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# Open Innovation and introduction to Corporate Venturing

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Innovation, Management and Entrepreneurship (BMAN73112)

## 3. What is corporate venturing?

### 3.1 Definition

Block and MacMillan (1993) consider a project as a venture when it:

- involves an activity new to the organisation
- is initiated or conducted internally
- involves significantly higher risk of failure or large losses than the organisation's base business
- is characterised by greater uncertainty than the base business
- will be managed separately at some time during its life
- undertakes purposes of increasing sales, profit, productivity, or quality

There are a number of key questions to take into consideration when firms look at the viability of creating a new internal corporate venture (ICV):

- Would the venture maintain our capacity to compete in new areas? Can we stretch out firm's capabilities to compete in new areas? Or are there any human

resources implications where we need to recruit and hire new people to succeed?

- Would it help create new defensible niches? New products or new products that will help us to take some IP that stop our competitors to move into that particular technology.
- Would it help to identify where not to go? The venture could be set up for R&D purposes outside the regular R&D department to give the company some signals as to whether it should be investing in that specific research, creating a regular R&D department for that specific activity in the future or not. So venture could be seen as a pilot study: identify where we should go or not go, investing in our R&D department.
- To what extent could it put the firm at risk?
- How and when could the firm exit from the venture?

### **3.2 Why do firms undertake corporate venturing?**

Reasons to set up an ICV:

- *To grow the business*: This motive underlies many of the other motives. It helps to drive to achieve growth as primary markets mature. So the firm needs to look at other markets to grow up in the future.
- *To diversify the business*: This represents an attempt to grow via diversification. Sometimes ICV is seen as an alternative to have for example a M&A strategy. Diversification might be vertical or horizontal. .

Vertical diversification means capturing more value from some of the upstream or downstream business operation activities (not necessarily with a new product or service). Horizontal diversification means exploiting existing competencies across some additional markets or using existing competencies to move into new markets.

- *To combat cyclical demand for core products:* Especially where large corporations have to balance resources between major development programmes.
- *To develop new technological or market capabilities:* Organisations can acquire knowledge through experimentation, central feature of R&D and marketing. Some of that experimentation might not be feasible to do in the internal department of R&D and marketing. So the firm allows some specialists to set up an internal venture to work on those particular capabilities. In developing those capabilities, the venture might act as a broker for distribution of information within firm. The venture can also act as a repository for storing knowledge: some of the formal and informal routines that the company needs to go through, to conduct that experimentation, need to be stored in order to be exploited in the future, maybe by other people in the company.
- *To satisfy managers' ambitions:* As businesses activities pass through their life cycles it will require different management styles to bring out maximum gain. New opportunities for change or expansion need to be created for the business managers.
- *When technology-based organisations have to challenge their current paradigms:* That means that some of the

core capabilities can turn into 'core rigidities' and hinder innovation. The right time to search out and develop a new resource (via a project venture) is often when the current core is working well (although the majority of the companies will think about it when they found some challenges).

- *Other motivations* for corporate venturing include: Spread the risk and cost of product development; divest non-core activities; or exploit underutilized resources.

### **3.3 Key stages of the ICV process**

To set up an ICV there are a number of stages with practical implications related to the tasks involved:

1. **Idea generation** involves two main tasks: create the environment to generate the idea and nurture the venture-champions to provide them with the necessary support. There are maybe some senior level managers that use part of the time help mentoring the venture.
2. For the **project evaluation and selection** the firm has to have some evaluation criteria in terms of what to expect from the final performance of that venture. For example, is it expecting some research results that will help to decide if the firm will work on that R&D project on a regular basis or it expects some impact in the sales increasing the market. Then the firm establishes a selection mechanism. Who are the people that will be part of this venture? Who is the Project

manager? Is somebody to be tested as manager? Is a technical expert with the knowledge to run this venture? Sometimes this selection means to put in place cross-functional project teams.

3. Then the venture starts to run and the firm **monitors its performance** and champions the venture internally. For example it is important to disseminate knowledge to know what is going on from the venture to the rest of the organization.
4. In terms of the **exploitation** it leads to establish a separate business unit, maybe that was the goal at the beginning. Does it lead to develop a spin-off? Maybe the venture has developed some technology that the firm would like to licence out. Maybe it helps to decide that the firms need to collaborate with external partners in order to take this product/service to the market.

### ***3.4 Requirements for successful ICV***

These are some requirements needed to achieve a successful internal corporate venturing:

- Exploit resources of a large corporation whilst providing an environment for radical innovation.
- Ensure top management support.
- Create an environment that supports and values venturing.
- Monitor performance of corporate ventures whilst protecting them from those operating procedures of

established business that may stifle innovation.

- Create an organisation that recognises the value of learning from failure as well as from success.

### ***3.5 Needs of established business versus new ventures***

We can identify some different needs between already established businesses (e.g. parent firm) and new ventures (ICV).

- An established business will exploit existing technological and market opportunities where it has a good foundation of knowledge (modest uncertainty) while a new venture will develop new technological and/or market opportunities, investing in capabilities that will require major technical and market uncertainties.
- The management of the business will also differ. In an established business there would be an administrative or resource-driven management style while the new venture will be guided by an entrepreneurial style.
- Established businesses are focusing on efficiency, protecting established business from risks. New ventures however focus on innovation and learning.
- The criteria for project selection and evaluation is less well understood in new ventures compared to established business.



## Summary

Takeaways from this lecture:

- **Collaboration** as a mechanism for acquiring external knowledge.
- Firms that can harness outside ideas to advance their own business, while leveraging their internal ideas outside their current operations will likely thrive in an **open innovation** environment.
- Key motives for **corporate venturing** include growth, diversification and learning.
- Managing tension between needs of established business and those of the new venture is key to success.



## Test

Test your understanding of the lecture

To complete this lecture, you can use the following quiz questions available in Blackboard as a learning and revision exercise.

**Instructions:**

- All questions are compulsory.
- You have 10 minutes to complete the test.
- The deadline to complete the test is **Sunday 14th March** at 11.59pm.
- After the due date, you can check the correct answers.

TEST



## Essential Reading

Available in the [Online Reading List](#).

- Chesbrough, H. (2007), 'Why companies should have open business models' *Sloan Management Review*,

(Winter 2007) Vol. 48 (2), pp. 22-28.

- Frankenberger, K. Weiblen, T. and Gassmann, O. (2014), 'The antecedents of open business models: an exploratory study of incumbent firms', *R&D Management*, 44 (2), pp. 173-188.



## Further Reading

- Tidd and Bessant (2013) Chapter 6: Innovation Networks AND Chapter 10: Exploring Open Innovation and Collaboration. AND see Chapt. 11 (11.2), pp. 517-537.
- Ooms, W., Bell, J. and Kok, R. (2015), 'Use of social media in inbound open innovation: building capabilities for absorptive capacity', *Creativity and Innovation Management*, 24 (1), pp. 136-150.
- Huston, L. and Sakkab, N. (2006), 'Connect and Develop: Inside Procter & Gamble's new model for innovation', *Harvard Business Review*, (March), Vol. 84 (3), pp. 58-67.

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