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ORGANIZING  
FOR INTERNAL ENTREPRENEURSHIP:  
A REVIEW OF FINDINGS

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## BACKGROUND

This paper is part of a general research project on entrepreneurship developed by the School's Division of Research. This project is designed to investigate the capital requirements and management skills necessary to operate a successful technological enterprise and to study the decision-making pattern of technical entrepreneurs.

## ABSTRACT

The purpose of this paper is to present a review of the literature on the subject of internal entrepreneurship, with particular emphasis on organizational structures necessary to the development of an innovation-producing firm. The paper provides a general model which allows the manager to determine whether or not there is a need for an organizational change in his firm and what specific solutions he can apply to meet this need.

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## Introduction

There is a growing need today in industry for new and effective ways of organizing for new-product development and for making corporations more sensitive to increasingly rapid changes in economic needs. Management of new products arising from advanced technology presents numerous challenges to traditional organizations and practices. Different recommendations have been formulated in many articles and writings about the organizational structures necessary to meet the challenge. These recommendations differ in their approach to the problem, but they all stress the fact that adaptation of business to its new economic environment is possible only by the creation of an organizational structure that permits application of new management technology.

In all these studies one of the greatest concerns is finding ways of stimulating the kind of internal entrepreneurship which motivated companies at their beginning but which may have been progressively discouraged by a number of the normal business practices of large corporations. Most of these corporations are now convinced that an important element of their future rests upon successful replication, within the firm, of small-company entrepreneurial patterns. E. Roberts and A. Frohman define the concept of internal entrepreneurship in these terms: "The internal entrepreneurship approach relies upon recruiting or finding within the corporation, champions for new products and services, stimulating them toward entrepreneurial

behavior and aiding them in developing business growth."<sup>1/</sup> The necessity of organizing for internal entrepreneurship is something everybody agrees upon. How to organize is much more debated, and the literature provides a number of different approaches. Roberts and Frohman write that "a company that wants to use the internal entrepreneurship strategy for growth must explicitly and deliberately adopt policies and procedures designed to initiate and sustain the strategy."<sup>2/</sup> There seem to be no objections to this idea; however, there have been a number of recommended policies and procedures in the literature which differ somewhat in nature and relative importance. Moreover, the "state of the art" is more or less based on intuition and general knowledge obtained through a limited experience in one or two firms rather than on a comparative study of several organizations.

This paper will analyze the recommendations of writers on the subject and the differences and similarities of these recommendations. Using those recommendations supported by empirical evidence, and keeping in mind the ideas expressed in the others, we will discuss the possibility of obtaining a general "model" for determining, given a specific firm, whether or not there is a need for an organizational change, and if there is, what specific solutions can be applied.

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<sup>1/</sup> Edward B. Roberts, and Alan L. Frohman, "Internal Entrepreneurship: Strategy For Growth," The Business Quarterly, Vol. 37, No. 1 (Spring, 1972), p. 72.

<sup>2/</sup> Ibid., p. 77.

The Importance of Organizational Structure to the  
Concept of Internal Entrepreneurship

Stimulating internal entrepreneurship in business firms has been described as the major means of meeting the challenge presented by new-product management in a continuously changing market environment. This approach is based on the belief that most organizations--big business in particular--do not attract or retain would-be entrepreneurs, because the very characteristics that permit these organizations to operate efficiently inhibit innovation and discourage creative outsiders. The entrepreneur views the big firm as an autocracy and dislikes the conformity, discipline, and control that he feels the firm requires. There is a widespread feeling that the environment in a large organization does not encourage creativity. In an article on big business and the "entrepreneurial touch," Dean Ammer writes:

The fundamental need for discipline and order has been noted as a major weakness in the big company's research and development. . . . Internally, the management controls that permit [big companies] to operate efficiently inhibit innovation, and externally, the firm's image of an autocracy discourages the most adventurous future executives. <sup>3/</sup>

A number of practices in large corporations are believed to represent barriers to the development of internal entrepreneurship. The most evident are these: key decision making by top management, long and indirect

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<sup>3/</sup> Dean S. Ammer, "Has Big Business Lost the Entrepreneurial Touch?" Business Horizons, Vol. XIII, No. 6 (December, 1970), pp. 39 and 41.

channels through which new-products ideas must pass and be reviewed, the use of short-term oriented criteria for resource allocation, and reward and penalty systems that discourage risk-taking. It is very important, for example, that technical people establish relationships or communication channels with people in other parts of the business, and this is likely to be difficult in a large organization where technical people are relatively isolated.

In an article about innovation-resisting organizations, Herbert Shepard points out another characteristic of big business:

Most organizations of the past have been designed to be innovation resisting... [They] have been designed to do a narrowly prescribed assortment of things and to do them reliably. To insure reliable repetition of prescribed operations, the organization requires strong defenses against innovations. Efforts to innovate must be relegated to the categories of error, irresponsibility, and insubordination, and appropriate corrective action taken to bring the would-be innovators "back in line."<sup>4/</sup>

Shepard is concerned about how to design an organization which is productive of innovations rather than resistant to them. One of the main problems he identifies is that, because power is centralized at the top of an organization, top support for an idea is almost a necessity if it is to move toward becoming an innovation.

