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Managing Internal Corporate Venturing Cycles

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Managing Internal Corporate Venturing Cycles

Companies too often

vacillate in their

commitment to internal

corporate venturing

activities, leading to less

than optimal outcomes.

Executives need to

better understand — and

manage — the factors that

drive cyclicity in internal

corporate venturing.

Robert A. Burgelman

and Liisa Välikangas

Thirty years of systematic study of internal corporate venturing has revealed that many major corporations experience a strange cyclicity in their ICV activity. (See “About the Research,” p. 28.) Periods of intense ICV activity are followed by periods when such programs are shut down, only to be followed by new ICV initiatives a few years later. Like seasons, internal corporate venturing programs begin and end in a seemingly endless cycle.

Consider Lucent Technologies’ New Ventures Group, which was set up to reap commercial value from Bell Labs technology. In January 2000, the group was acclaimed as exemplifying best practice for a new-ventures division.¹ Yet Lucent, in the aftermath of the telecom downturn, in 2002 sold 80% of its interest in the New Ventures Group to Collier Capital, a British private-capital management company.

Other ICV programs have substantially changed their character or mission. In its first three years of existence, Baxter International Inc.’s nontraditional-innovation program, for example, transformed its mission from the pursuit of new technologies in new markets to the exploration of business opportunities closer to the core business.² (A new CEO has recently revived a broader search for new growth areas.) A few years ago, Shell GameChanger, the radical innovation program at Royal Dutch/Shell Group of Companies, might have solicited ideas ranging from carpooling to waste reclamation to sandwich sales to urbanites. However, in today’s innovation climate, such ideas are too radical.³

Xerox Corp. offers still another example. After ad hoc efforts to manage its technology ventures, Xerox established an innovation board in the 1980s to aid decision making. The administrative board soon gave way in 1989 to an internal venture-capital group called Xerox Technology Ventures, to invest in Xerox technologies that showed market potential but were outside Xerox’s core business interests. XTV was terminated in the mid-1990s, and yet another structure, called Xerox New Enterprise, became its replacement. XNE took more aggressive ownership of the ventures yet sought to infuse them with entrepreneurship. XNE, in turn, was terminated in the late 1990s.⁴

These examples should not come as a surprise. Earlier research found that in many companies, ICV programs manifest significant cyclicity.⁵ Chesbrough describes the ICV cycle as follows: “The general pattern is a cycle that starts with enthusiasm, continues into implementation, then encounters significant difficulties, and ends with eventual termination of the initiative. Yet within a few years, another generation of businesses undertakes the effort anew, and the cycle occurs again.”⁶ This recurring phe-

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selection that leaves very little room for new-business experimentation. He and others basically advocate giving up on what they call “new leg” venturing: efforts to develop entirely new businesses for the corporation.⁸

The fact that ICV activities have persisted over decades, however, suggests that the management issues associated with ICV cyclicity are not likely to go away.⁹ Historical evidence from the last three decades suggests that the perceived importance of ICV may fade away for a while, but ICV predictably comes back with a vengeance and will likely continue to be a nagging strategic leadership challenge for top management.

Why Internal Corporate Venturing Cycles Persist

Early research efforts suggested that the interplay between the prospects of a company’s mainstream businesses and the availability of uncommitted financial resources created a strong force driving ICV cyclicity.¹⁰ There are four common situations that can result from that interplay. (See “What Drives Internal Corporate Venturing Cycles?” p. 29.)

Situation 1: “ICV Orphans” If a company has uncommitted financial resources, it can afford to support internal-venturing projects. If, however, the prospects of the mainstream businesses are sufficient to meet the company’s profitable growth objectives, there is little motivation to support ICV actively, and top management is more likely to pay lip service to it. A number of entrepreneurial projects that nevertheless have managed to get started in the nooks and crannies of various business units are likely to drift along as “orphan” projects. In this case, the ICV cycle has started, even though top management is not actively managing it.

Situation 2: “All-Out ICV Drive” If the company has financial resources available but the prospects of the mainstream business are expected to be insufficient for meeting corporate objectives for profitable growth, top management is motivated to support ICV projects actively. In this situation, top management is likely to form a new-venture division or new-business group. Such a structural arrangement then becomes the home for all existing ICV orphan projects and also serves as the implementation tool for starting an ambitious top-driven ICV program.

