New Business Development: A Challenge for Transformational Leadership

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This article analyzes how the behavior of CEOs of major divisions of corporations who are successful at new business development differ in behavior from those who attempted new business development programs and failed. Successful top managers affected organization transformation via three major differences in leadership behavior. Successful CEOs inspired pervasive commitment throughout their division. They built confidence in their subordinates' ability to develop new business. Finally, they found ways of applying appropriate disciplines to the process, particularly in the area of management of failure. Challenges for the HRM function in terms of orchestrating these CEO behaviors are discussed.

INTRODUCTION

What transformational leadership challenges face the CEOs of divisions of corporations that aspire to embark on successful new business development programs, and what are the consequent implications for Human Resource managers? As we shall see, the small sample study reported in this article strongly suggests that any significant progress in a new business development program demands the kind of deep transformational interventions examined in Tichy and Devanna (1986). Past research has shown unequivocally that unless the Divisional CEO is willing to rise to these transformational challenges, the entire effort is more than likely to be worthless (Hill and Hlavacek, 1972; Maidique, 1980; Fast and Pratt 1981).

While comments in this article are based on a small sample study, they also draw on observations and findings from numerous other studies that have been recently conducted on the thorny issue of new business development. It appears that there may be opportunities for Human Resource managers to astutely orchestrate the transformational leadership process, thereby intervening directly or subtly to powerfully shape new business development programs. The objective

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of this article is to identify several transformational leadership challenges derived from the study and to explore their implications for Human Resource managers. The focus is on internal new business development rather than on topics such as new product development, corporate venturing, invention or innovation. These are all related and intertwined with new business development, but do not focus specifically on the problem of *profitably* creating new businesses out of an existing organization.

This article concentrates on observations of several companies that have attempted the challenge of growing significantly in size via new business development. Many of the successful companies behaved in ways that were highly reminiscent of the findings of Peters and Waterman (1982), Tichy and Devanna (1986), and Kanter (1983).

The material below draws largely from observations of firms wrestling with the problem of new business development—five successful divisions and four unsuccessful. The successful units included were the division of an equipment manufacturer (EQUIP in the discussion below); a financial service division (FINSERVE) that grew to a multi-billion-dollar diversified business in 15 years; an information services firm (INFO) that has increased revenues twenty-fold since 1975; a division manufacturing engineering material (MATERIALS) that by 1987 will have added $2 billion in sales of new business in a decade; and a highly diversified (DIVERS) mini-conglomerate that has spawned 30 new businesses in 20 years. The unsuccessful divisions were an insurance division (INSURE), a telecommunication company (TELECOM), a publishing division (PUBLISH) and a division of an industrial products manufacturer (INDUS).

Discussion will not be directed to enumerating common characteristics of successful companies, but rather to comparisons between companies that were successful and those that were not. These differences between the successful and the unsuccessful firms came down first and foremost to three distinctions in leadership behavior that transformed divisions led by successful CEOs but not the divisions of those that failed. First, the divisional CEOs of successful units were able to inspire a pervasive commitment throughout their division to new business development. They did this by forging a venturesome culture. Second, they went one step further than cheerleading and took care to build the confidence of their subordinates by showing them that they were *capable* of developing new businesses. Finally, having created pervasive enthusiasm for new business development, they were able to also develop an appropriate discipline in their operations that ensured this enthusiasm did not go out of control. In the sections below, we discuss the differences in approach that the successful leaders (Winners) used compared to their unsuccessful counterparts (Losers).

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The most critical challenge is creating a pervasive commitment to new business development. This was one area where the unsuccessful divisions failed without exception. In the words of the divisional CEO of INFO: "If you can't create the culture, the right climate, the commitment to grow continuously through new business development, then nothing else matters—none of the methods and systems and checklists and procedures that everyone is looking for will work, so why bother with all that? Just concentrate on nurturing enthusiasm, the rest will come."

