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MATCHING OD PROCESSES WITH PHASES OF NEW VENTURE DEVELOPMENT

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Entrepreneurship and new venture development is vital to the future economic well-being of our nation.There is great potential in America'ssmall,growth-oriented companies.Inmanufacturing,for example, it is estimated that firms with fifty or fewer employees account for three-fourths of all U.S. manufactured items and have created the bulk of new jobs the past decade.

Incontrast, in the past few years the *Fortune* 500 companies have reduced their labor force by around fifteen percent. Over one­ third of the companies in the *Fortune* 500 in the early 1970s cannot be found on the list today. The innovative companiesthat we will rely on to lead us into the 21st Century are either quite small or do not yet even exist.

The number of people starting new businesses has increased sevenfold since the 1950s. We have to create the right kinds of support environments for new companies to grow and compete in today'srapidlychangingintemationalclimate.Organizationdevel­ opment can play an increasingly important role in this major trend. The objective of this article is to explore how OD can be integrated into new venture development phases.

Importance of Entrepreneurship and New Venture Development Steven Jobs, recently named by *Inc.* magazine as the "Entrepre­ neur of the Decade," has come to represent the latest generation of visionary innovators and builders who have made a dramatic impact on the way we conduct business. Innovative entrepreneurs

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*of* generations past have left profound influences upon markets, industries, and business and management practices. Names that come to mind include Deere, Gillette, Edison, Penney, Hilton, Plough, Disney, Kroc, Land, and Watson, who all have made significant impacts upon their organizations and the people they have touched throughout their careers.

The Small Business Administration defines small business as those within parameters of 500-1500 employees and $3.5-$14.5 million in annual sales volume dependent upon type of business (manufacturing, retail, or wholesale). Technically, that definition covers a large number of organizations in our domestic economy. David Burch cautions, however, that only around .twenty percent of small business start-ups are truly entrepreneurial in nature. Cor­ respondingly, there is a trend among states and geographic regions in developing economic initiatives stimulating the start-up and development of these small, growth-oriented ventures. These progressive areas have targeted small growing companies for special consideration. ·.

Substantial evidence exists that organizations survive and grow because they are better able to adapt, compete, and meet the rapidly changing needs of their environments (Van de Ven, Hudson, and Schroeder, 1984). This is fertile ground for OD and its related processes. Entrepreneurs or new venture teams tend to become preoccupied with technology, production, marketing, and finance concerns early in the developmental phases. *A* commensurate amount of attention to appropriate OD processes early in the development of a new venture could provide significant benefits throughout the firm's subsequent stages of development and accel­ erate the degree of adaptation.

Phases of New Venture Development

According to leading scholars and practitioners in the field, there are identifiable phases of new venture development. Robert Ron­ stadt (1984) separates the phases into pre-start, start, and post-start categories. The "pre-start" period includes the period from idea conception to the point in time when product sales and distribution occur. The "start" period extends forward to the point where the businessisestablished on a solid foundation and short-terrnsurvival

is no longer an issue. The "post-start" period then begins and extends until the business is terminated in its current form and/or loses its identity through such avenues as merger or acquisition.

New venture development tends to be nonlinear in nature with varying rates of change through the distinct, progressive phases. Ronstadt emphasizes that time and resourcesfor thedevelopmental phases are influenced by uniqueness of the venture,investmentsize, expected growth rate through start-up, and availability of products and customers through pre-start and start periods. Thus, time requirements in moving through the phases are highly dependent upon environmental complexity and the degree to which the new venture can successfully adapt to its environment.

Stevenson, Roberts, and Grousbeck (1989) offer a somewhat different perspective. They refer to the phases of development as opportunity evaluation, development of the business concept, as­ sessing and acquiring resources, managing the venture, and harvesting and distributing value. A useful, distinctive feature of their model is attention to value-creation and the resulting consider­ ation of the potential of harvesting and distributing value.Critical to exit alternatives is an understanding of both the objectives and the specific mechanisms that harvesting strategies entail. This helps to focus on the broad range of feasible harvesting options for the entrepreneur including acquisition by a larger company, going public through the offering of stock, sale of the company,or outright liquidation and distribution of proceeds.

Figure 1 serves to combine both models and to show major problems and opportunities that typically occur during the phases, which include idea generation and creativity; business concept development; new venture team development; and marketing; financial; and operational planning. This creates a number of key leverage points where OD processes are particularly appropriate: original establishment of the entrepreneurial network, full develop­ ment of the business concept, comprehensive business plan development, establishment and development of the new venture group or team, birth or organizational start-up, and organizational stabilization.

