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Managing New Business Ventures

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Based on a study of new product development teams within a mature chemical company which explored the relationship between linkages between team members and their organizational stakeholders and team success, I found that success is linked to the team's ability to proactively manage their external stakeholders, to have clear success measures, to obtain management support, to obtain reward for their efforts and to have a talented team. While previous team innovation studies primarily concentrate on team members, this research extends beyond this work by pointing towards the importance of linkages across the team.
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Introduction

As creating shareholder value is a primary concern for most corporations, delivering growth is not merely a luxury—it is a necessity that companies can ill afford to ignore. Pursuing growth via acquisitions, however, often proves to be expensive and you do not know precisely what you are buying or how to integrate the company successfully. And alliances involve sharing the profits and managing an often difficult partner. Another way to achieve growth is through fostering new business venture efforts internally. Using venture teams to foster growth has received continued attention not only within the management literature but also in practice. According to an Ernst & Young Venture Report of 2002, the amount of capital invested into ventures grew until the late 90's, yet the success rate is low with huge disparities between companies. In a 2001 survey, Bain & Company found that internal venturing was currently the least preferred option among a range of management practices and the one associated with the biggest frustrations (see Figure 1).

Managers dislike new business ventures as they are loose, uncertain, flexible and everchanging and do not fit neatly into the corporate policies of successful companies—in fact, they frequently represent the counterpoint. Innovation is, however, critical to maintaining a competitive advantage, and extending the core businesses only goes so far. So how can companies successfully explore business opportunities at the periphery of the businesses while maintaining efficiency at the core? Creating new business venture teams is often seen as the answer. However, managing these venture teams to avoid frustrations is vital if these ventures are to succeed.

At first sight, a new business venture is expected to be a systematically managed process in which innovative ideas from customers, marketing, manufacturing and suppliers are first put forward in a pre-development phase. Promising ones are then selected and the projects are introduced and measured over time to adhere to milestones and budgets. In reality, a new venture effort is a haphazardly or loosely managed process in which business opportunities are repeatedly missed. In an averagely managed company, about 50% of new product development projects fail. This percentage increases to 70–80% in the bottom 20% of businesses and decreases to 25% in the best managed companies - top 20% of businesses. This means that new business ventures *can* be managed successfully if sufficient attention is paid to overcoming many of the existing frustrations.

The best performers have managed to establish a positive climate for innovation. In this context, intrapreneurs are recognized and rewarded, employees understand the process from idea generation to the launch phase, open communication between employees across functions is fostered, the business climate is not risk averse and there are no career damaging penalties for product failures. This contrasts sharply with weak performers in this area, where most of these factors are nonexistent. In addition, successful companies show that senior management is strongly committed to and supportive of business development efforts.