Situation 3: “ICV Irrelevance” If there are few uncommitted financial resources available, but the prospects of the mainstream businesses at the moment look sufficiently promising,

phenomenon seems wasteful of a company’s financial and human resources. ICV programs are usually closed before investment pays off, and careers are often damaged. Also, potentially important learning from a previous program often does not inform the next one.

Interestingly, as our recent examples indicate, ICV cyclicity continues several decades after researchers first observed the phenomenon. That suggests that companies have not yet learned to use some of the research findings about ICV in their strategic-management approaches. It also underscores the fact that managing ICV is quite difficult. It is so difficult that one scholar, Andrew Campbell, has argued in a recent debate in *European Business Forum* against even trying to develop a strategic leadership discipline for dealing with internal corporate venturing as a dynamic internal force.⁷ Instead, Campbell recommends adopting a tight, top-driven approach to project

top management is likely to consider ICV largely irrelevant. All attention is to be focused on exploiting opportunities in the core businesses.

Situation 4: “Desperately Seeking ICV” A lack of uncommitted financial resources combined with a mainstream business with inadequate growth prospects is likely to lead top managers to latch on desperately to the first reasonable-looking ICV project that comes their way. Given the limited choice of ICV projects that executives face in this situation and the substantial uncertainty associated with any ICV project, the likelihood of failure is high.

Forces Determining the Length of the ICV Cycle

To some extent, corporate venturing may follow the ups and downs of the economy. When cash is readily available, corporations invest in new-venture programs; when cash becomes short, the programs are terminated. However, the macroeconomic explanation for ICV cyclicity is probably partial at best. Corpo-

About the Research

The foundation of this paper is a mix of field research conducted over a 30-year period, examples from our current field research, analysis of other scholars' research, and examples derived from past and recent business press. Burgelman has studied internal corporate venturing in a number of companies in different industries since the mid-1970s. His most recent research on ICV has been at Intel Corp. in the context of a comprehensive study of the role of strategy making in corporate evolution, and he is currently collaborating with Monitor Ventures, part of the consulting firm Monitor Group to develop a strategic-leadership discipline for sustained ICV management. Välikangas has worked with a number of leading companies to develop their internal innovation capabilities in pursuit of strategic resilience, and this paper draws on that work. In her work at the Woodside Institute, she is currently exploring innovative practices in core management processes such as strategic planning and internal venturing.

rate strategic and administrative factors likely have greater bearing on the length of the venturing cycle.

Estimates of the length of the ICV cycle vary. Block and MacMillan assess the cycle to be 10 years.¹¹ Fast, however, notes that the corporate venturing programs started by many Fortune 500 companies in the late 1960s and early 1970s were disbanded during the late 1970s.¹² Burgelman's in-depth study of a new-venture division in a large diversified company during the mid-to-late 1970s also found a somewhat shorter cycle.¹³

Annual budgeting and three-year rolling budgets may contribute to the ICV cycle by establishing a one- to three-year time horizon in which top management expectations must be met or a venture program risks being deemed ineffective. This timeline puts perverse pressures on ventures to “grow big fast” and potentially leads to dysfunctional managerial behavior, such as neglecting to develop the organizational infrastructure of a venture in order to secure continued and timely new-product development.¹⁴

Biggadike has shown that, on average, it takes 10 to 12 years before the return on investment for new ventures equals that of mature businesses.¹⁵ That is much longer than the average time fast-track executives are expected to stay in the same job in most large companies. This creates at least three potential problems. First, executives who do stay that long in a venture-manager position may be running severe career risks, especially if the venture eventually is unsuccessful.¹⁶ Second, unless the company's human resources function has developed clear executive career paths that require experience in venture positions and has ensured that capable managers are available to take over from those who are due to rotate out of a venture position, either some executives will end up staying in the position too long or the venture program will experience disruptive management changes.¹⁷ A recent case study of a product innovation in a technology company, for example, showed that frequent changes in the executive sponsor were detrimental to the commercial success of a disruptive innovation.¹⁸ Third, unless a process is in place to measure managerial performance in new ventures in terms of clearly established milestones, executives may engage in rational but narrowly opportunistic behavior; they may focus on achieving short-term results at the expense of building the necessary infrastructure for long-term venture development.¹⁹ They do so because they anticipate that, given the normal rotation of executives to different positions, someone else will be in charge by the time the innovation can be fully harvested.