The approaches of those that failed in this challenge were *uniformly* different from the approaches of the Winners—so much so that it is tempting to delineate the following "Rules of the Road to Certain Failure":

1. Announce to the company that from now on the division is going to "become intrapreneurial."
2. Create a separate venture department charged with the job of developing new businesses.
3. Bring in a horde of consultants and self-professed experts to harangue all levels of management and employees to aggressively seek new business ideas.
4. Hold several one-day senior management retreats to discuss the need to become more entrepreneurial (in the next year).
5. Make no further changes in divisional CEO behavior.

Division CEOs who confined their activities to this type of cheerleading behavior created initial enthusiasm followed by confusion, then disillusionment and bitterness or cynicism. On the other hand, the Divisional CEOs of the Winners, either implicitly or explicitly, recognized the necessity of infusing a fundamental transformation in their operations—possible only with *demonstrated* commitment at the very top. They recognized, as did Quinn and Mueller (1963), that what was called for was *sustained* attention and time devoted to building commitment.

Compared to the Divisional CEOs who failed, several Winner behaviors were observable:

1. *An insistence that the entire division pursue new business development.*

Takeuchi and Nonaka (1986) observed in their study of new product development that the creation of pervasive challenging pres-

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sure to create new products was a feature of the successful firms they studied. In a similar vein, all Winner CEOs created pressure across their entire organization to constantly create new businesses.

EQUIPMENT, MATERIALS, FINSERVE, and DIVERS took a strong and unyielding position that *all* managers in their division be able to demonstrate that a significant percentage of revenues in any particular year was from business created in the past three years. Their managers were evaluated annually on their performance in new business development—it was a significant element in their performance evaluation.

On taking over his Divisional executive position, the INFO CEO spent much of his time meeting *directly:* first with his direct reports developing new business ideas, then with the next level down. Currently, he is working directly with people at the third level down, encouraging them to expend significant effort on new business development.

All the Divisional CEOs have new business development functions or departments in their division, but they insist that new business development be a concern of *all* managers. Creation of this pervasive pressure does much to deflate the usual political problems that arise between the powerful, entrenched, established operation and the new venture division. *Everyone* is oriented to new business development.

2. *No specific, extrinsic rewards for new business activities.*

There is another interesting facet to this insistence on pervasive commitment to new businesses that relates to reward systems. In a recent study by Ornati and Block (1987) there was no evidence that special reward systems encouraged new business development. Von Hippel (1977) found in his study that many successful new venture managers regarded the venture as yet another project in their careers—as yet another test of their managerial skills and as recognition of, and compliment to, their competence rather than a situation that needed special rewards. If the entire business is seeking and developing new business opportunities, then creating new businesses becomes part of the job, not a special task calling for unique reward systems that sows discontent among those who are managing ongoing operations.

This factor was reflected in the reward systems of Winners. To quote FINSERVE: "Nobody who starts a business gets special incentives here—the real incentive is that if you start a business that is really successful, and you *keep* it successful, you can have a whole division grow under you—it's a fast rising platform to promotion." MATERIALS and INFO feel the same way—the reward for new business development is the excitement, the challenge, the fun, and above all the personal recognition.

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3. *Significant and visible personal commitment.*

The Divisional CEOs of the failed divisions allowed their time and energy to be distracted by important, urgent, other problems, (often for perfectly legitimate reasons, since crises litter the typical Divisional CEO's week).

However, the successful firms' Divisional CEOs systematically and singlemindedly ensured that new business development had a high profile and occupied a significant priority position in their personal agendas.

FINSERVE's CEO deliberately had new business development at the top of the agenda for *every* major meeting with his subordinates. To quote him: "If someone tells me there is a fire in the main computer room (the heart of the FINSERVE's operations), then I tell him that is clearly a problem, and we must get to it, but *first* we need to discuss the important business which is new business development! If I don't keep new business on the top of my agenda, if I let it slip to the bottom, then it will slip to the bottom of everyone else's agenda and then you can forget about new business."

FINSERVE's CEOs new business development managers report to him on progress every 30 days. Once a month they are put through a wringer and leave the office knowing they will be back 30 days later to again report progress on new business development.