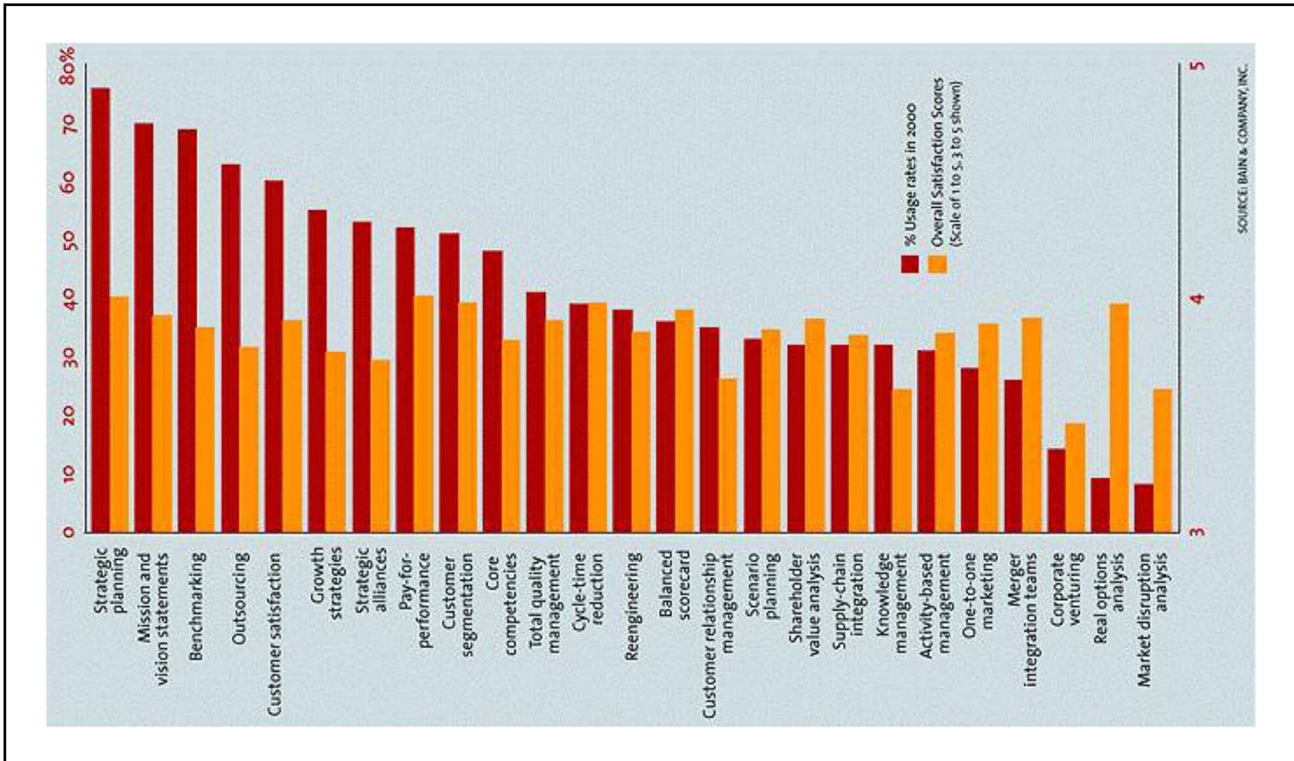

Figure 1 Usage and Satisfaction Rates of Corporate Venturing

Having worked with a number of different new business venture teams over the last few years (see box ''About the Research''), I have identified the five most frequently voiced frustrations in managing new business ventures and will focus on how to address them. Since these internal business efforts are one of the most important paths to growth, overcoming the frustrations in order to be among the 20% of companies that have successfully fostered internal venture teams is key to success.

Frustration 1: Unclear Measures and Reporting Requirements

The highest level of frustration within new business venture teams is associated with success measures. As one team leader said, ''What I thought I *could* achieve was different than what I thought I *should* achieve to receive continued funding. Company expectations were definitely higher than what I could realistically achieve.'' Or as another team leader put it, ''You needed to show that you had this very high NPV or else [y]our projects were terminated. When I first took the business up I was told what my forecasts were and I had no room to make a realistic assessment of what was possible.'' I found that there is a systematic overestimation of potential volume in order to show high NPV numbers—attainable or not. And discount rates are not always adapted to the particular stage of the venture's development.

The difference between high and low performing teams is that the high performers proactively manage the measures. As one of the successful team leaders said, ''We made sure that the small sales at the beginning were achievable milestones and in line with our forecasts. Since the credibility of our opportunity [venture] depended on these we had to show that we could deliver.'' Generally I found that financial success measured by actual sales versus forecasted sales is correlated with team effectiveness. It seems that when the project team feels individual responsibility for setting realistic targets and ''lives'' their milestones, feeling truly accountable to them, they are most motivated to achieve them. A critically important milestone in the process is receiving external validation from the customer during what many companies call the ''validation stage''. Meeting this milestone gives both the team and management a clear indication that the team is on the right track. Establishing realistic targets involves estimating sales after having talked to potential customers and involving the knowledge of the team and others within the organization to help assess the probability of success.

Frustration 2: Having to Manage Internal Stakeholders

A common characteristic with non-performing teams is a lack of performance alignment between the team and its internal stakeholders. The 360° team feedback

results show that lower performing teams overestimate their own team accomplishments and working procedures and have no sense of how internal stakeholders perceive the team's management skills. This discrepancy in perception between the team and their internal stakeholders leads to an unsustainable position, since the stakeholders frequently have access to resources such as R&D, customer contacts or industry experts that the team needs in order to get the product from an idea to the market. The lack of alignment was reinforced when looking at the communication patterns between the team and internal stakeholders from marketing or production.