Unfortunately, as pointed out by Dean Ammer, "although big business is incredibly good at producing products it has developed, it stumbles and

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<sup>4/</sup> Herbert A. Shepard, "Innovation-Resisting and Innovation-Producing Organizations," The Journal of Business, Vol. 40, No. 4 (Oct., 1967), p. 470.



falters...when it is called upon to do something that falls outside the scope of rational decision-making."<sup>5/</sup> Another cause of rigidity in large firms is that new ideas necessarily threaten the old ideas, and those who are wedded to the old tend to become highly intolerant of people who propose change. This attitude results in a constant effort to protect the status quo, and it inhibits innovation.

Mack Hanan writes, "When dramatic new business possibilities do emerge internally, their most frequent immediate effect is to impinge on the status quo. Since the fundamental corporate thesis of most companies is squarely based on continuity, change appears as its antithesis."<sup>6/</sup>

The literature on the subject of new-product development emphasizes the idea of organizational form and the influence that it has on innovation within the firm. Designing an organization which will be "innovation-producing" was indeed the concern of T. Burns and G. Stalker, who conducted research in Great Britain based on observation and interview data collected in about twenty establishments in the electronics industry between 1953 and 1958.<sup>7/</sup>

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<sup>5/</sup> "Has Big Business Lost the Entrepreneurial Touch?" p. 39.

<sup>6/</sup> Mack Hanan, "Corporate Growth Through Venture Management," Harvard Business Review, Vol. 47, No. 1 (Jan.-Feb., 1969), p. 44.

<sup>7/</sup> T. Burns and G.M. Stalker, The Management of Innovation (London: Tavistock Publications, 1961).

The principal result was an analysis of the effectiveness of different forms of organization. The researchers identified two organizational forms--"mechanistic" and "organic." The mechanistic organization (traditional bureaucratic form) is hypothesized to be appropriate for stable conditions (noninnovation producing). The organic form is hypothesized to be appropriate for changing conditions; it tends to invest in people, then to exploit them as a resource in any way possible.

Burns and Stalker discovered, for example, that the mechanistic organization tended to isolate the technical unit responsible for innovation, whereas the organic firm tended to make this unit the central component. The concept of "innovation-producing" organization is also discussed by S. Westfall in his article on corporate entrepreneurship. (Westfall analyzes the results of a survey of top executive officers in 92 U.S. industrial firms.) He points out the fact that organizational unfamiliarity with new business concepts often prevents a firm from exploiting new opportunities:

The relationship between organizational interest in new ventures and organizational familiarity with the related business concepts suggests a vicious circle in entrepreneurial undertaking. The organization with narrow exposure to different concepts of business transactions will tend to reject new ideas on the basis of unfamiliarity and, thus, will tend to maintain its narrow exposure.<sup>8/</sup>

Businesses have attempted, generally without success, to deal with these problems through decentralization and adoption of the conglomerate

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<sup>8/</sup> Steven L. Westfall, "Stimulating Corporate Entrepreneurship in U.S. Industry," Academy of Management Journal, Vol. 12 (June, 1969), p. 239.

style of management. Many, for example, have brought the special skills of new professionals into the firm, with the idea of utilizing corporate staffs which rely on knowledge rather than on experience; but "this influx of knowledge-based professionals has so far yielded unimpressive results because management has not created the adequate organizational structure that permits application of new management technology."<sup>9/</sup>

Thus, the organizational form is critical to the successful development of corporate entrepreneurship. If it is designed correctly and in a way that is appropriate to a given firm, it is likely to condition the corporate environment, motivate young would-be entrepreneurs to join the firm, and provide a favorable climate for innovation.

The influence of organizational structure on the management of new products is confirmed by Gerard Pedraglio, who conducted a survey for Booz, Allen, and Hamilton that covers fifty-four U.S. firms and inquires about the nature of the problems that prevent these firms from achieving better results with new products.

More than half the problems listed were related to organization.... The coordination and integration of the firm's overall efforts are the problems they find to be toughest....

Pedraglio concludes:

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<sup>9/</sup> William H. Gruber and John S. Niles, "Changing Structures for Changing Times," Financial Executive (April, 1971), p. 33.

Organizing for innovation thus looms as one of the most urgent and delicate needs of companies that must keep on their competitive toes.<sup>10/</sup>

### How to Organize: Recommendations

#### What is needed

No one organizational approach is likely to satisfy the needs of all firms. The organizational form that is most appropriate will depend, of course, on the size, character, and environmental pressures of the given firm and on the relative importance of new products for its growth. One can wonder if it is really necessary for a firm which depends very little on new products for its growth to adopt a form of organization that will maximize its ability to innovate and to adapt to changes. However, most firms do in fact depend to a certain extent--some of them entirely--on new products. Most firms have to adapt to changes within themselves and in their environment, and most have to innovate and develop new products or services in order to stay alive.