INFO feels as strongly and in fact goes one step further: "It's not even enough to do it only at formal meetings—you have to keep at it all the time—in the halls, in the elevators, even in the wash rooms, I keep asking people how the new businesses are going and finding the time to listen and maybe give advice, but they hear from me enough to know that I am thinking about it and taking it seriously and they believe me when I say that it's important to me because it *is*."

4. *Commitment sustained for a long, long time.*

While everyone realized that it takes time to forge a major change in cultures, few realize what it demands of the Divisional CEO. As Roberts (1980) points out, it is *long-run* persistence that is essential.

No Winner Divisional CEOs felt that they had accomplished the "turnaround" in attitude in less than three years. It took INFO five years to do it, after inheriting a department division staffed with senior managers with an average of 25 years tenure with the firm. This meant *five years* of the kind of personal commitment and personal attention that was discussed above.

When those Losers embarked on their ill fated process, none of them realized the huge personal commitment it was going to take *and* the length of time this commitment would demand. None could sustain their attention for more than a year, and all eventually allowed themselves to get sucked into the maelstrom of enticing, atten-

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tion-distracting crises that daily face a Divisional CEO in running the top job.

5. *A very clear knowledge of current customers and markets.*

A remarkable feature of all four Winners was the depth of personal knowledge that they pursued about the markets, and particularly the customers they served, and the time they spent staying up-to-date.

One of the subordinates of INFO observed that this was a critical factor—it allowed INFO to hear out a new business proposal and then, instead of ordering a market research study, or some other such time consuming investigation, to either say "This is what concerns me" or "Let's go do it!"

MATERIALS suggested that the only way to see the opportunities was to really know the customers and the customers' problems—problems that created new product ideas weekly, if not daily.

EQUIP's feeling was scornful: "Show me a firm in a mature industry and I'll show you a firm that was asleep at the wheel—a firm in which the Divisional CEO allowed himself to be surrounded by a staff of bureaucratic nay-sayers who don't want to do anything new—let alone develop new businesses. You either know your customers and *their* markets and how they are developing, so that you grow and develop along with them or you end up in a 'mature industry'."

6. *Assigning very good people to new businesses.*

Other than the Divisional CEO's personal time, there is no better demonstration of seriousness of intent than the quality of people the Divisional CEO assigns to each new business development effort. The Winners uniformly ensured that *very* good people were assigned to new business development projects, whereas the Losers were not uniform—INSURE, TELECOM, and INDUS all assigned solid citizens with a track record of good, but not exemplary performance. The problem with this reluctance to assign top people was that their subordinates were perfectly capable of seeing that the Divisional CEO was just not willing to put the very best on the task—which was a damning indication of the Divisional CEO's true priorities. In the eyes of those divisions headed by the Winners, the priorities of their Divisional CEO were without question.

The kind of behaviors described above created the pervasive pressure to venturesome behavior that was needed to start the process. The next challenge was to build confidence.

BUILDING DIVISIONAL CONFIDENCE

Another fundamental difference between Losers and Winners lay in whether or not the Divisional CEO was prepared to devote time and effort to building confidence among subordinates.

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Basically, the Losers were inclined to expect too much, too fast—they expected rapid diversification via grand corporate ventures into unknown markets. In contrast, the Winners pursued a strategy of confidence building—*showing* the subordinates that they were fully capable of developing new business.

1. *An emphasis on expanding constantly from an existing competence base.*

In keeping with the findings of Roberts (1968), Fast (1979), von Hippel (1977), and Maidique and Zirger (1985), none of the Winner divisions strayed too far from an existing competence base, not one pursued internal development of businesses where they knew neither the product nor the market at all. Rather, the divisions either expanded into "adjoining" markets with existing products or services or created new offerings for existing customers. However, the constant pressure to develop new businesses ensured that they diversified, and significantly so, over time.

In the process of this progressive diversification, new competencies were picked up, and these in turn became the seeds for other new businesses. The pattern of how this happened is perhaps best illustrated by the FINSERVE experience.