Figure 2 contrasts the results of a successful with a less successful new product development team based on the 360° questionnaire and communication network maps. The results of the 360° questionnaire shown on the left side of the graph visually reflect the team's perceptions on 12 dimensions[1] indicating the team's internal and external focus while the middle graph shows the perceptions of the combined stakeholders (downstream and upstream - from R&D, production, marketing, supply chain or staff functions such as HR and legal - and bosses). Less successful teams had large perceptual discrepancies between the combined stakeholders and the team of how the team performed and generally revealed lower overall scores. The data represent percentile scores and were compared to other teams' scores in a database of over 500 teams who have answered the same questions. The more the circle was filled the higher the performance of the team on the 12 dimensions. The right graph shows the communication pattern between the team members (circles) and stakeholders (rhombi). While the successful team was well connected with a large number of stakeholders, the less successful team had limited interaction with stakeholders and this interaction was primarily focused on a few team members.

We found that although most teams were internally well connected, the less successful ones had no regular communication links with half of their internal stakeholders. This contrasts sharply with the more successful teams, where everyone was tied into the network. As one team leader said, ''I can't imagine how you'd be successful without having the buy-in from the stakeholders.'' Obtaining buy-in from stakeholders does not, however, mean that every single team member has to be constantly connected to all of the stakeholders. The team has to balance providing sufficient information to internal stakeholders to keep them on board while maintaining contacts with external stakeholders - particularly customers. As one team leader commented, ''We were more aligned with the functions than being an externally driven project. We had to develop a 'line of sight,' getting externally focused.'' In the successful teams, the team leader ensures that everyone has contact with the customer. As one of them noted, ''100% of team members were talking to customers. Even the process research guy did his first sales call. He got mentoring from the other salespeople and did his first call. It is not so difficult, but it was crucial that everyone had contacts to the customer.'' As communication is key to getting stakeholder buy-in, it is important to identify the key internal resources and associated individuals that are important for the team to get the product to market. Periodical team debriefings based on the feedback derived from 360° data and communication maps involving stakeholders help the team assess their own behavior and identify deficiencies that can be addressed (Figure 2).

Frustration 3: Full Responsibility but no Management Support

The next big frustration for new business venture teams is a lack of management support. Although venture teams are fully responsible and accountable, they have limited access to resources in the company. Within Ericsson an internal venture team wanted to talk to Vodafone about a new technology but since other business units were in negotiation over an existing technology, the business unit head initially said no. Here the sponsor of the new venture team had to intervene in order to allow access to the customer. This means taking the risk of potentially losing a customer since the new technological offer is not perfect. As one team leader said, ''Management support is necessary but not sufficient. Our management is not educated in NBD [new business development]. It is a dangerous place to be. Management does not want to be engaged or involved in understanding the problems as it is dangerous for them as well. But if there is no management support then the team is dead.''

Engaged and involved management is also key to obtaining stakeholder support within the organization. Continuous change in management at both the team leader level and the sponsor level means redirection and loss of time, which the team frequently does not have. To ensure senior management support, new business development success measures are increasingly being included in management's annual objective setting and evaluation process. This encourages senior management to shape and foster new venture teams. As a result, senior management leaves the day-to-day activities and decisions to the project team but stays engaged with the go/no-go decisions after each of the major project phases. Yet, objectives may not always be sufficient. The venture team needs to proactively engage with senior management by informing them on a regular basis. One of the teams at Dow Chemical asked the sponsor to jointly visit a potential customer. This increased the buy-in.