What these firms need is to adopt an organizational form that will suit the requirements of the tasks to be accomplished in the different phases of the innovation process and that will enable them to be generally alert and responsive to innovation. Few authors would argue with H. Shepard when he writes:

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<sup>10/</sup> Gerard Pedraglio, "Getting Into Shape to Manage New Products," European Business (Summer, 1971), p. 38.

For the generation phase of an innovation, the organization needs a quality of openness so that diverse and heterogeneous persons can contribute, and so that many alternatives can be explored. For implementation, a quite different quality may be needed: singleness of purpose, functional division of labor, responsibility and authority, discipline, the drawing of internal communication boundaries, and so on. 11/

But, most of all, a firm needs an organizational form which will attract and retain the entrepreneur and enable him to use fully his qualities of independence and capacity for autonomous interdependence. This need requires that coordination among different groups be improved so that departmental conflicts can be limited. It also requires that channels of communication be open and that interaction among different functional groups exist. Finally, it requires a general climate of entrepreneurship, a free-wheeling atmosphere conducive to innovative activity, and a careful balance between control and direction on one hand and individual freedom on the other. The need for a somewhat less formal type of organization is emphasized by Hill and Hlavacek:

Tasks which are highly predictable can be best performed with hierarchical organizations characterized by formalized procedures. On the other hand, when tasks are uncertain and extensive problem-solving is required, organizations that are less formalized and which emphasize self-control and member participation in decision making are more effective. 12/

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11/ "Innovation-Resisting and Innovation-Producing Organizations," p. 474.

12/ Richard M. Hill, and James D. Hlavacek, "The Venture Team: A New Concept in Marketing Organization," Journal of Marketing, Vol. 36 (July, 1972), p. 45.

The firm has to tolerate--and even support--the individuals who have the spirit and entrepreneurial desire to develop new technology into profitable new products. Otherwise such individuals may become frustrated and join a competitor or start their own small business.

It is widely recognized that large organizations need to develop subenvironments in order to duplicate the enthusiasm and entrepreneurial spirit of the small firm which has fewer bureaucratic controls and obstacles to overcome. Such a subenvironment within a large company can operate as a small firm but also can benefit from the organization's vast financial and technical expertise. The development of such subenvironments is not to be confused with decentralization, which has been going on in large business in the last decades. The manager of a decentralized division is very different from the entrepreneur whom he is sometimes supposed to imitate. Most of the time, the manager is not his own boss, and the real decision making--especially in capital budgeting--remains at the corporate level. "Decentralized big business," writes Dean Ammer, "may be as efficient as its typical small rivals, [but] it is often much less responsive to change."<sup>13/</sup>

The direction that is taken by each corporation to promote internal entrepreneurship necessarily differs and must be dependent on the company's size, goals, capabilities, and environment. Most authors agree, however, that any effective organizational approach to innovation must satisfy three

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<sup>13/</sup> "Has Big Business Lost the Entrepreneurial Touch?" p. 43.

conditions. It must encourage entrepreneurial risk-taking by operating personnel at the decision-making level; it must provide for effective coordination and promote open interfunction communication; and, finally, it must place decision-making authority in the hands of competent operating managers.

As the trend toward organizational changes for implementing internal entrepreneurship has grown in recent years, the literature on the subject has grown also.

A number of authors have conducted surveys among businesses and have reported their findings together with recommendations based on these empirical findings. Others have expressed their views and opinions on the subject, based on their limited experience in business firms or on their contacts with a few businessmen rather than on a comparative study of several organizations. Although these opinions will be reported, the recommendations based on empirical findings will be more thoroughly developed and considered for the purpose of designing a general model.

#### Recommendations for a general climate for innovation

The first set of recommendations concerns the general approach of the firms to the problem of new-product development and the general climate that should exist in the firm to enhance innovation and stimulate entrepreneurship.

Market orientation. The organization must first of all be market oriented rather than product oriented or process oriented. Mack Hanan writes:

By defining what kind of business we are in in terms of "what are the unmet needs of the markets we can serve?" enterprising ventures are based on the life styles of their markets far more than on the engineering or production capabilities of their companies.<sup>14/</sup>

Thus, the organization must maintain a marketing orientation and try to go where the business is, not just where the capabilities are.

Coordination and communications. In terms of organizational structure, the coordination and communication within the firm, as well as the quality of people, seem to be very important considerations. According to most authors, coordination between functions is a critical factor. This basic idea is formulated by Lorsh and Lawrence:

The processes of specialization and coordination are essential in any organization, [but] they are particularly crucial for companies competing in developing new products.

