evaluation
- Separation of responsibility for initiating and evaluating projects
- Appeals to stakeholders from externally affected parties
- External pressure on the organization
- Unambiguously negative feedback
- Visibility of project costs³⁴⁻³⁷

Montealegre and Keil (2000) observed a four-step process of de-escalation in a study they conducted on the implementation of the baggage handling system at Denver International Airport: step 1, recognition of a problem; step 2,

reevaluation of the prior course of action; step 3, searching for alternative courses of action; and finally step 4, implementing an exit strategy.

Champions here have an enormously important buffering role. They help empathize; explain the need for the change; negotiate with stakeholders; and otherwise try to attend to the personal and emotional side of pruning.

Venturing Level: Managing Exit

In the event of a disappointment, the human and symbolic role of the venture leader cannot be overemphasized. For the organization to benefit from failures and learn from its mistakes, venture leaders must demonstrate their personal accountability for what happens to the venture and their personal determination to learn from and go beyond the setbacks. If people must be fired, tell them personally. If projects must be cancelled, do it in person. If people are angry or upset, be prepared to empathize, explain, and help them adjust. One best practice in this area is to conduct thorough (and frank) postmortems or after-action reviews to facilitate the capture of learning and give people an opportunity to come to grips with the reality of the situation.

It is also crucial at all levels of leadership, particularly at the level of the venture, that fear of failing be reduced.³⁸ In the best-managed companies, a distinction is made between businesses that did not work out—and under uncertainty, there always will be those that do not—and people that are responsible for the failures. At TI, part of Engibous's cultural change efforts involved shifting the way in which disappointments were handled. Those involved with projects that ended up heading down dead ends are encouraged to kill them and are rapidly redeployed to other programs. The company additionally makes explicit investments in retraining its engineers to avoid their becoming technologically obsolete, attending to one source of resistance to leaving a business behind—the fear of one's own skills becoming worthless.

CONCLUSION

To review our argument earlier, we suggested that venturing programs call for the simultaneous management of fifteen discrete processes, each of whose absence can inhibit successful new business growth. It should therefore be clear that a major venturing program is hard, hard work. It calls for determination and persistence—it is not fad of the month stuff. It is like building up momentum on a flywheel—constant, determined energy and attention needs to be poured in until progress becomes inexorable.

As you review your own venturing activities, it can help to ask the extent to which each of the fifteen processes are being appropriately managed in your firm. This diagnosis will help to pinpoint places where you may need to pay extra

attention or put in additional effort. If you can do this, you will be well on the way to creating a firm capable of the continuous renewal needed to survive in these increasingly competitive and challenging times.

NOTES

1. Matthew L. A. Hayward and Donald C. Hambrick, "Explaining the Premiums Paid for Large Acquisitions: Evidence of CEO Hubris," *Administrative Science Quarterly* 42, no. 1 (1997): 103–129.

2. Ralph Biggadike, "The Risky Business of Diversification," *Harvard Business Review* 57, no. 3 (1979): 103–111; determined that a typical innovation required seven or more years to achieve market positions.

3. For an alternative way to structure highly uncertain investments, see Ian C. MacMillan and Rita Gunther McGrath, "Crafting R&D Project Portfolios," *Research-Technology Management* 45, no. 5 (2002): 48–59.

4. The characterization of these activity sets draws upon Joseph L. Bower, *Managing the Resource Allocation Process: A Study of Corporate Planning and Investment* (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1970); Robert A. Burgelman, "A Process Model of Internal Corporate Venturing in the Diversified Major Firm," *Administrative Science Quarterly* 28, no. 2 (1983): 223–244.

5. For a more detailed discussion of the process of opportunity recognition and the creation of an opportunity register, see Rita Gunther McGrath and Ian C. MacMillan, *The Entrepreneurial Mindset: Strategies for Continuously Creating Opportunity in an Age of Uncertainty* (Boston: Harvard Business School Press, 2000).

6. See MacMillan and McGrath (2002) for a discussion of different types of approaches to market entry, and Gary Lynn et al., "Marketing and Discontinuous Innovation: The Probe and Learn Process," *California Management Review* 38, no. 3 (1996): 8–37.

7. For a detailed discussion of the resource allocation process for new ventures, see Jennifer A. Starr and Ian C. MacMillan, "Resource Cooptation and Social Contracting: Resource Acquisition Strategies for New Ventures," *Strategic Management Journal* 11, no. 4 (1990): 79–92.

8. Rick Mullin, "3M, or the Tale of an Exiled Prince," *Journal of Business Strategy* 22, no. 5 (2001): 24–26.

9. MacMillan and McGrath (2001, 2002) and McGrath and MacMillan (2000); Avinash K. Dixit and Robert S. Pindyck, *Investment under Uncertainty* (Princeton, NJ: Princeton University Press, 1994).

