**Chapter 12
Selecting, Evaluating, and Compensating Corporate Entrepreneurs**

What are the most important factors in recruiting and selecting a corporate entrepreneurial team? What must the corporate entrepreneur do to successfully develop the corporate entrepreneurial idea? What is the most effective way to evaluate the performance of corporate entrepreneurship? What form of compensation and incentives should be used to reward success?

**Scenario: Nokia**

Nokia is a world leader in mobility, driving the transformation and growth of the converging Internet and communications industries. It is the world’s largest manufacturer of mobile telephones. In 2010, the average number of employees was over 123,000 in 120 countries, and net sales were 29,795 million. Nokia produces mobile devices for major market segments and protocols including Global System for Mobile communication (GSM), Code Division Multiple Access (CDMA), Wideband Code Division Multiple Access (W-CDMA), and Universal Mobile Telecommunications System (UMTS). Through its Ovi platform, Nokia offers Internet services such as applications, games, music, maps, media, and messaging. Nokia Siemens Networks, a subsidiary of Nokia, produces telecommunications network equipment, solutions, and services.

Nokia was founded in 1865 when Fredrik Idestam, a mining engineer, built a wood pulp mill on the banks of the Tammerkoski rapids in southern Finland. In 1871, Idestam named his company Nokia Ab. Eduard Polón founded Finnish Rubber Works in 1898, which later became Nokia’s rubber business. Arvid Wickström started Finnish Cable Works in 1912, which was the foundation of Nokia’s cable and electronics businesses. Nokia Ab, Finnish Rubber Works, and Finnish Cable Works formally merged in 1967 to create Nokia Corporation. The present Nokia Corporation has five businesses: rubber, cable, forestry, electronics, and power generation.

From 1968 to 1991, the newly formed Nokia Corporation was ideally positioned in the evolution of mobile communications. With the deregulation of the European telecommunications markets, Nokia led the way with some iconic products. In 1979, radio telephone company Mobira Oy was started as a joint venture between Nokia and a leading Finnish television maker, Salora. In 1981, the first international mobile phone network, Nordic Mobile Telephone (NMT), was built. In 1982, the company’s first digital telephone switch, the Nokia DX200, became operational. The Mobira Talk-man, the world’s first portable NMT car telephone, was launched in 1984. In 1987, the classic MobiraCityman, the first handheld NMT phone, was introduced by the company.

From 1992 to 1999, the mobile revolution, Nokia made one of the most important strategic decisions in its history by deciding to focus on its telecommunications business. In 1992, Nokia launched its first GSM handset, the Nokia 1011. Nokia became the world leader in mobile phones in 1998. In 1999, the company launched the world’s first WAP (Wireless Application Protocol) handset, the Nokia 7110, with access to mobile Internet services such as banking, e-mail, and news.

The story of Nokia continues with 3G, mobile multiplayer gaming, multimedia devices, and a look to the future. In 2002, Nokia launched its first 3G phone, the Nokia 6650, as well as the first phone with a built-in camera, the Nokia 7650, and its first video capture phone, the Nokia 3650. In 2003, mobile gaming went multiplayer with the N-Gage. Nokia launched the first mobile phones to include energy saving alerts encouraging people to unplug the charger once the battery is full. This could save enough electricity to power 85,000 homes a year.

One of Nokia’s success factors is its high investment in research and development (R&D). In 2009, 17,196 people were employed in research and development with an R&D budget of 5.909 billion, 14.4 percent of Nokia’s net sales that year. The research aims to disrupt the present by focusing on different sciences. Researchers are encouraged to generate ideas for new business development. The company participates in R&D projects in cooperation with universities, research institutes, and other companies.

Nokia’s Research Center is actively engaging in what it calls “Open Innovation” through selective and deep research alliances with world-leading institutions resulting in global business opportunities in collaboration with the world’s best experts. Through the sharing of resources, leveraging ideas, and utilizing knowledge and expertise, Nokia is able to create vibrant, innovation ecosystems, multiply efforts, enhance innovation speed and efficiency, and derive more value for the organization and customers.