Their conclusions are based on the results of a pilot study that they conducted in two plastic companies:

Successful product innovation depends not only on specialization but also on the development of methods of coordination which enable executives with diverse points of view to resolve their disagreements and achieve a unity of effort.<sup>15/</sup>

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<sup>14/</sup> "Corporate Growth."

<sup>15/</sup> Jay W. Lorsh and Paul R. Lawrence, "Organizing for Product Innovation," Harvard Business Review, Vol. 43, No. 1 (Jan.-Feb., 1965), pp. 109-110.



All this requires, of course, that channels of communication be rapid and direct so that new-product ideas can pass through and be reviewed. Good channels of communication are recommended as a necessary condition by Roberts and Frohman,<sup>16/</sup> and by Grayson,<sup>17/</sup> among others. Roberts and Frohman have conducted a study of the 3M company, a firm noted for its success in internal entrepreneurship, its continuing innovation, and its growth record. They argue that several of 3M's organizational policies seem adaptable by other firms wanting to enhance internal entrepreneurship. Robert Grayson has done a research project on 125 packaged-goods manufacturers who have sales of over \$25 million per year. He indicates that the ideal organization would be one in which, among other things, "top management established good channels of communication."

The second idea that these authors develop is that effective coordination should be obtained among the principal functions coping with the different sectors of the organization's environment. A structure that would compartmentalize the different business functions into separate divisions would prevent an internal entrepreneur from getting the inputs and resources he requires for his venture. Compartmentalization can also make any venture impossible by

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<sup>16/</sup> "Internal Entrepreneurship."

<sup>17/</sup> Robert Grayson, "If You Want New Products, You Better Organize to Get Them," in Product Management, Selected Readings (1960-69), ed. by Maynard Phelps (Homewood, Ill.: Richard D. Irwin, Inc., 1970).

cutting down the flow of ideas and people. Lorsh and Lawrence found in their research that:

product innovation requires close coordination between research and sales, on the one hand, and between research and production, on the other. This coordination is necessary not only to provide [a] two-way flow of technical information... but also to develop mutual trust and confidence between the members of the units which are required to collaborate in product development.<sup>18/</sup>

Pedraglio reports in his analysis that one of the problems found in the companies surveyed was a "serious lack of coordination between the branches participating in the development and launching of new products."<sup>19/</sup>

Lorsh and Lawrence speak of an organizational paradox, created by these requirements for both specialization and coordination. This paradox results from the fact that the greater the differences in orientation and structure between units (specialization), the greater are the problems of obtaining effective coordination. Using the proper methods to improve coordination between the specialized units--methods which will be discussed later--firms are likely to solve this problem. It is fundamental that they solve it because, as Lorsh and Lawrence emphasize, "specialists who are

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<sup>18/</sup> "Organizing for Product Innovation," p. 111.

<sup>19/</sup> "Getting Into Shape."

clearly oriented toward their individual tasks" and toward effective means of coordination are two "essential organizational ingredients of success."<sup>20/</sup>

Top-management support and commitment. The second important requirement for the successful implementation of the internal entrepreneur strategy is top-management support and commitment. As Baker and Freeland point out, "top management can influence, and hopefully improve, the number and usefulness of the ideas generated, both by its behavior and by properly managing the flow of information."<sup>21/</sup>

Internal entrepreneurship represents a challenge to top management, because the entrepreneur has to have, on a smaller scale, all the authority and responsibility of the company president. As Roberts and Frohman put it: "An internal entrepreneur with such power and responsibility can be seen as a threat to, or sign of weakness in top management."<sup>22/</sup>

Instead, top management should view the internal entrepreneur as part of the company's overall strategy for growth. The ultimate success of the entrepreneur strategy is dependent upon how top management views the

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<sup>20/</sup> "Organizing for Product Innovation," p. 122.

<sup>21/</sup> Norman Baker, and James Freeland, "Structuring Flow to Enhance Innovation," Management Science, Vol. 19, No. 1 (Sept., 1972), p. 106.

<sup>22/</sup> "Internal Entrepreneurship," p. 78.

new-business-development operation. Management support should be perceived as including the necessary attention, manpower, and money. Wilemon and Freeze, who interviewed managers in four technology-based companies, write that:

the greater the degree that other work units and functional areas perceive top management's support, the more likely these areas also will support the new-business-development group.<sup>23/</sup>

On the question of top-management commitment, these two authors report what a person involved in new-product development in one of the companies they interviewed had to say:

Unless an idea has the backing of management, it's going to be a very frustrating experience because you're always dealing in an area that's short on facts, long on hopes, and full of failures. Management has to be willing to say we're going to bet some risk money on this type of function, and mean it.<sup>24/</sup>

McDonald and Eastlack conducted a survey of 211 chief executive officers among the 1969 Fortune magazine list of the 500 largest U.S. companies. Their concern was the nature and extent of top management's involvement in new-product activities. They report that, more often than not, management of new-product activities is considered a vital top-management responsibility. They argue that "the crucial point about top management

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<sup>23/</sup> David Wilemon, and Howard Freeze, "Problems New-Venture Teams Face," Innovation, No. 28 (Feb., 1972), p. 43.