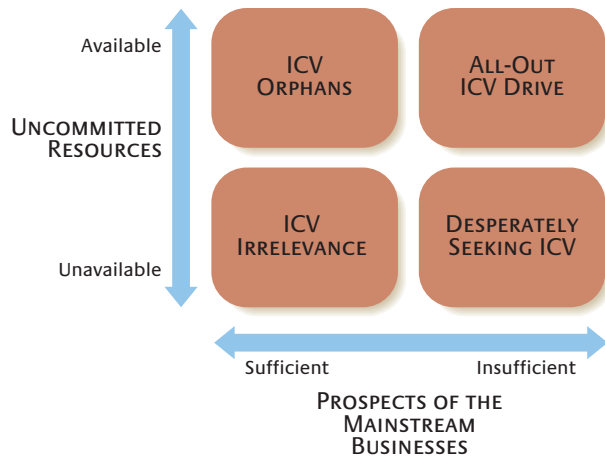
Forces Driving the End of an ICV Cycle

The simplest driver for ending ICV programs is their failure to deliver. But if corporate venturing programs are typically closed before they have had a chance to prove themselves, other reasons than mere performance must be involved. Recent studies of various forms of corporate venturing shed interesting new light on the role of performance in ending an ICV cycle.²⁰ In particular, some ICV programs have been terminated despite their apparent success. In general, these findings suggest that both top management and the executives involved in the ICV program fail to appreciate the role of ICV in a company's corporate strategy.

One important case involves Xerox Technology Ventures in the mid-1990s. This program is credited with *too much success* in

What Drives Internal Corporate Venturing Cycles?

Unless executives understand and manage the factors that cause cyclicity in internal corporate venturing, a company's ICV strategy is apt to fluctuate over time, varying with the growth prospects of the main business and the availability of uncommitted financial resources.



SOURCE: Adapted from R.A. Burgelman, "Corporate Entrepreneurship and Strategic Management: Insights From a Process Study," *Management Science* 29, no. 12 (December 1983): 1349-1365, and R.A. Burgelman, "Strategy Is Destiny: How Strategy-Making Shapes a Company's Future" (New York: Free Press, 2002).

that "success might have made the [Xerox's] internal units look bad by comparison."²¹ There was the added fear that such success might have come at the expense of Xerox shareholders, as the startups funded by XTV may have competed for business with Xerox.²²

In another case, a group of scientists at AT&T Corp. started a campaign called Opportunity Discovery Department in 1995 and sought to revitalize Bell Labs research and its links to the corporate strategy.²³ ODD developed innovative strategies, worked with business units to think of future scenarios, networked with many external experts, and ignited a grassroots movement of some 400 people. The ODD initiative came to an end, however, in 1998 as the group was judged by standard performance metrics to have failed to produce enough patents. A more important reason was that management found it difficult to accept that the group was taking credit for strategy making, something that was considered a top-management responsibility and privilege. Those who saw setting strategy as their prerogative perceived ODD as a threat, and the group's highly innovative approach only added to the discomfort.

Administrative factors can also end an ICV cycle. Companies often reorganize to meet changing environmental demands or to keep things fluid. An ICV program may create interference with the new organizational structure. A newly appointed executive to the ICV program may not be committed to the course of action

taken by the prior manager and may want to leave a mark by making changes. In addition, ICV programs are usually easy targets for incoming CEOs to end.

The combination of such administrative issues with a general lack of understanding of the role of ICV programs in long-term corporate-development strategy may lead to what game theorists call "weakness of will."²⁴ Weakness of will is about the inability to sustain commitment. Investing in innovation is a long-term commitment and sometimes involves difficult trade-offs with short-term pressures. As Machiavelli observed, the benefits to the innovator are uncertain, but the costs to those affected by the changes involved are not.²⁵ That is one reason resistance to innovation is likely to be stronger within an established organization than support for it.

Implications for Strategic Management of ICV

After a recent downsizing of corporate ventures, one CEO lamented privately that the extent of the cuts had eliminated future growth options. As that lament illustrates, the bad news stemming from our analysis is that ICV cyclicity is a nagging strategic leadership challenge facing top management of established companies. The good news is that the cyclicity of ICV is primarily the result of executives failing to master the forces that cause fluctuations in long-term support for ICV — a failure that can be remedied.