Nokia Corporate Business Development manages Nokia’s strategic growth areas and searches for breakthrough ideas that are “industry shakers”—innovative business concepts and technologies—that integrate with and expand beyond the core business of Nokia. When new opportunities are validated, they are then developed as new business programs within Nokia or collaboratively with other companies to establish licensing deals, joint ventures, acquisitions, or partnership agreements. With its strategy to become the leading provider of mobile solutions, Nokia will continue its innovation into the future.

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**Introduction**

The challenge facing many business ventures today is how to develop a successful business approach that will contribute to corporate venture success. This requires selection and recruitment of individuals with entrepreneurial competencies, evaluation of their performance, and providing equitable compensation and rewards that generate motivation.

The role of the corporate entrepreneur needs to be diverse. He or she must identify entrepreneurial opportunities and transform them into action. Corporate entrepreneurs need to constantly seek new venture opportunities. The corporate entrepreneur can monitor change and compete in a dynamic environment by using a corporate management checklist for evaluating the potential of creating a successful new corporate venture within the existing organization (see [Table 10.1](https://jigsaw.chegg.com/books/9780071766876/epub/ops/ch10.html#ch10tab1)). This chapter discusses the selection, evaluation, and compensation of the corporate entrepreneur.

**Selecting a Corporate Entrepreneur and a Team**

The single most important factor in determining the success of a corporate entrepreneurial activity is having a leader and a team with the ability and passion to transform ideas into reality. While selecting and retaining the right talent can be difficult, with the right incentives, this can be accomplished. Jack Welch, former CEO of General Electric (GE), spent the last years of his tenure developing policies and practices that would enable GE to recruit, select, and retain entrepreneurial individuals and develop the entrepreneurial potential needed among existing employees. Since usually no single individual possesses the wide variety of skills necessary to develop a corporate venture, the composition of the right team is needed. At Xerox New Enterprises, a division that commercializes novel technologies, the head corporate entrepreneur of each new company is recruited externally.

The corporate entrepreneurial activity needs individuals who give unbiased advice and are relatively unconcerned about the parent company’s internal politics. Finding such people is a challenge in most organizations. The secret to engaging the right people is to determine the skills and knowledge needed for corporate entrepreneurship. To attract this talent requires appropriate incentives and compensation.

Corporate entrepreneurial activities often use outside advisors. These individuals are separate from the more formal board of advisors. Advisors should be assessed or interviewed just as if they were being hired for a permanent position, with references checked.

When building a corporate entrepreneurial team, the parent company can be reluctant to establish it as an independent new entity with different rules and policies. As a result, some of the parent company’s recruitment, selection, evaluation, and compensation strategies are adopted. This can be a particular problem in determining compensation levels that often need to be different from the standard compensation package offered. Issues can emerge if the parent company has corporate managers hold the most senior roles in the corporate venture and lead the venture in the usual manner of the corporate culture and control. Realizing that a new culture and environment may be needed can be the first challenge to the parent company’s culture and organization.

Companies like Walmart, General Mills, Intel, and United Parcel Service have invested millions of dollars in their venturing projects. One challenge is how to make early-stage financing decisions in corporate entrepreneurial ventures. If organizations like Cisco Systems, Genentech, and Yahoo! were evaluated in their infancies on the basis of near-term earnings of large corporations, they could never have become the businesses they are today.[1](https://jigsaw.chegg.com/books/9780071766876/epub/ops/notes.html#ch10fn1) A corporate entrepreneur recognizes the potential impact on the parent company’s core business, has the drive and ability to influence any actions needed, and creates, establishes, and meets realistic milestones. The corporate entrepreneur needs to be an innovator with concern for the long-term viability of the new venture.

The best managers in an existing business are not necessarily the best for a new corporate entrepreneurial venture. These managers often are more committed to preserving corporate traditions than willing to challenge them. They often do not have the experience and ability needed for a new venture.

There may be, however, more corporate entrepreneurial individuals in the parent company than the management team realizes. Organizations can undertake the challenge of developing their internal executives and fostering an entrepreneurial culture. Companies such as Chevron Corporation, United Airlines, Ford Motors, and Xerox selected their corporate entrepreneurial leaders from internal ranks. It is important that any internal talent transferred to the new corporate entrepreneurial venture does not leave a void of missing talent for the parent company. A corporate entrepreneur needs to identify a core group of people who understand the business and the demands of start-up by asking the following questions:

• Do we have a corporate entrepreneur who has the competencies and ability to lead the new venture?