FINSERVE started with a business that was skilled at credit management for certain household durables. Over time, these credit management skills were leveraged over and over again in increasingly diversified markets: first with the financing of other types of household durables, then with other consumer goods such as automobiles, then other vehicles, and finally, industrial plants of increasing complexity.

As FINSERVE moved into these new markets they developed new skills, for instance, at evaluating the residual value of the items they were financing. These evaluation skills then became the levers to develop new products and services. They progressed from leasing (where it is important to evaluate the residual value of the item at the end of the lease) through the evaluation of complex leased equipment, through the evaluation of entire firms. In a matter of less than fifteen years, the firm emerged as a respected competitor in a host of highly diversified businesses.

INFO's CEO also feels strongly that the initial challenge is to develop self confidence in the subordinates, by helping them realize that they have innate potential to develop new businesses. His approach was to focus first on what he termed reconceptualization of the existing businesses. In his words, "So few companies really know their customers and markets well that they can't see that there are often years of new business development opportunities to be found simply by mining existing territory."

By working with each of his key subordinates, and systematically

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working through alternative ways of offering, delivering, packaging, pricing, segmenting or otherwise reconfiguring the existing array of products and services, INFO convinced them of their *own* skills at being able to see and implement new business opportunities.

2. *Building momentum and a sense of freedom to take initiative.*

INFO's objective above was not just confidence building, but also *momentum* building—"All it takes to develop these new businesses is to *think* of them, and all it takes to implement such a new business is to *do* it." A large number of new initiatives could be started and implemented simultaneously, creating a perceptible momentum in new business development. This momentum was then maintained as the subordinates developed the confidence to do it themselves, and to teach their subordinates in turn. Over time this momentum has carried the division from simple print-based, domestic products into increasingly diversified, on-line electronic services in widely diversified international territories.

Another facet of this momentum building process is to instill in the division the freedom to take initiative, without having to get permission, for well conceived ideas. EQUIP and INFO and DIVERS all felt strongly that it is vitally important that people in the division should feel free to *act* on ideas and constantly insisted that they did not *need* to know all that was going on. INFO's CEO goes so far as to stress that he only knows two thirds of what is going on in his division, and doesn't want to know any more. Furthermore, he stresses this at every opportunity. He reasons that if he stresses it enough, people will recognize that he means it and will feel free to take initiative.

On the other hand TELECOM, PUBLISH, INDUS, and INSURE remained obsessed with "a need to know" and never could abandon their slow, rigid multilevel approval process and periodic progress reviews that smothered anything at odds with existing policies and procedures. Thus, their divisions remained mired in their own bureaucracies.

Notice the contrast: the Losers demanded performance from subordinates who had little confidence that they could deliver on these demands. The Winners *demonstrated* to subordinates that the subordinates could do it and then gave them the freedom to take initiative. The approach of the Losers alternatively sowed alarm and frustration, while the approach of the Winners seems to have built enthusiasm as well as an increasing momentum.

The management of momentum and enthusiasm gave rise to the final challenge—that of maintaining an appropriate discipline.

IMPOSING AN APPROPRIATE DISCIPLINE

There is no reason why the process of new business development should be undisciplined. The section below describes some of the

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differences in discipline between the successful and unsuccessful divisions.

1. *Screening process*

One of the most important areas in which to exercise discipline is the selection of ventures. A basic difference between the Losers and the Winners appeared in the screening process. Losers generally required that thoroughly developed business plans be submitted to management committees that, after much deliberation, pronounced a decision, generally negative, with little explanation. To the proposers in the division, the process was a black box – the fundamental criteria for selection emerged only over time and after many ideas had been rejected.

Generally, the Winners took a much different approach, the most important of which was the wide dissemination of a limited number of key criteria that would be used to assess proposals. Not only were those criteria widely disseminated, but they were also *continuously* disseminated. As a result, a considerable amount of *self*-screening took place – ideas were either rejected or repackaged by the subordinates themselves. This saved hundreds of hours of unnecessary plan preparation and subsequent disappointment.