<sup>24/</sup> Ibid.

involvement in new product development is that it is a vital--perhaps the critical--determinant of new product success.<sup>25/</sup> In their analysis, they tabulated the extent of this involvement against selected measures of performance. They found that the firms that were most successful in new-product activities were generally those in which top management was involved selectively in both the formulation and implementation of new-product strategy. As for the future, the authors report:

Some recognition of the need for their greater involvement is revealed by the array of managerial problems cited by the presidents of firms reporting both dissatisfaction with their new product performance and relatively limited involvement in new product activities.<sup>26/</sup>

Speaking about responsibility, Pedraglio argues that both the definition of an innovation policy and controlling its achievement are responsibilities that properly devolve upon top management. For him, the function of "the conceiving, development, and final launching of products" must be recognized as a "permanent function of top management."<sup>27/</sup> However, it must be recognized that this involvement is often necessarily limited to strategic and planning decisions. The decision process is generally delegated to lower-level management. As Johnson and Jones point out:

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<sup>25/</sup> Philip R. McDonald and Joseph O. Eastlack, Jr., "Top Management Involvement with New Products," Business Horizons (Dec., 1971), p. 26.

<sup>26/</sup> Ibid., p. 28.

<sup>27/</sup> "Getting Into Shape."

The selection and development of new products must, in the final analysis, be the responsibility of top management. . . but top management simply does not have the time to assume direct supervision and coordination of all the tasks involved. 28/

As Lorsh and Lawrence put it:

Only the specialists on the firing line have the detailed knowledge of markets and technologies to make the frequent day-to-day decisions which the innovation process requires. 29/

And Roberts and Frohman add:

The decision-makers several levels up may not fully understand the technical or marketing value of an idea, especially if they are from backgrounds different from the entrepreneurs. 30/

Corporate planning. According to most authors, it appears that new-product programs should be an integral part of the corporate long-range program. Grayson's findings demonstrate this point. 31/ One of the recommendations of Booz, Allen, and Hamilton, says Pedraglio, is "organization of projects and planning on a long-term basis." 32/ He mentions a firm in which "shortcomings showed up in the form of delay in launching new products or faulty integration of programs into the firm's overall policy lines. . . ."

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28/ Samuel C. Johnson and Conrad Jones, "How to Organize for New Products," Harvard Business Review (May-June, 1957), p. 50.

29/ "Organizing for Product Innovation," p. 112.

30/ "Internal Entrepreneurship," p. 74.

31/ "If You Want New Products."

32/ "Getting Into Shape."

Someone in the firm must have the responsibility of constantly planning for future products. This planning, according to John H. Murphy, should cover four areas:<sup>33/</sup> analysis of trends in the industry or in any growth industry, determination of what products are suggested by these trends, screening of product ideas presented to the firm, and review of the facts established as the program progresses. Again, this planning should be based on the requirements of the market rather than on what the company is able to produce or what it happens to discover.

Flexibility and adaptability. The firm should avoid the rigid, bureaucratic organizational form, where only the top man in the hierarchy is allowed to innovate. As will be seen later, any special group that is assigned the mission of developing new products should be free of pressures imposed by time deadlines. In his study on innovation, Victor Thompson suggests that psychological security and freedom, among other factors, are most conducive to innovative activity.<sup>34/</sup> This freedom is basic to any of the organizational forms that are analyzed in the next section.

Hiring practices. Finally, organizations interested in promoting internal entrepreneurs should be looking specifically at the entrepreneurial

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<sup>33/</sup> John H. Murphy, "New Products Need Special Management," Journal of Marketing (Oct., 1962), p. 47.

<sup>34/</sup> Victor A. Thompson, Bureaucracy and Innovation (Montgomery: The University of Alabama Press, 1969), p. 10.

spirit of candidates for positions in the firm. Roberts and Frohman suggest that entrepreneurs tend to be "young, well-educated, have a technical orientation toward development rather than research, and come from families where the fathers are self-employed."<sup>35/</sup> They argue that entrepreneurs are also characterized by a high need for achievement, i. e., a "desire to tackle moderately difficult... problems that provide visible feedback and recognition." They recommend that some of these factors be included in the firm's considerations when reviewing job applicants. Donald Schon has expressed a similar recommendation:

We should be concerned with innovative, technically trained individuals who have proved their ability to develop new products and processes, and who have done so as individuals, without organizational support.<sup>36/</sup>

#### Recommendations for organizational structure

The need for a separate unit. No one organizational approach is likely to satisfy the needs of all firms. In fact, Lawrence and Lorsh, among others, have shown that the nature of the work to be accomplished should determine the proper organizational structure.<sup>37/</sup> It is widely acknowledged that new-product activities are better performed when a separate unit or department is especially

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<sup>35/</sup> "Internal Entrepreneurship," p. 77.