• Do the existing advisors or board members have the expertise and knowledge to bring the corporate entrepreneurial venture to the next stage of its life cycle?

• Do we have a team of people who have the drive, motivation, and experience to be part of this new corporate entrepreneurial venture?

• Is there evidence to suggest that the corporate entrepreneur and his or her team can effectively work together to achieve “synergy”?

Some corporate venture units recruit external individuals with the skills and experience relevant to the corporate entrepreneurial venture. The newly hired corporate entrepreneur needs to be a dynamic leader who is a manager, leader, spokesperson, networker, decision maker, and coordinator. The new corporate entrepreneurial team needs to work creatively and innovatively together, united by a common purpose and vision. The team needs to be tightly integrated with open communication, constantly updating one another and providing feedback. Different skills are required (for example, marketing, financing, technology) throughout the life cycle of a corporate entrepreneurial venture project.

**Corporate Entrepreneurial Team Roles**

One important factor is that the corporate entrepreneurial venture team can make decisions quickly. Corporate entrepreneurship takes many roles:

• **Venture CEO.** The corporate entrepreneur who is responsible for the overall development and advancement of the project.

• **Technical innovator.** The individual who is responsible for the major technical innovation, such as Art Fry, who developed 3M’s Post-it Note.

• **Product or service champion.** All individuals who contribute to the project by promoting its development and advancement through all the key stages up to its implementation.

• **Resource allocator.** The individual who helps the venture obtain the necessary human and nonhuman resources.

**Key Characteristics of the Corporate Entrepreneurial Leader**

The corporate entrepreneurial leader needs to have the following characteristics:

• High level of energy, drive, and enthusiasm

• Ability to attract, select, and motivate the right people

• Charisma to lead the venture and the team internally and externally

• Resourcefulness

• Excellent communication skills

• Ability to sell the project internally and externally

The leader needs to manage the expectations of:

• Senior members of the parent company

• New corporate entrepreneurial venture managers and their team

• Members of the organization at large

• All members associated with the new corporate entrepreneurial venture

The corporate entrepreneur leading the new venture needs to:

• Support and protect the team

• Tolerate mistakes

• Lead and advise management and the team

• Take moderate risks

• Share the vision

• Delegate to those closest to the problem

• Tolerate internal competition

• Stimulate innovation and creativity

• Actively search for ideas

• Tolerate disorder

• Encourage experimentation and tests

• Trust management and the team

• Tolerate ambiguity

• Drive and motivate the team

The corporate entrepreneur needs to obtain appropriate support and collaboration, and utilize resources, while acting in the best interest of both the new corporate entrepreneurial venture and the overall organization. The team must have an entrepreneurial mindset, with each individual’s activities properly integrated to achieve the goals and objectives.

**Survival Guidelines for Corporate Entrepreneurs**

Here are some guidelines that have been followed by successful corporate entrepreneurs:

• Only pursue ideas where the potential reward justifies the potential risk.

• Request feedback at each stage of development.

• Identify an executive champion and other key alliances.

• Become your most objective and rigorous critic.

• Recognize your core competencies and utilize them to compensate for potential weaknesses.

• Avoid unnecessary publicity from the internal organization and the external media.

• Recognize and adapt to the life cycle stage of the corporate entrepreneurial venture.

• Ensure that new venture policies and procedures are developed and supported by the CEO.

• Lead by example, providing the leadership and the management for the venture.

**Venture Life Cycle and Selection of the Corporate Entrepreneurial Team**

At each stage of the corporate entrepreneurial venture’s life cycle, there may be a need to change the team and even the corporate entrepreneur leading the team. Some team members will want to develop the corporate entrepreneurial venture through the main stages; others will see it as an opportunity for promotion within the parent organization; others will want to start additional new corporate entrepreneurial ventures; and others will want to go back to their previous position. Each stage of the process requires different skills and experience.

• **Conception and development.** At this stage, the corporate entrepreneur needs to demonstrate drive, motivation, perseverance, resourcefulness, charisma, and the ability to communicate the opportunity to the team. This leader needs to be innovative, focused, and believe in the idea and the opportunities it can create and have the needed energy to complete the task.

• **Commercialization.** The corporate entrepreneur needs to demonstrate enthusiasm, desire, and competence and be action-orientated.