As MATERIALS put it, "The problem is *not* with too few ideas (Block, 1983 would agree) – the problem is with choosing from many ideas. The best people to discard ideas that just don't fit are the people who are thinking about proposing them." The result is that fewer, but far more feasible ideas are proposed. This *self*-reduction in the number of ideas submitted means that fewer, more feasible ideas can be given more serious and sustained consideration.

In those cases where ideas were rejected, there was a further distinct difference in behavior between successful and unsuccessful Divisional CEOs. The unsuccessful Divisional CEOs uniformly had selection committees (often of high level bureaucrats) who turned down the idea at committee level. In general, the successful Divisional CEOs turned down the idea personally, and took the time to explain why. As FINSERVE'S CEO put it, "It is not easy to tell someone why you aren't going ahead with an idea that (s)he thinks is great. Sometimes it *is* great, but it just doesn't fit. If it doesn't fit, I owe it to the guy who thought of it to tell him why we aren't going ahead. I'm not about to get into an argument about it, but I am going to tell him, eye to eye. Hiding behind a committee is a cop out."

Those feasible ideas that do get approved can be subjected to another discipline – a careful look at the appropriateness of the strategy of the proposed business.

2. *Insisting on appropriate strategy*

When it comes to strategy, there is a parallel between the success of the division in our small sample and other studies. Successful ven-

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tures tended to have the same kind of characteristics that distinguished the successes from the failures in the recent study of venture capitalists' investments by MacMillan et al. (1987)—namely, a clear market acceptance for the product or service and initial insulation from competition.

The reason for the importance of a clear market need for the offering is obvious and has been well documented (Rothwell, 1972; Cooper, 1979; von Hippel, 1977; Maidique and Zirger, 1985), but eluded the Losers, who often pursued ventures on the basis of an apparently exciting technology or product design that was then poorly received by the market place. This appears to be why it is so important for the *entire* division to interact with customers and distributors—it keeps the division in touch with market needs and problems.

EQUIP'S CEO goes to even greater lengths to identify market needs—by maintaining constant contact with a network of consultants who bring problems of their clients to his attention. Once a problem is identified, he checks with the rest of the network to determine whether this problem is becoming pervasive. If so, he establishes whether there is a technology to resolve this problem. Thus he seeks viable technologies to solve *established* market needs. This is the complete reverse of what the Losers did—they took emergent technologies in search of market needs.

Note that this pattern is observed for firms involved primarily in businesses that are *not* consumer oriented. Tsuchiya (personal communication, 1987) has pointed out that in the case of consumer goods, it may be more appropriate to use technology driven products to *create* needs in the market place.

The second characteristic of successful ventures is an initial insulation from competition. This issue of initial insulation creates an interesting dilemma. Clearly, if the new business being created is a good one, there will inevitably be competition for it, so there is no point in seeking new businesses that will have no competition. The real issue is whether there will be some insulation in the early start up stage to protect the fledgling business from direct, head-on competition in its most fragile stage. If not, then all that may happen is that the division expends valuable resources, demonstrating a market to competitors, who swoop in and take over.

Entry strategy. Another feature of the Winners was their entry strategies. This was supportive of the findings on entry strategies in other studies (such as Biggadike, 1979; Hobson and Morrison, 1983; MacMillan and Day, 1986). The Winners tended to identify a clear target segment of the market for initial attack and then moved boldly and aggressively to secure that segment of the market. This segment then became the base for movement into adjoining segments of the market.

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For instance, MATERIALS targeted clear segments of the auto market and poured significant resources into sales effort, marketing effort, and applications engineering effort to rapidly secure a strong position in one segment, then used this position to expand into other segments.

The Losers, on the other hand, tended to pursue a strategy of incremental, modest effort across a broad front. The result was a highly diluted attack that could easily be countered by determined competitors.

Successful firms were also able to develop strategies which made the minimal but *necessary* investment. This appears to be a rather subtle issue. The Losers either did not commit enough investment, and were therefore ineffectual, or they *over*-invested—committing excessive resources in investments like building excess capacity.