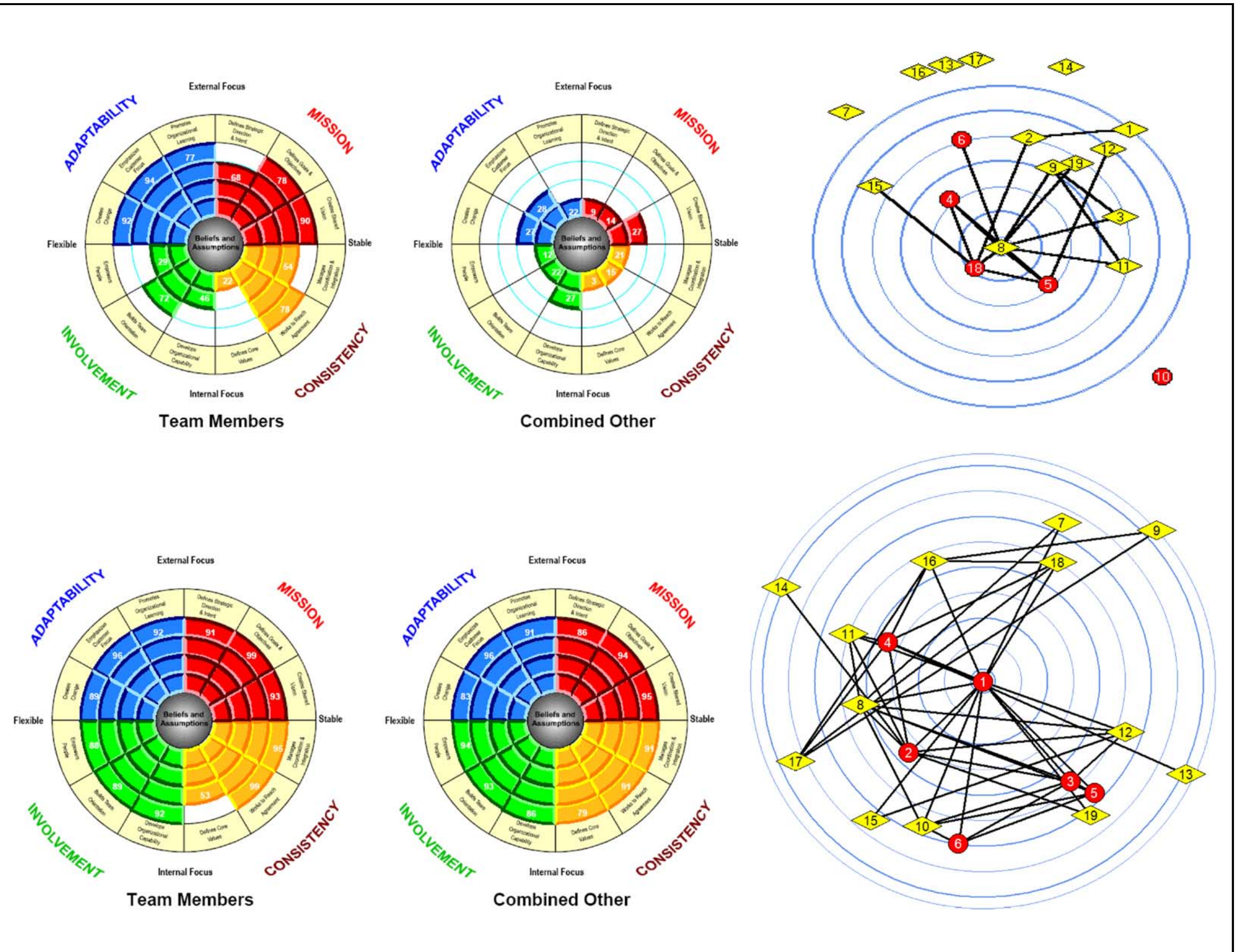

Figure 2 Contrast Between the Results of a Successful and an Unsuccessful New Business Venture Team

Frustration 4: Inadequate Reward Structure: Limited Upside, Unlimited Downside

Most of the risk of new business venturing is carried by the team, and there is frequently a limited upside for team members but a high potential downside. In most external start-up settings managed by entrepreneurs higher risks are associated with greater rewards. Within a corporate setting managed by an intrapreneur this is not always the case. Considering the relatively low success rate of new business ventures in most companies, the risk associated with working as a venture team leader or within a new business venture team is high. One team leader vented his anger, ''Within NBD we stretch our goals and get hammered on careers, others [within the core business] just deliver their project work and they are OK.'' We found that successful teams are able to develop team-based rewards as well as introduce non-monetary rewards that entice people to want to be part of the team. As a team leader of a successful team said, ''Having fun within our team was key to our success. If that leads to a promotion, even better.'' In this particular business area, management was supportive and developed a ''hall of fame'' in which a team that performed well was recognized companywide on a quarterly basis. In one instance the manufacturing team delivered the product $1 million below budget; in another instance the accounts team enabled the first supplier agreement at the desired price. Potential monetary pay-offs should not be underestimated. In an IT company, the team was allowed to do a leveraged buy-out. In another company, the team leader and team members (6 people) were awarded cash once the business was sold—40% of the value of the business. Essentially, a closer alignment between level of risk and reward—monetary or non-monetary—has to be established in order to commit the ''right'' intrapreneurs and team members to delivering on the venture's tasks.