Too often, there is either too much or too little venturing going on at any point in established corporations, and top management allows support for ICV to oscillate among the four scenarios described earlier. ICV, however, is too important for a company's long-term success to be dictated by fluctuating financial fortunes, short-term strategic pressures, perverse administrative routines or fickle management fads. Research shows that achieving growth through diversifying acquisitions is fraught with expensive failure.²⁶ Thus internal corporate venturing remains a key capability for established companies seeking to achieve strategic renewal and avoid stalled growth.²⁷ It is a strategic leadership imperative for top management to learn to better manage the ICV cycle. Specifically, several important implications for the discipline of ICV strategic management emerge from our analysis.²⁸

There is always ICV going on, so manage it. There may not be a dedicated internal-venturing unit in a company, yet it is likely that some employees are exploring new-business opportunities that are outside the scope of the corporate strategy at the time that the initiatives originate. Internal-venturing activity may very well be an irrepressible force in all established companies.²⁹ Realizing that ICV activity is actually hard to stamp out completely may increase top management's motivation to manage it better.

Even when not needed to support profitable growth objectives, ICV activity can be an important indicator of where the company's employees think future opportunities lie.

However, without management encouragement, much of the autonomous, employee-driven ICV activity will cease, either because the employees involved grow frustrated by an eventual lack of traction or because they leave the company to pursue the opportunity in a startup. This is often the case in companies in Situation 1, in which orphan ICV initiatives find it difficult to get senior management support, and even sometimes in Situation 3, where the ICV initiatives that are likely to emerge are considered irrelevant.

To better capitalize on the company's natural source of ICV activity, top management needs to put in place a process that makes entrepreneurial employees comfortable coming forward with their ideas and mobilizes senior management to begin determining the new opportunities' "strategic context," a process that involves evaluating innovations and championing promising ones that the company can then embrace and fully support.³⁰ Such a process needs to superimpose *strategic* discussions on top of financial analyses such as net present value calculations, in order to better ascertain what the potential impact of an innovation may be on the company's future.

An old but striking example of the hazards of evaluating innovations by strictly financial measures is the emergence of electronic fuel injection.³¹ Today, Robert Bosch GmbH, based in Stuttgart, Germany, is a leading supplier of electronic fuel-injection systems. However, Bendix, an American company, invented electronic fuel injection. At Bendix, net present value calculations, together with anticipated near-term reactions from original equipment manufacturers in the United States, did not suggest that electronic fuel injection would be an economically viable new product. When Volkswagen AG decided to work with Bosch to bring a mass-produced car with electronic fuel injection to market during the late 1960s, Bendix opted to license its technology to Bosch. By the time Bendix realized that electronic fuel injection would be a big opportunity and rushed to pursue it, it was too late, given the time remaining on its patents, to establish a position of market leadership.

By now, the concept of "disruptive technology" has begun to raise top management's awareness of the need to adopt a more strategic approach to innovation.³² But the link between disruptive technology and ICV, which is often its source, remains undermanaged. Eastman Kodak Co. is a case in point. One of the great industrial and commercial success stories of the 20th

century, Kodak had a somewhat checkered history in pursuing ICV during the 1970s and 1980s.³³ During the late 1990s, however, the company was still seeking to migrate from film — a source of a "breathtaking" decline in earnings — to invest \$3 billion in digital photography, a major disruptive force.³⁴ Ironically, Kodak had been making investments in digital photography since 1972. However, by 2003, film still accounted for about 50% of Kodak's profits.³⁵

View ICV as a source of insights that can inform strategic direction. Even when not needed to support profitable growth objectives at a particular moment in time, ICV activity can be an important indicator of where the company's employees think future opportunities lie. Indeed, self-organizing, emergent ICV activity can be an important source of strategic foresight. Smart top executives recognize that ICV is a discovery process that should be evaluated first and foremost in terms of the information that it generates and not viewed only in terms of dollars added to the revenue line.³⁶ Rather than seeking to quash ICV or direct it too heavily, top management should view it as a source of strategic insight into the future. Senior executives should be interested in the ideas and related autonomous strategic initiatives that entrepreneurial employees may be working on in their spare time. Management should try to understand what is so motivating and promising that people are willing to work on it, often after regular working hours or on weekends. If a company's employees are working on such innovations, competitors and startups may also be. Companies can capitalize on grassroots innovation by their employees. For example, during the last five years, Whirlpool Corp. has systematically tapped employee ideas, ending up with a pipeline of product innovations including dishwashers for single-person households, ovens that freeze and heat, and garage appliances for men.³⁷