• **Growth and development.** Innovation and creativity are needed by the corporate entrepreneur to ensure further growth and development of the new venture.

• **Performance.** Since the corporate entrepreneurial venture has been launched and has maintained its position in the market, the corporate entrepreneur needs to develop the innovation to maintain its market position.

Companies such as Intel and Boeing invest millions in their corporate entrepreneurship group, with the goal of increasing their investment over time.

The corporate entrepreneur should lead the team by:

• Developing effective problem-solving techniques

• Piloting the methods (i.e., identifying what needs to be changed)

• Doing what it takes (i.e., dedication and commitment)

• Demonstrating clarity about what needs to be done

• Encouraging participative decision making

• Knowing the venture project

• Keeping focused on the vision

• Fostering teamwork

**Evaluating the Corporate Entrepreneurial Team’s Performance**

Evaluating performance focuses on how close the corporate entrepreneurial team achieves its goals and objectives. While the corporate entrepreneurial venture starts with clearly defined goals and objectives, it needs to be flexible to fit reality. Cisco followed an unconventional form of corporate entrepreneurial venturing known as “external R&D.” The company developed a tight formula for evaluating, acquiring, and integrating start-ups and growing technology firms, acquiring more than 65 start-ups in the last decade. The performance of a single venture cannot inhibit the parent organization as the new corporate entrepreneurial venture directly influences the cash flow and profit of the parent organization.

**Evaluation Criteria for the Corporate Entrepreneurial Team**

It is not appropriate to evaluate a new corporate entrepreneurial venture using the traditional performance criteria of the parent company. Evaluation criteria need to be focused on timely completion of events at a reasonable cost, with quality standards being maintained. There also needs to be evidence of teamwork, collaboration, and commitment.

The following is an approach to establish appropriate evaluation criteria:

• **Identify what to evaluate.** All evaluations need to be undertaken with a clear, objective, and consistent approach. All key aspects need to establish an appropriate and consistent evaluation strategy so comparisons can be accurately made.

• **Clearly define the desired standards of performance.** These need to be realistic and clearly communicated to all involved. Standards can be measured at intervals as well as on completion to ensure that events have been completed within a reasonable time frame and at a reasonable cost.

• **Assess and evaluate actual standards of performance.** Assessment needs to be carried out within a time frame based on the quality of conclusions and alternative courses of action.

• **Compare the desired standard of performance with the actual standard of performance.** If there are acceptable differences between the actual and the desired performance, then the evaluation and control process does not have to rectify any deviations beyond this point.

• **Appropriate courses of action need to be undertaken if any deviations were identified.** If deviations are unacceptable, then action must be undertaken quickly.

While an effective control system does not guarantee organizational success, it does contribute toward it. Corporate entrepreneurship needs a control system that is developed and implemented based on the long-term goals and objectives of the organization. Each venture control:

1. Should be easy to understand and apply to the new venture

2. Should assess and evaluate all important venture activities

3. Should be undertaken within an appropriate time frame

4. Should be short term, medium term, and long term

5. Should quickly and comprehensively identify any deviations

6. Should be adapted to help the new venture excel

The control system needs to be flexible while evaluating the performance of the corporate entrepreneurs and their venture.

**Compensating Corporate Entrepreneurs**

Corporate entrepreneur compensation and incentive practices vary greatly. At Nokia, there are no financial incentives. At DCA Food Industries Inc., 20 percent of profits go to the corporate venture management team. Tektronix offers salary-related milestone awards. At 3M, all individuals involved in the new corporate entrepreneurial venture will have changes in their employment and compensation as a function of the product sales growth achieved. Because new product sponsorship is the responsibility of management, 3M has special compensation incentives for those managers.

The compensation program of the corporate entrepreneur leading the venture needs to have an incentive to motivate individuals to achieve desirable performance and be related to the returns to the organization. The financial incentive package can help attract and retain the appropriate team. The following are aspects that need to be considered in developing an appropriate compensation plan:

• Emphasize long-term performance

• Customize specifically for the new venture

• Tailor to individuals achieving and excelling in performance outcomes

• Emphasize individual performance with incentives for team-work

• Merit and incentive based

• Significant financial reward over a certain time frame

• Based on external equity

Compensation plans are important to retain innovative and creative people; these incentives need to be motivational. Individual incentives need to be balanced with group incentives to encourage individuals to work on their own initiative as well as being part of a team. While it is more challenging to link compensation to collective performance of a corporate entrepreneurial venture, this is possible by basing salary increases on the attainment of milestones or giving corporate entrepreneurs a share in the ownership or performance of the corporate venture. These can take the form of large bonuses or stock options that vest over a period of time.