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Effective management of diverse issues and concerns,confound­ ed by the necessity of meeting the needs of multiple constituencies, implies continuous attention to flexibility and adaptation to chang­ ing environmental conditions. An entrepreneur or new venture team, in many instances, may actually retrace various steps in order to maximize the creativity of the concept or idea and the scope of implementational detail. Throughout the process, OD can provide a coherent, supportive, and powerful "roadmap" as guidance.

Figure 1.

COMPARISON OF NEW VENTURE PHASES

|  |  |  |
| --- | --- | --- |
| Phases | Characteristics | Problems andOpportunities |
| Pre-Start | \*Concept to Initial | \*Creativity |
|  | Sales and Distribution |  |
| Concept |  | \*Busi ess |
|  |  | Development |
| Business | \*Assessment andAcquisition of Resources | \*OriginalPla·n |
|  |  | \*Venture Team |
|  |  | Establishment |
| Start | \*Organization Stabilization | \*Formal |
|  |  | Structure |
| Communication |  | & |
| Problems | \*Resource Re-evaluation | \*Start-up |
|  | and Deployment |  |
|  |  | \*Venture Team |
|  |  | Development |
| Post-StartChange | \*Organization Growth and Evaluation | \*Growth andManagement |
|  | \*Change and Development | \*Integratikon |
|  |  | and |
|  |  | Coordination |
|  | \*Exit Alternatives | \*Expansion |
|  |  | \*Acquisition, |
|  |  | Merger, Sell off |

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The formulation of the initial business concept during early start­ up will position the firm in its competitive arena, ultimately determiningthedegreeofsuccessorfailure.Attentiontothedynam­ ic and fluid nature of second generation products or services is required. William Gates, for example, co-founder of Microsoft, helped to contribute the leadership necessary in moving the firm to

$16 million in revenues in 1981 in the highly competitive computer software market. This resulted, in large part, in creating a reputation for quality products, careful financial planning, market analysis, and recruitment and selection of personnel who help to build the business. Careful management and emphasis on organizational fundamentals led to the development of second generation prod­ ucts that continued to increase revenue and profitability (Brandt,

1987).

The start-up of Avis and the persistence of its founder also emphasize how the full development of the business concept can result in competitive advantage. Warren Avis spent several years in developing the airport car rental concept prior to actual start-up. Avis realized the market need, but his network kept tellinghim that there would be insufficient demand, management control would be impossible,andcarmaintenancewoulddecreaseprofitability.Within approximately seven years of start-up, however, Avis had become the second largest competitor in the industry. It took Hertz three years to respond to the airport locations that had created a highly differentiated, competitive advantage for Avis (Davis, 1987).

OD Intervention Models

Two popular OD typologies are offered by Wendell French and Cecil Bell as well as Michael Beer. French and Bell (1984) offer a classification ofODinterventions based on target group-individual, team or group, intergroup and total organization. Similarly, Beer's (1980) model distinguishes between individual,diagnostic, process, and structural interventions.

Figure 2 presents an adaptation of both typologies. An initial observation would indicate the appropriateness of individual,diag­ nostic, team,intergroup, process, and structural interventions as the new venture evolves over time. This progression also seems consis­ tent with practitioner philosophies of intervention theory and

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subsequent application of system-wide development and change processes.

Figure2.

COMPARISON OF *OD* INTERVENTION TYPOLOGIES

Target Type of OD Intervention

"Individual and Diagnostic Open System Planning Life and Career Planning Coaching and Counseling Grid Phase 1

Recruitment and Selection

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Technology transfer can present an even more dramatic window of opportunity that can be used to strategically position even the most standard of products. Bobby Frost and his brother founded Consolidated Glass and Mirror Corporation in Galax, Virginia, several yearsagoby upgradingadvanced manufacturing systemsin producing glass and mirrors for furniture. The company now employs more than 600 employees with $36 million in sales (Case,

1989).

Figure3.