An "all-out ICV drive" biases the process and often engenders costly mistakes. Such top-driven initiatives tend to warp the ICV process because many employees then perceive the ICV career route as the most attractive one simply because of management's forcefully expressed interests. As a result, the mainstream business runs the risk of losing top talent, to the great frustration and resentment of those still generating all of the company's profits. Intel Corp.'s all-out drive in the late 1990s to

develop new businesses, for example, had executives in the microprocessor business complaining that they could not hold on to key employees who wanted to join the more exciting new ventures supported by top management. Top-driven ICV may also result in big losses, because top management may prematurely invest significantly to try to fully exploit and accelerate new growth opportunities. For example, by the time Iridium LLC, a satellite-telephone service, filed for Chapter 11 bankruptcy in August 1999, Motorola Inc. had invested \$3.5 billion in the venture.

If ICV is desperately needed, it may be almost too late. When desperately seeking ICV, a company is faced with the dire prospect of a decaying core business. Such decay is often caused

by disruptive technologies, which the company may very well have dabbled in early on but given up or failed to capitalize on. To avoid ending up in this situation, it is imperative that top management remains actively involved in a corporate ICV strategy on a continuous basis even when the mainstream business is prospering. If top management waits until new business opportunities are desperately needed, it is usually already very late in the game.

Building Leadership Capability to Manage the ICV Cycle

How can companies develop the necessary strategic leadership to avoid getting trapped in any of the four common situations associated with the ICV cycle? To avoid the pitfalls of unmanaged cyclicalities, ICV should be viewed as an integrated and con-

Lessons From Intel

Research on Intel Corp. illustrates factors that drive ICV cyclicalities and also illustrates that by recognizing the ongoing strategic importance of ICV, companies can mitigate some of the cyclicalities. Between 1987 and 1997, Intel essentially operated in Situation 1 (ICV Orphans) as its core microprocessors for the personal-computer market segment propelled it from about \$3 billion in revenue in 1988 to about \$27 billion by 1997, accompanied by extraordinary profitability. Toward the end of 1997, however, the PC market segment seemed to be slowing down significantly, which put Intel in Situation 2 (All-Out ICV Drive). Top management engaged in something of a crash effort to turbocharge its new-business development efforts, creating a New Business Group in 1998 to do so. Many orphan projects were transferred to the NBG. At the same time, top management initiated some very large new ventures. In part hampered by the downturn of the economy and the Internet bust, most of these ventures did not succeed.

Nevertheless, the emphasis on new-business development led Intel to embrace more forcefully new initiatives in the wireless-communications and networking-communications markets, thereby significantly expanding the scope of its corporate strategy. By 2001,

however, Intel top management faced competing needs: continuing to invest in new ventures, raising the investment stakes in the core businesses to stay ahead of the competition in technology and manufacturing, and continuing to nurture the money-losing but promising new businesses in networking and wireless communications. Predictably, the perceived relevance of ICV diminished significantly, and the new business group was scaled back. The ICV activity was merged with Intel Capital, Intel's corporate venture-capital arm, in late 2002. Subsequently, Les Vadasz, president of Intel Capital, and John Miner, vice president and general manager of the New Business Group, were jointly managing the merged group.

From this point on, Intel Capital's charter included not only external but also internal investments in areas that were potentially important for Intel's future businesses. The New Business Group was renamed New Business Incubation Group and became a corporate "greenhouse" where companies and technologies that were too new to be easily placed within Intel were nurtured and protected from the demands of the established groups. John Miner says that "after reorganizing the New Business Group, we completely refocused on activities that benefit from being

part of Intel. All our ventures build products that can be done on a wafer. We have activities in hand-held wireless, display and pixel-processing technologies, wireless and nonwireless broadband, and photonic components. We focus on the early technology-capture process to develop new business applications and look for commercialization opportunities."

Miner also says, "We always look for two-way linkages with other parts of Intel. Two business opportunities came directly from the [company's] Wireless Computing and Communications Group; they will go back there. On the other hand, we also have two for which it is not yet clear where they will go." With regard to NBI, Miner believes that "a key challenge is how to maintain corporate-level interest. We continuously try to develop strategic value for the company, and we want to pay our own way doing it. The biggest challenge is lateral, how to work with peers in other parts of the company and look farther out for strategic gaps they may need to fill — without necessarily having agreement on the strategy. We think that doing new businesses internally and organically makes them easier to assimilate, and less costly. But sometimes we do it in parallel, both through incubation and through small acquisitions."