<sup>36/</sup> Donald A. Schon, "Champions for Radical New Inventions," Harvard Business Review, Vol. 41, No. 2 (March-April, 1963).

<sup>37/</sup> Paul R. Lawrence and Jay W. Lorsh, Organization and Environment (Boston: Harvard Business School, Division of Research, 1967).



designed for them. Segregating the personnel responsible for idea generation and innovative approaches is considered to be the most effective way of stimulating these approaches. Burns and Stalker, for example, have found that the most successful product-development units are separated from other plants and offices in their companies.<sup>38/</sup> The research done by Robert Grayson of 125 packaged-goods manufacturers who do over \$25 million business per year shows that companies organized with full-time, new-product executives produce 69.0 per cent more new products than do companies with part-time executives.<sup>39/</sup> This finding emphasizes the need for an organization with a separate department for new-product development. Two thirds of the companies that had undergone organizational changes believe that a separate department or unit resulted in greater new-product-idea generation.

Specific organizational forms. The idea of separating new-product activities from the rest of the organization by creating a new department is not new. New-product departments or coordinating departments have been established in many firms, with the function of coordinating research, sales, and production specialists in the development of new products. Some companies have developed short-term project teams with representatives from the several functional departments to work on a new product.

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<sup>38/</sup> The Management of Innovation, p. 107.

<sup>39/</sup> "If You Want New Products."

Roberts and Frohman have studied the situation at the 3M company. They report that 3M encourages the formation of mini-companies called "product teams," which group individuals from marketing, production, and finance who are "recruited, not assigned, from other jobs at 3M, and joined together by common commitment to the new product idea." This team is kept together during the anticipated growth of the product. Titles and compensation are tied directly to product sales volume. "One key element of this strategy," write the authors, "is the lack of minimum size constraints for approval for a new product team endeavor."<sup>40/</sup>

Some other firms attempt to solve the problems created by new products by establishing new-product committees. As Hill and Hlavacek define them, "committees are in effect super persons attempting to resolve the problems and conflicts inherently present in new product development."<sup>41/</sup> Unfortunately, such an organizational form is not generally considered very effective. The two authors argue that deliberations by committees "often do not result in explicit instructions for action, and when they do, someone else must execute the action." These committees are also criticized by Argyris as being "plagued with ineffectiveness and win-loss dynamics."<sup>42/</sup>

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<sup>40/</sup> "Internal Entrepreneurship," p. 74.

<sup>41/</sup> Richard M. Hill and James D. Hlavacek, "Product Development Through Venture Teams," in Combined Proceedings 1971 Spring and Fall Conferences, ed. by Fred C. Allvine (Chicago: Ill.: American Marketing Association), p. 141.

<sup>42/</sup> Chris Argyris, "Today's Problems with Tomorrow's Organizations," Journal of Management Studies, Vol. 4 (Feb., 1967).

Another existing organizational structure that is employed for innovative activity is the product-management system. It provides the advantages of specialization and continuity not possessed by committees, but it lacks formal authority to guide products to commercialization. As Hill and Hlavacek put it:

Product managers must work primarily through the informal political relationships of their companies to obtain needed information and assistance in exploring and developing product ideas.<sup>43/</sup>

Still another recipient of new-product development responsibilities are new-product departments, but they usually lack the necessary financial and functional autonomy and are also dependent on political relationships to guide products to commercialization. Finally, some organizations try to stimulate the innovative process by having two groups working in parallel on the same problem, with periodic opportunities for intergroup communication. Shepard has studied such groups and argues that:

simply putting one group against another under win-lose conditions does not lead to the best use of its resources.... It is more likely to lead to panic innovation, closing off of communication lines, closed system operation, and punishment of nonconformity.<sup>44/</sup>

One of the most popular forms of organizational structures is venture management. Because of its importance and the amount of literature that is devoted to it, this new organizational form deserves a more thorough analysis.

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<sup>43/</sup> "The Venture Team," p. 49.

<sup>44/</sup> "Innovation-Resisting and Innovation-Producing Organizations," p. 476.

Venture management. Venture management is a management technique for building and launching new businesses--businesses that are dissimilar from or not direct extensions of the firm's existing operation. Fred Cook gives the result of a survey completed in late 1970, showing that 34 of the 100 largest U.S. industrial companies had venture-management forms of organization, and at least 20 of these forms had been adopted since 1968. He defines venture management as "an organizational strategy for directing growth and diversification--primarily through internal means--into new product or market areas."<sup>45/</sup>

Venturing represents a corporate effort to manage a new business development on a continuous basis. It is an attempt to make innovation more predictable and somewhat organized. Mack Hanan writes that one of the most important characteristics of venturing is that it is "designed to achieve significantly innovative breakthroughs into new businesses, not just to make the fringe renovations typically associated with new products."<sup>46/</sup> He argues that this concept is not in competition with the work of corporate R & D. It simply reduces the risk associated with too much dependence on the laboratory conception of profitable business. In fact, as Cook points out, venturing can help increase the effectiveness of a corporation's R & D expenditures by improving the interface between planning, R & D, marketing, and production.