Somehow, Winners were creative enough to develop strategies that minimized investment (e.g., by using subcontracting to obviate investment in the plant, or obtaining funds from potential customers for prototype development, as EQUIP did), yet at the same time deployed enough initial resources to have a high impact. Possibly this is why the selection of a clear target *segment* (discussed above) is important—targeting allows deployment of a high intensity of effort, but at relatively low investment.

3. *Management of failure*

Even if the firm is able to manage down the risk of a new business start up by astute selection of business, strategy, and staff, there remains the problem of failures. Due to the innate uncertainty and lack of knowledge involved in start-ups, new businesses simply fail more often than established businesses. Thus, the last area where Divisional CEOs face a major challenge is in management of the inevitable failures that accompany serious drives towards new business development. There were five fundamental differences in the ways that the Winners and Losers managed failures.

Distinguishing bad decisions from bad outcomes. The first important difference was that the Winners were very careful to distinguish plain bad luck from bad management. As EQUIP put it: "Some managers came to me and told me that their venture had failed and that they had lost me several million dollars. When I reviewed the decisions they made, I realized that in their circumstances *I* would have made the same decisions. They had done everything about right, but their luck ran badly and they were blindsided by an unexpected technology. So I called the whole company around and I said to them: 'Here's a couple of guys who took a big swing and missed, but for all the right reasons, and I want you to notice that though we lost a few million I'm promoting them.' If I hadn't done that, people would have just stop-

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ped taking risks. On the other hand you have to make sure that everyone understands that we can't condone sloppy management, no matter what."

A focus on learning. Another key characteristic which the Winners exhibited was a passion for learning from failures, even capitalizing on them. EQUIP analyzed a major setback in a domestic venture and turned it into a promising international business—MATERIALS analyzed a disappointment in the auto market and identified a whole new market opportunity, which was subsequently pursued with great success. This passion for squeezing learning from the ashes of failure closely parallels the finding of a fascinating longitudinal study of several innovative firms by Maidique and Zirger (1985). They observed that often spectacular new product successes emerged from what was learned from major failures.

A concern with redirection rather than go/no go. As INFO puts it: "New business development is like mountain climbing. When you reach an obstacle you can either stop and weep or you can strike out in another direction. If you don't keep trying new directions, you never get up the mountain."

The Winners behaved more along the line of the venture capitalists observed by Block and MacMillan (1985). That is to say, reviews of progress were made at predetermined major milestones, and decisions were made on *how to change direction* rather than whether to go forward or not.

The mind set of the Losers was completely different—in every company committee reviews were held on a strictly periodic basis and at every review the decision was made in a GO/NO GO context. More often than not, the project was continued because no one wanted to shut it down.

An ability to shoot the wounded. An especially painful duty of the divisional CEO is to shut down the venture that is just not working out. TELECOM, INDUS, and INSURE all had projects that were allowed to flounder on, consuming valuable effort and resources long after they should have been terminated.

Successful divisional CEOs hated to terminate projects, but had no hesitation in doing so, and all of them did so personally. Here is FINSERVE's comment: "If you don't shut them down personally and tell them that you're shutting down and why, they'll think that *they* failed. It's important to make them realize that it's the *business* that failed, not *them* that failed. If you don't, you lose them, and who likes to lose good people?"

CONCLUSION AND DISCUSSION

The fundamental difference between the success or failure of a new business development program in the sample studied lay in dif-

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ferences in transformational leadership—Winners were more successful at building commitment, building confidence, and imposing appropriate discipline via deep, transforming interventions in their divisions. This article describes where and how these Winners behaved differently from their less successful counterparts. It must be stressed that the leadership distinctions identified here provide the basis for discussion and consideration rather than prescriptions for suggested behavior. Prescriptions on the basis of the limited sample in this study would be irresponsible.

However, if these differences are indeed indications of fundamental transformational challenges that may be needed to create a new business development program, they provoke some serious issues for HRM. We are looking at a situation where HRM intervention is perhaps imperative, for surely there is no other function that has the skills and training to orchestrate the necessary informal processes.

To highlight these challenges, the main headings of this article are repeated below, each one followed by a discussion of the HRM challenges that the associated CEO behavior raises.