10. For a planning methodology that uses this philosophy, see McGrath and MacMillan (1995); Rita Gunther McGrath and Ian C. MacMillan, "Discovery Driven Planning," *Harvard Business Review* 73, no. 4 (1995): 44–54.

11. This scoring approach was developed by Robert C. Cooper and the members of DuPont's Knowledge Intensive University, whom we thank for permission to reproduce it here.

12. Among those we have observed to create good results are consumption chain mapping, quizzing and attribute map analysis (see MacMillan and McGrath, 1996, 1997); quality function deployment; design for Six Sigma, and innovation workshops (Hamel, 2000); Ian C. MacMillan and Rita Gunther McGrath, "Discover Your Products' Hidden

Potential,” *Harvard Business Review* 74, no. 3 (1996): 58–68; Ian C. MacMillan and Rita Gunther McGrath, “Discovering New Points of Differentiation,” *Harvard Business Review* 75, no. 4 (1997): 133–145; Gary Hamel, *Leading the Revolution* (Boston: Harvard Business School Press, 2000).

13. “Why P&G’s Smile Is So Bright,” *Business Week* (August 12, 2002).

14. Arthur L. Stinchcombe, “Social Structure and Organizations,” *Handbook of Organizations* (1965): 153–193 pointed out that all new ventures suffer from a “liability of newness.”

15. Steven V. Brull, “DVD and Conquer: Why One Technology Prevailed,” *Business Week* (July 5, 1999): 34.

16. For some good ideas on managing investor expectations, see Amy Hutton, “Four Rules for Taking Your Message to Wall Street,” *Harvard Business Review* 79, no. 5 (2001): 5–11.

17. For a seminal article on the political process of venturing, see Ian C. MacMillan, “The Politics of New Venture Management,” *Harvard Business Review* 61, no. 6 (1983): 8–13.

18. For some excellent ideas on the process of managing “up,” see John J. Gabarro and John P. Kotter, “Managing Your Boss,” *Harvard Business Review* 71, no. 3 (1993): 150–157.

19. An article on discovery-driven planning offers a template for thinking this way: Rita Gunther McGrath and Ian C. MacMillan, “Discovery Driven Planning,” *Harvard Business Review* 73, no. 4 (1995): 44–54.

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21. Michael Beer et al., “Why Change Programs Don’t Produce Change,” *Harvard Business Review* 68, no. 6 (1990): 158–167.

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23. Haikio, 2002.

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25. Susan Orenstein et al., “The Toughest Guy in Software,” *Business 2.0* 4, no. 3 (2003): 80–85.

26. Ronald N. Ashkenas and Suzanne C. Francis, “Integration Managers: Special Leaders for Special Times,” *Harvard Business Review* 78, no. 6 (2000): 108–117; V. Pucik, “Competing through Alliances and Joint Ventures,” in *Accelerating International Growth*, eds. P. Rosenszweig et al. (New York: John Wiley and Sons, 2001), 57–74.

27. Galbraith, 1973; Tushman and O’Reilly, 1997; and Kotter, 2001, are good points of departure. Jay R. Galbraith, *Designing Complex Organizations* (Reading, MA: Addison-Wesley, 1973); Michael L. Tushman and Charles A. O’Reilly III, *Winning through Innovation: A Practical Guide to Leading Organizational Change and Renewal* (Boston: Harvard Business School Press, 1997); John P. Kotter, “What Leaders Really Do,” *Harvard Business Review* 79, no. 11 (2001): 3–11.

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30. Cited in Ristelhueber, 1997.
31. M. Meyer and L. Zucker, *Permanently Failing Organizations* (Thousand Oaks, CA: Sage, 1989).
32. Susan Orenstein et al., “The Toughest Guy in Software,” *Business* 2.04, no. 3 (2003): 80–85.
33. Barry M. Staw and Jerry Ross, “Knowing When to Pull the Plug,” *Harvard Business Review* 65, no. 2 (1987): 68–75: on the difficulty of stopping once-attractive projects.
34. Mark Keil and Ramiro Montealegre, “Cutting Your Losses: Extricating Your Organization When a Big Project Goes Awry,” *Sloan Management Review* no. 3 (2000): 55–69.
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36. Chip Heath, “Escalation and De-escalation of Commitment in Response to Sunk Costs: The Role of Budgeting in Mental Accounting,” *Organizational Behavior and Human Decision Processes* 62, no. 1 (1995): 38–65.
37. Gregory B. Northcraft and Margaret A. Neale, “Opportunity Costs and the Framing of Resource Allocation Decisions,” *Organizational Behavior and Human Decision Processes* 87 (1986): 348–357.
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