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<sup>45/</sup> Fred Cook, "Venture Management Organization--An Overview," in Combined Proceedings 1971 Spring & Fall Conferences, ed. by Fred C. Allvine (Chicago, Ill.: American Marketing Association), p. 129.

<sup>46/</sup> "Corporate Growth."

Most of all, "an organization engaged in venture management performs an entrepreneurial function. It combines technological innovations, capital, management, marketing expertise, and people to form new enterprises."<sup>47/</sup> It offers entrepreneurial opportunity to capable employees within the large firm setting.

What are the ways of organizing the venture-management function? The key to venture is that one individual or group of individuals is given primary responsibility for creating and building new business enterprises. This delegation of responsibility can be achieved in different ways which represent different levels of commitment to the venture concept:

- Task-force concept, where employees who are assigned to the task forces usually have other responsibilities in the organization and are only a loan to the venture function.
- Venture-management department, where more individuals are involved on a full-time basis and are responsible for managing new ventures until the ventures reach a certain stage when they are transferred to the regular line organization.
- Finally, the venture-management company, which is the most formal structure. It is a separate legal entity, wholly owned by the parent company and responsible for investigating, building, and managing new business ventures for the parent.<sup>48/</sup>

Hill and Hlavacek have undertaken a study of venture teams by sending questionnaires to 98 industrial and consumer product venture managers

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<sup>47/</sup> "Venture Management Organization," p. 129.

<sup>48/</sup> Ibid.

at very large corporations and by personal interviews of 14 other managers.

The results revealed some unique characteristics of venture teams: The venture team is separated from the permanent or operating organization; it is also multidisciplinary, in the sense that participants are drawn from technical areas such as design engineering, application engineering, production, market research, and finance. As was mentioned earlier, this interaction is considered essential to creativity. The authors report:

The composition of venture teams studied tended to be in a constant flux as members with different technical specialties were phased in and out in response to the changing exploratory and product development requirements of the mission.<sup>49/</sup>

Team members generally are not confined by job descriptions in the usual sense of the term. They are free to develop their own relationship to each other. This unstructured relationship is believed to create a climate in which members are less likely to view criticism of their ideas as a threat. Other characteristics of venture teams are these: the absence of time pressures; financial arrangements which permit venture-team members to share in the profits of the venture; reporting to the division head or chief administrative officer of the firm; definition of the mission in a manner which permits considerable discretion in its pursuit. Most of these characteristics are also described by Mack Hanan:

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<sup>49/</sup> "Product Development," p. 46.

In many ways, a venture team recreates the genesis of its parent company. By incorporating a small, business-minded group of zealous men around a common objective, venture teaming reproduces in spirit and substance what is largely a more modern version of the founding father's bicycle shop.<sup>50/</sup>

Hanan described the typical venture as:

- unidirectional, i. e., chartered for a single purpose;
- multidisciplinary;
- eclectic, i. e., enjoying relative freedom in probing market needs;
- entrepreneurial, managed according to a charter and a written plan, and emphasizing the profit potential to be expected as a return on the investment;
- judicious, i. e., the venture team tries to be influenced only by facts;
- kinetic, i. e., dedicated to change, and standing "ready to fill new needs."

Thus a venture team operates as a small business within the organizational framework of the large company. It has its own charter, its own budget, and its own personnel.

Hanan's recommendations for a successful venture-management operation are that the venture must center on a leader who has a "market-oriented entrepreneurial nose for profit," and that this "venture manager" must be helped by at least three resource men: a market-information resource, a technical-information resource, and a financial-information

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<sup>50/</sup> "Corporate Growth," p. 45.

resource. These four men should compose the team on a full-time basis.

Wilemon and Freeze have interviewed managers in four technology-based firms that tried the new-venture route.<sup>51/</sup> They deduct from their study a number of recommendations for a winning new-venture team. Besides the recommendations mentioned above, they suggest that the members of venture teams be people of known competence and experience within the organization so that they will have the trust and respect that is needed to interact and obtain support more effectively from others within the organization. They also suggest that "venture team's skilled talents not be wasted doing odd jobs around the organization" and that some equitable balance be achieved between complete control and complete autonomy for the venture team.

There has been a general lack of analysis dealing with how venture groups actually function and perform within their larger organizations. Yet there are several problems involved in venture management, and these problems seem to be of a people nature rather than of a technical nature. Wilemon and Freeze have identified such problems in their interviews:

The corporate R & D group may harbor resentment against the new-business group because they feel that the latter was established because of some weakness in their organization.