Frustration 5: Unwanted Resources Instead of Chosen High-flyers

In many companies the venture teams consist of people who have worked for the company for years. People who are not being used on other business projects are often assigned to venture teams, in some cases on a temporary basis. In the case of a manufacturing company, the unique skills for delivering value were assigned on a short-term basis (6 months)—R&D was a leveraged resource. People therefore worked intermittently on projects. As one manager said, ''With the current system, there is short-sightedness in projects.'' We found that the more successful teams consist of committed people with a diverse thought and experience set, which are highly appreciated within the team. As one team leader commented, ''I don't really care about gender or age diversity; what really matters are things like openness to change, attitude, industry experience and capabilities.'' Considering team composition at the outset is vital, since time is usually one of the most important success factors. As one team leader remarked, ''If time is a critical factor, then you can't afford people changes. We need to have the right team. Try to put the right team together in the first place. How people get along is critical. [In one unsuccessful case,] all I saw was missing milestones and disruption. If it is not working, don't be married to it.'' In a pharmaceutical company, team choices were made on the basis of team members having worked together successfully in the past. Also, teams with a proven track record were assigned to the venture projects with the highest potential value (by NPV calculation).

The choice of team members should be discussed with or even left up to the team leader, the intrapreneur, since she has to ensure that the team will not be a ''working group'' but a ''high-performing team''; a team characterized by mutual accountability and an interest in each other. The quality of the working relationship within the team drives team effectiveness, and we found that this is one of the factors associated with financial success. To develop a high performing team, the intrapreneur needs to have the choice of team members and quickly establish communication within the team that will facilitate trust.

In conclusion, although senior managers see the launch of new venture teams as a way to achieve growth, they have to keep engaged with the teams and actively manage them in order to avoid the many frustrations associated with new business venturing. The key to managing venture teams lies not only in the team itself but also in the shaping of corporate policies surrounding these teams. When it comes to facilitating growth, the choice of the team leader and the team are important, but so are the support of the boss and the stakeholders. This is assisted by a context of innovation, i.e. the measurement and reward systems. To belong to the top 20% of new business venture performers takes more than selecting a project.

ABOUT THE RESEARCH

I studied eight new business development venture teams in a global manufacturing company over a period of 36 months. The company, with annual sales of $23 billion and over 40,000 employees in 2001, operated in North America, Europe and Asia. At the time of data collection, the company covered a wide range of markets and products including food transportation, health and medicine, personal and home care, and building and construction.

Team Name	Team Size	Team-Stakeholder Size	Purpose of Team
AA	4	16	Team AA developed a technology enabling a new business model and a move downstream.
BB	8	16	Team BB developed technology, which improved the performance of an end-use application.
CC	8	15	Team CC focused on selling technology know-how to companies, such that their efficacy was improved.
DD	26	37	Team DD developed technology, which improved the performance of downstream customers' products.
EE	4	16	Team EE developed technology, which allowed downstream customers a method to measure results.
FF	5	18	Team FF sold raw materials, which improved the performance of end-use products.
GG	3	18	Team GG developed technology and end-use products, which allowed for a new business model and participation downstream.
HH	15	31	Team HH developed technology, which improved the performance of end-use applications.

After receiving initial funding, the new business projects were regularly evaluated using a stage gate process consisting of five stages: preliminary investigation, building the business case, testing and validation, development, and market launch. All of the projects moved from building the business case to development during the study period.

The teams studied consisted of core team members backed by internal stakeholders who supported them from a functional perspective—from R&D, production, marketing, supply chain or staff functions such as HR and legal. The core team size ranged from 4 to 26; with stakeholders, the number in the team ranged from 15 to 37. The teams developed technologies to help the business move downstream, improve performance in the end-use application or improve the efficiency of downstream customers. Although all the teams were concerned with new business development ventures, there were some differences with respect to the risk or difficulty of the projects. For example, some projects extended substantially beyond the core markets, whereas others were closer to the core; the same applied to the offerings. Success was measured using team outcome measures such as team effectiveness, actual versus forecast sales and NPV over a 10-year period.

There were two data collection phases, during each of which the team leaders and their bosses were interviewed. In addition, we looked at quantitative company documents and asked participants to complete two questionnaires—a 360° team questionnaire and a social network one, which maps communication linkages. In the 360° team questionnaire, team members as well as bosses and upstream and downstream stakeholders were asked to evaluate the team on 12 indices covering 4 traits: adaptability, mission, consistency and involvement. Upstream stakeholders were organizational members from marketing and sales; downstream stakeholders were from production and R&D as well as staff functions. The communication network questionnaire involved mapping team–stakeholder communication on knowledge exchange. Data collection and analysis were simultaneous and resulted in a model for new product development team success.

Note

1. The 12 dimensions of the 360° survey were shared vision, strategic direction, goals and objectives, core values, agreement, coordination, team empowerment, team orientation, capability development, customer focus, learning and creating change.

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