UPM-Kymmene Corp., a leading Finland-based forest and paper-products company, has venturing activities that both challenge and broaden the interpretation of corporate strategy.

tinuous part of the company's strategy-making process, rather than as an insurance policy whose appeal varies according to the prospects of the company's mainstream businesses. Effectively integrating ICV into the strategy-making process requires recognition on the part of top management that internal corporate venturing involves a distinct strategic leadership discipline — a discovery process based on experimentation and selection³⁸ — that informs executives about emerging opportunities and facilitates nuanced adjustments to the company's strategic direction.³⁹ Treating ICV this way consistently over time is likely to raise important questions that will help shape corporate strategy. For instance, which new opportunities consistent with the core strengths of the company does ICV open up? Which new leverage points in competition might ICV provide? How does ICV inform us about the potentially unmet needs of our customers and new market segments? What does ICV tell us about the blind spots in our current competitive strategy, especially in relation to potentially disruptive technologies?

UPM-Kymmene Corp., a leading Finland-based forest and paper-products company that is listed on the Helsinki and New York stock exchanges, has experienced benefits from its venturing activities, in part because the activities both challenge and broaden the interpretation of corporate strategy. UPM has a history of new business creation beyond paper, partly through one of its predecessor companies, Yhtyneet Paperitehtaat. The company's newest venture, UPM Rafsec, was founded in 1997 to mass-produce radio-frequency identification tags for global markets. Currently, through its New Ventures organization, UPM is dedicated to exploring new areas in which the company has materials and manufacturing know-how, such as printed electronics, nanotechnology, smart labels and chemical indicators. But New Ventures also helps facilitate innovation more broadly inside UPM's core businesses. It has developed forums for innovators across focal areas — called "clusters" — that represent core technologies and significant future opportunity for existing UPM divisions. These clusters and their activities offer vehicles for cross-divisional collaboration, bringing innovation processes and tools that New Ventures has developed from the venturing periphery to the core. For instance, New Ventures has helped introduce product-development tools, such as prototyping, that make innovation less risky and more efficient. The return on investment for UPM's small 13-person New Ventures

group is so far perceived to be high and exemplary.

When companies recognize the importance of ICV to strategy, they are less likely to try to do away with ICV entirely. Intel's decision in 2001 to scale back rather than end its efforts to develop new ventures offers an example of a leading corporation attempting to better manage the ICV cycle. (See "Lessons From Intel," p. 31.) Intel is persisting as the company tries to make its commitment to venturing pay off in the long run.⁴⁰

Taking control of the ICV cycle allows executives to rationalize resource allocation. This will reduce the tendency to flood ICV with resources in good times, which takes away entrepreneurial hunger, and to starve it in bad times, which aborts potential successes. Rationalizing resource allocation implies careful early experimenting with small amounts of resources to gain insight into radically new opportunities that inherently involve high technological and market uncertainties. It also implies consistent nurturing of new businesses that pass strategic and financial milestone reviews, with carefully calibrated resource commitments increasing over extended periods.⁴¹ It is important to maintain some predictability in resource allocation so that, once milestones have been met, further funding will result independently of the business cycle.

Another key aspect of managing internal corporate venturing cyclicity is making ICV a responsibility of all senior executives. If senior executives in the mainstream businesses do not feel that they share responsibility for ICV, do not feel that ICV efforts are central and lasting, or do not feel that the executives running ICV are equally able peers, the forces driving ICV cyclicity are likely to prevail. In order to make a new venture a corporate success, executives involved in ICV need to be able to sponsor and guide the new venture and to start the process of determining its strategic context within the corporation. Determining a new venture's strategic context involves working diligently to explore its links to the corporate strategy and to persuade top management to make the venture part of the corporate business portfolio. But that process depends on getting support from at least some of the senior executives from the mainstream businesses, so that top management can be assured that the rest of the organization will embrace the new venture. As a result, a climate of mutual respect on the part of all the senior executives involved is critical. Intel achieved this by assigning highly respected senior executives to head up its ventures organization. Nokia Corp., too, achieved

this, in part through the development of a ventures board of directors on which all the senior executives serve. And, equally importantly, the president of Nokia was put in charge of all the company's corporate venturing efforts.⁴²