But there are some good arguments, according to these authors, for keeping corporate R & D and new ventures separated. One company reported that

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<sup>51/</sup> "Problems New-Venture Teams Face."



when the new-venture team is attached to a specific operating unit like R & D, it is difficult for it to "achieve the interdisciplinary emphasis so needed in developing a new business." If the new venture depends too much on R & D, ambiguity and conflict may develop over the question of who is responsible for what activities. When the company is technically oriented and when the corporate R & D has the real internal power, friction is likely to occur unless management can build good relationships between R & D and the venture team.

Another problem identified by Wilemon and Freeze is that of the amount of pressure brought to bear on venture teams:

When top management places great short-term pressures on the new venture team, the group may be tempted to select projects which have a relatively high probability of success...but which may return smaller yields on the capital invested....<sup>52/</sup>

A similar problem is reported by Westfall, who writes that in one of the food-processing firms he interviewed a venture proposal was rejected on the grounds that the expected income stream would not begin within the firm's two-year planning horizon.<sup>53/</sup> Westfall mentions another barrier to corporate entrepreneurship: the scarcity of management resources. Corporations tend to economize on this resource, and a project return on commitment of executive time is often a critical criteria.

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<sup>52/</sup> Ibid., p. 44.

<sup>53/</sup> "Stimulating Corporate Entrepreneurship."

Although corporate venture teams are perfectly designed to surmount the organizational problems of product innovation and have proven successful in several companies, a firm should be careful in analyzing its needs for such a unit and in deciding on the way it will be organized, staffed, and managed.

#### How to Organize -- A Summary

A firm that wants to promote internal entrepreneurship and organize for effective new-product development should follow a three-step procedure. The first step is to identify and eliminate, or neutralize, the different barriers to internal entrepreneurship. These barriers are summarized in Figure 1. They tend to exist in every large organization and represent built-in resistance to innovation.

The second step is to adopt a set of new policies and procedures and to change the overall climate in the firm so as to create a favorable environment for the internal entrepreneur. This step should start with top management showing that it is committed to a strategy of developing a climate of entrepreneurship. Roberts and Frohman suggest that top management communicate that it is searching for new ventures to be piloted by internal entrepreneurs.<sup>54/</sup> Policies and procedures likely to encourage the development of entrepreneurship are listed in Figure 2.

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<sup>54/</sup> "Internal Entrepreneurship," p. 77.

Finally, the last step should be one of changing the organizational structure so that it is best suited to successful new-product development. This change includes setting up a special department or, if this department exists already, transforming and improving it so that it can perform an effective role. One delicate matter to decide is the balance between too much structure and control on the one hand and complete autonomy on the other. With no structure, the venture unit may waste considerable resources; with too much administrative control, initiative and risk taking, essential to internal entrepreneurship, may be inhibited. Figure 3 gives a summary of recommendations for organizing venture management.

#### Conclusion

This paper has presented a review of the literature on the subject of organizing for internal entrepreneurship. It has shown the importance of such an activity in business today and the role this activity will continue to play in the future. This paper also provides managers with a summary of the principal recommendations of those who have experienced or studied the problems encountered in dealing with innovation within the firm. A more extensive bibliography on this matter can be found in the last section of the paper.

- Negative attitude of management toward innovation and changes
- Too much centralized control
- Long and indirect channels of communication
- Organizational boundaries between departments, which cut down the flow of information
- Short-term considerations given priority over long-term for resource allocation
- Compensation system which discourages risk taking and rests on routine performance and seniority
- Application of standard corporate accounting procedures to new-development groups

Fig. 1. Barriers to internal entrepreneurship.

- Be market oriented
- Develop rapid and direct channels of communication
- Place decision-making authority in the hands of competent operating managers
- Encourage coordination between functional groups
- Hire people who are more likely to behave like entrepreneurs
- Encourage personnel rotation and interdivisional task forces
- Organize regular new-product idea meetings
- Establish a review panel to examine new ideas
- Design a reward system encouraging risk taking and minimizing the penalty for failure
- New-product activities should be part of long-range planning

Fig. 2. Policies and procedures likely to encourage internal entrepreneurship.

- Separate structurally a new-business-development group from other functional areas
- Establish clearly the role and responsibilities of the venture group in the firm
- Top management must support venture group--long-term commitment is necessary
- Venture-team members must be of known competence
- Venture team must include different functions: market research, technical research, and financial analysis
- Venture group should be free from short-term competitive pressures
- Define the mission in a manner which permits considerable discretion in its pursuit
- Venture team should have high reporting relationship
- Do not impose any minimum size constraints for approval of a new-product-team endeavor
- Set financial arrangements which permit venture-team members to share in the profits of the venture
- Establish a careful balance between control and individual freedom of venture-team members

Fig. 3. Organization of venture management.

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