NEW VENTURE PHASES AND *OD* INTERVENTION

"Process and Team Team Building

Role Analysis and Clarification

New Venture Phase and Target

Pre-Start

OD Interventions

Process Consultation Training and Development Grid Phases 2, 3

Meeting Processi g

"Individual and Diagnostic Open System Planning

Life and Career Planning Coaching and Counseling Grid Phase 1

Recruitment and Selection

"Structural, Intergroup, and Organizational

Matching Interventions with

Strategic Planning Survey Feedback Confrontation Meetings Organization and Job Design

Performance and Reward System

Control Systems

Grid Phase 3, 4, 5, 6

Start

"Process and Team Team Building

Role Analysis and Clarification

Process Consultation Training and Development Grid Phases 2, 3

Meeting Processing

Post-Start

New Venture Development Phases

MatchingODinterventionswithnewventuredevelopmentphas­ es, as shown in Figure 3, provides a number of interesting comparisons. Individual and diagnostic interventions appear to be most appropriate during the pre-start period. Putting together the initial effort requires concentration on maximizing creativity, net­ working, and planning, usually within a relatively short period of time. For example,Jim Hanahan,of St. Petersburg, Florida, founded a third party administrative company that manages self-insured health plans for corporate clients. This opportunity was due to a quick market shift caused by a federal court ruling allowing compa­ nies to set up self-funded health insurance plans.

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"Structural, Intergroup, and Organizational

Strategic Planning Survey Feedback Confrontation Meetings Organization and Job Design

Performance and Reward System

Control Systems

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Start-up is synonymous with implementation. Here, process and team interventions hold substantial promise as structure and com­ munication needs dominate while the firm begins shipment and distribution patterns. The organization engages in significant learn­ ingcyclesencompassing all activitiesfrom establishing the purchase chain, through sales backward to the production cycle. Under­ capitalization normally emerges early in the start-up phase with the necessity of re-evaluating resource levels, financial commitments, and achieving stable sales, cash flow, and profit levels.

Compaq Computer,a classicexampleofleaming and adaptation, achieved $111 million in sales the first year of operation because of an interdisciplinary team approach to problem solving and focus on the long-term. Bill Merton, Jim Harris, and Rod Carlon, founders of Compaq, used organization planning and development in com­ pressing the lead time for a new product in this highly competitive industry from 12-18 months to 6-9 months. This resulted in the introduction ofDeskpro 286 in record time just asffiM wasannounc­ ing its new super PC, enabling Compaq to achieve a34% share of market (Hisrich and Peters, 1989).

Structural, intergroup, and organizational interventions become increasingly appropriate in the post-start period. Growth, change, and organizational evolution require interventions that are system­ wide in scope. As an organization enters the road from stability to merger, acquisition,or sale and disposition, a long-term perspective is necessary. The organization evolves and takes on different struc­ tural formsover time (i.e.,functional,divisional,matrix,international, etc.).

Thus, with a broadened time horizon, system-wide approaches are more consistent with organizational evolution and response to changing environmental needs.System-wide interventions usually change attitudes, behaviors, and styles more quickly and thorough­ ly than individual or process interventions. Multiple interventions, properly applied, can assist an organization in becoming more flexible and responsive in anticipation of evolution and transforma­ tion. This type of culture can provide significant benefits in the event of going public, merger, acquisition, or sale and disposition.

The development and growth of Federal Express represents such an example of continuous change, evolution, and transformation. From initial start-up in April of 1973, Fred Smith and his company have faced periods of government deregulation, increased compe­ tition, failure of a major new product, numerous technological changes, and recent international expansion through merger with Tiger International. Smith is the classic entrepreneur - risk-taker, innovator, and strategy formulator, as well as being action-oriented and persistent. He has guided Federal Express through several evolutionary stages of development as the organization has been required to adapt and respond to changing environmental condi­ tions (Pearce and Robinson, 1988).

Implications for New Venture Development

00 can play an increasingly important role in creating an atmo­ sphere for entrepreneurship, an atmosphere that allows innovation and creativity to flourish. At the same time, it is also necessary to reduce the risks inherent in the new venture, increasing the chances for success. It is possible, however, to achieve a balance between traditional management approaches in problem solving and deci­ sion-making and organization development processes in a flexible, responsive, and adaptive approach to change.

Developing a disciplined as well as creative and innovative atmosphere where entrepreneurship can flourish is not an easy task. This is because individuals and venture teams spend a great deal of time in implementation and on routine, operational aspects rather than on concentrating on developing an idea to its fullest creative potential. The dominance of an operational and implementational mentality requires that new roles be thought of for managing new venture development systems. 00, by its very nature, can make a substantial contribution in helping to develop atmospheres that foster creativity and innovation.

Thetypeofintegratingprocessdescribedinthisarticleisthewave of the future. In the emerging entrepreneurial environment of the

21st Century, successful management will be dependent upon the integration ofOO into what has been considered to be the traditional phases of new venture development. Entrepreneurs who are able to

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plan for and accomplish this integration will be able to develop organizations that achieve planned sales, share profit growth, and positioning, with a minimum risk of financial and capital resources.

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