ICV cyclicalities are probably here to stay because of the powerful forces that create it. Learning to better manage the ICV cycle, however, is important for large, established companies because other profitable growth avenues may not be promising. Major, portfolio-diversifying acquisitions are costly and often do not create shareholder value. Smaller and midsize acquisitions can play an important role, but eventually smallish acquisitions may not remain sufficient to reach corporate growth objectives. Developing an effective ICV capability thus seems an unavoidable strategic imperative for top management of large companies.⁴³ We should perhaps not be surprised that few companies have been successful in developing such a capability because the strategic leadership skills that are required to effectively explore and develop ill-defined and uncertain new-venture opportunities are different from those required to exploit well-defined and incremental core-business opportunities. Our analysis suggests, however, that top management can learn to better manage the forces that drive ICV cyclicalities — and avoid being driven by them.

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 15. R. Biggadike, "The Risky Business of Corporate Diversification," *Harvard Business Review* 56 (May-June 1979): 103-111.
 16. See, for example, F.J. Aguilar, "Bard Medsystems Division: Intrapreneurial Showcase," Harvard Business School case no. 1-387-183 (Boston: Harvard Business School Publishing, 1987), which narrates the career hazards of an entrepreneurial division manager who stays more than eight years in a struggling new venture.
 17. Burgelman, "Managing Innovating Systems."