An insistence that the entire division pursue new business development. The fundamental problem here is how to get the senior management team committed to *real* action instead of cheerleading. Can (or should) the HR managers play a role in redirecting the activity of those divisional CEOs who are not truly committed away from the potentially destructive cheerleading course? How do HR managers go about helping to build this commitment? How do they accelerate the process? Are there opportunities for team building across functions? and levels of organization? How do they ensure that the commitment is transformed deeply, into the ranks, as well as broadly, across the division?

No specific, extrinsic rewards for new business development activities. Is it possible to create a reward system that promotes and encourages taking initiative but does not involve special monetary incentives? How does one measure performance when it comes to new business development? Or does one leave it to the informal processes? If so, can, or should, one orchestrate the process?

Significant and visible personal commitment by the CEO. Is there a role for HRM in this area? Who other than the HR manager can ensure that the new business development effort receives high enough CEO priority? How does the HR manager ensure that the urgent issues don't crowd out the important ones? Should the HR manager monitor the CEO's time allocations? If not, how will the CEO's use of time be managed?

CEO commitment sustained for protracted time. A major problem is that high energy input for long periods of time coupled with slow results can be *very* discouraging. How does one ensure the sustained enthusiasm of the CEO under these circumstances? Is it part of the HRM function? If not, which other function can play such a role?

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Intimate top management contact with customers and markets. Is it part of the HRM function to monitor the range of attention of the senior managers? If not, who is going to prevent the CEO and other key line people from slowly being isolated from the environment by layers of subordinates?

Assigning very good people to run the new businesses. Clearly, HRM has a role, and it is a very challenging one. How does one go about making the tough decision of redeploying very talented people from the mainline of business (and perhaps weakening its competitiveness) to small, nascent businesses that are making a miniscule contribution to the current effort? How does one identify willing *and* able talent? How does one motivate them?

Expanding from an existing competence base. Surely it is the role of HRM to be able to pinpoint what it is that the firm does with unequivocal superiority. How does one identify this competence base, capture it, and redeploy it? Is it a basic skill (like credit checking capability) or a more generic skill (like R&D capabilities)? Basic skills are identifiable, measurable, unequivocal but easily imitable. With generic skills there is plenty of room for self delusion – it is easy to incorrectly assume that "we have superior marketing capability," but true generic skills are less imitable.

Building momentum and a sense of freedom to take initiative. The challenge here for HR managers is to ask how they can facilitate the momentum/initiative building process – whether they can help create self-organized, self-controlled teams that are protected from unnecessary encroachments of bureaucratic controls.

Creating appropriate screening systems. To what extent does the HR manager become actively involved in the effort to develop a clear, broad set of guidelines for self-selection of projects? By what process should they be developed and disseminated? To what extent can they play a role in ensuring that these guidelines are simultaneously narrow enough to exclude strategically inappropriate ideas, yet broad enough to encourage fresh innovative ideas? By what process will feasible ideas be moved through the approval process? How does one avoid the creation of bureaucratic and impersonal "selection committees"?

Management of failure. This is perhaps the most important area for HRM attention. It seems that it is in this area where the most differences exist between those leadership behaviors that are associated with plain "good management" of the type discussed in Peters and Waterman (1982) and those issues which are special to the problem of generating new business. These HRM issues are manifold: how to encourage a system that *really* distinguishes bad decisions from bad outcomes; how to develop a passion for learning from both success and failure; how to encourage a mindset of redirection rather than go/no go as new projects unfold; and finally, how to manage the

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inevitable disillusionment and demotivation that follow the shutting down of infeasible projects. Management of failure is a real challenge to firms used to focusing only on success. And here, more than anywhere else, there is a need for orchestrating the organizational responses to this maverick phenomenon.

In summary, if transformational leadership is required to build a major new business development thrust in the division, then we are talking about an HRM role that monitors and subtly encourages a process that has to be personally executed by the top leadership of the division. This is a much loftier, deeper, and more subtle role for HRM than has been called for in the past.

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