18. J. Moldenhauer-Salazar and L. Välikangas, "Radical Innovation Through the Looking Glass" (presentation at Strategic Management Annual Conference, Baltimore, Nov. 9-12, 2003).
19. Burgelman, "A Process Model of Internal Corporate Venturing in the Diversified Major Firm." For similar behavior in the strategic capital-investment process, see J. Bower, "Managing the Resource Allocation Process" (Boston: Harvard Business School Press, 1970). For a more theoretical examination of opportunistic behavior, see, for instance, O.E. Williamson, "Markets and Hierarchies: Analysis and Antitrust Implications" (New York: Free Press, 1975).
20. P. Gompers and J. Lerner, "The Determinants of Corporate Venture Capital Success: Organizational Structure, Incentives and Complementarities," chap. 1.1 in "Concentrated Corporate Ownership," ed. R. Morck (Chicago: University of Chicago Press, 2000).
21. H. Chesbrough, "Making Sense of Corporate Venture Capital," *Harvard Business Review* 80, no. 3 (March 2002): 90-99.
22. Chesbrough, "Graceful Exits and Missed Opportunities," 803-837.
23. A. Muller and L. Välikangas, "An ODD Reaction to Strategy Failure in America's Once Largest Telco," *European Management Journal* 21, no. 1 (2003): 109-118.
24. S. Postrel and R.P. Rumelt, "Incentives, Routines and Self-Command," *Industrial and Corporate Change* 1, no. 3 (1992): 397-425.
25. N. Machiavelli, "The Prince" (London: Penguin Books, reissued 2003).
26. See, for example, M. Hayward and D.C. Hambrick, "Explaining the Premium Paid for Large Acquisitions: Evidence of CEO Hubris," *Administrative Science Quarterly* 42, no. 1 (1997): 103-129; and M.E. Porter, "From Competitive Advantage to Corporate Strategy," *Harvard Business Review* 65, no. 3 (May-June 1987): 43-59.
27. J. Mackey and L. Välikangas, "The Myth of Unbounded Growth," *MIT Sloan Management Review* 45, no. 2 (winter 2004): 89-92.
28. Burgelman has presented evidence that exploring and exploiting new-business opportunities outside the scope of the corporate strategy requires a different leadership discipline than the discipline necessary to exploit existing opportunities, but requires a discipline nevertheless. See R.A. Burgelman, "Strategy Is Destiny: How Strategy-Making Shapes a Company's Future" (New York: Free Press, 2002). See also R.A. Burgelman, "Strategy as Vector and the Inertia of Coevolutionary Lock-in," *Administrative Science Quarterly* 47, no. 2 (2002): 325-357.
29. For a discussion of ICV initiatives as a natural dynamic force in organizations, see R.A. Burgelman, "Corporate Entrepreneurship and Strategic Management," and R.A. Burgelman, "EBF Debate: Must We All Be Entrepreneurs Now?" *European Business Forum* 15 (fall 2003): 13-15. Van de Ven and Garud, who found evidence that internal entrepreneurs tend to persist in their behavior under conditions of ambiguity and slack despite negative feedback, provide some evidence for the irrepressible entrepreneurial spirit. See A. Van de Ven and R. Garud, "An Empirical Evaluation of the Internal Corporate Venturing Process," *Strategic Management Journal* 13, no. 8 (summer 2002): 93-110. Alva Taylor found that initiators of new products outside the scope of the existing corporate strategy did so in part because they anticipated that if their initiative was not embraced by the company, they would be able to find a new job related to their initiative in another company in the industry. See A.H. Taylor, "A Process Study of the Influence of Competition Between New Product Initiatives on Innovation and Organizational Learning" (Ph.D. diss., Stanford University, 2000).
30. "Strategic context determination refers to the political process through which middle-level managers attempt to convince top management that the current concept of strategy needs to be changed so as to accommodate successful new ventures." See Burgelman, "A Process Model of Internal Corporate Venturing in the Diversified Major Firm," 237-238, and R.A. Burgelman, "Managing the Internal Corporate Venturing Process," *Sloan Management Review* 25, no. 2 (winter 1984): 33-48. Strategic context determination critically depends on "organizational championing" by executives. This is the most difficult and least understood part of the ICV process, and the part that is most likely to break down.
31. M.E. Porter and S.J. Roth, "Bendix Corporation," Harvard Business School case no. 9-387-257 (Boston: Harvard Business School Publishing, 1985).
32. C.M. Christensen, "The Innovator's Dilemma" (Cambridge: Harvard Business School Press, 1997).
33. See N. Nohria, "Internal Corporate Venturing at Eastman Kodak: A New Chapter in the Rise and Fall of the New Venture Division," working paper, Harvard Business School, Boston, 1992.
34. "Kodak Cuts Dividend by 72% to Finance Digital Transition," *Wall Street Journal*, Sept. 26, 2003.
35. "Kodak Aims to Become a Model of Reinvention," *Financial Times*, Sept. 27, 2003.
36. Burgelman and Sayles, "Inside Corporate Innovation." This insight suggests the need for caution in too quickly adopting the distinction made by Campbell and others between "new leg venturing" and "innovation venturing." If ICV is indeed a discovery process, it may be clear only after the fact whether some initiative was important for the core business or truly a diversifying activity.
37. N. Snyder and D. Duarte, "Strategic Innovation" (New York: Jossey-Bass, 2003).
38. Burgelman, "Corporate Entrepreneurship and Strategic Management" and Burgelman, "Strategy Is Destiny." McGrath and MacMillan provide a practical tool for planning for a new venture that takes into account how the process differs from planning for mainstream businesses. See R.G. McGrath and I.C. MacMillan, "Discovery-Driven Planning," *Harvard Business Review* 73, no. 4 (July-August 1995): 44-53.
39. G. Hamel and C.K. Prahalad, "Competing for the Future" (Boston: Harvard Business School Press, 1994).
40. R.A. Burgelman and P. Meza, "Intel Beyond 2003: Looking for Its Third Act," Stanford Business School case SM-106 (Stanford: Stanford Business School, 2003).
41. This is an area where the advice of Campbell and Harris to exert caution in supporting ICV is valuable. While we strongly argue for continued support of ICV efforts, we also argue for a more deliberate and controlled resource-allocation management to help dampen ICV cyclicity. See A. Campbell and R. Harris, "The Growth Gamble."
42. Pekka Ala-Pietilä, president of Nokia Corp., communication with R.A. Burgelman, fall 2000.
43. In fact, new ventures pursued in the ICV mode often need to be augmented with relatively small to midsize acquisitions in order to scale up within a limited time horizon to a size that makes the venture relevant from the corporate point of view. But such "strategic building" activities will benefit from already having some business initiative going that offers insight into what might be the right acquisition in the first place. In that sense, ICV can potentially play an important role in a more broadly conceived idea of the "absorptive capacity" of the corporation. On strategic building, see Burgelman, "Managing the Internal Corporate Venturing Process," 33-49. On absorptive capacity, see W.M. Cohen and D.A. Levinthal, "Absorptive Capacity: A New Perspective on Learning and Innovation," *Administrative Science Quarterly* 35, no. 1 (March 1990): 128-134.

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