The compensation package is especially important in attracting individuals under the following circumstances:

• If an internal person is being encouraged to leave a major project to join the new corporate entrepreneurial team.

• If an external person is being encouraged to leave an existing high-profile position to join the new corporate entrepreneurial team.

• If financial incentives are a major motivating factor for the internal or external individual to take the position in the corporate entrepreneurial venture.

• In terms of balancing the risk and reward factors associated with leaving a more secure position to take a position in the corporate entrepreneurial venture.

• As a demonstration of appreciation for the hard work and commitment of the corporate entrepreneurial team.

If the corporate entrepreneur and the team are not adequately compensated, the parent company is essentially encouraging them to leave the organization. If the company develops a compensation plan that is weighted toward unrealistic targets, it will frustrate employees. While it is easy to reward success, according to Xerox, it is more important to reward failure. Xerox does not judge people by results, but by the quality of their efforts.

While Hewlett-Packard and Microsoft compete for software engineers, each company demonstrates a different corporate culture, which is reinforced in its compensation systems.[2](https://jigsaw.chegg.com/books/9780071766876/epub/ops/notes.html#ch10fn2) This also applies to Toyota and Toshiba, which have the same national culture but different organizational cultures and different compensation and reward systems. From a strategic perspective, organizations need to structure compensation and reward systems that develop a corporate entrepreneurial culture.

**Components of a Compensation and Incentive System**

The following compensation and incentive components can help develop a compensation plan that can attract and retain corporate entrepreneurs who will successfully contribute to the development of the new venture:

• **Equity.** Part ownership interest in the new corporate entrepreneurial venture or parent company in the form of common stock or preferred stock.

• **Bonuses.** Money linked to individual or group performance achievements such as sales, profits, and return on investments. These amounts can be fixed, variable, or discretionary.

• **Salary increases.** Applied in the same way to a new corporate entrepreneurial venture as the existing corporation.

• **Career progression and advancement.** As opportunities emerge, those who make the greatest contribution to the new corporate entrepreneurial venture should be recognized and given the chance to apply for a more advanced position.

• **Recognition and rewards.** Nonfinancial incentives can be as valuable to many corporate entrepreneurs as financial incentives. Individuals recognized for their contribution through recognition ceremonies and awards (which can be financial, such as at DuPont), peer recognition, employee of the month, or sponsorship of sabbaticals. These incentives need to be consistent with the organizational culture and equitable to all who make certain achievements and contributions to the new venture.

**Compensation and Incentive Components for New Success**

Some creative approaches to compensating and rewarding corporate entrepreneurial behavior include:

• Employees put a percentage of their salary at risk and then can either lose it, double it, or triple it based on team performance.

• Personalized “innovator” jackets, shirts, and leather folders are given to employees who make entrepreneurial contributions.

• When a new idea is accepted by the company, the CEO awards shares of stock to the employee.

• Employees are given $500 to spend on an innovative idea that relates to their job.

• A company rents out a major sports stadium, fills the stands with employees, families, and friends, and then has innovation champions run onto the field as their name and achievement appears on the scoreboard.

• A company sets a target, and then 30 percent of incremental earnings above that target are placed into a bonus pool that is paid out based on each employee’s performance rating.

• Small cash awards are given to employees who try something new and fail—and the best failure of the quarter receives a larger sum.

• Some companies have point systems where employees receive differing numbers of points for different categories of innovation contributions. Points are redeemable for computers, merchandise, free day care, tuition reimbursement, and other types of rewards.

• A parking spot is reserved for the “innovator of the month.”

• Team members working on a major innovation are awarded shares of zero value at project outset, and as milestones are achieved (on time), predetermined values are added to the shares. Milestones not achieved lead to a decline in share value.

• Another company ties cash awards for employees to a portfolio of innovation activities produced over time, including ideas generated, patents applied for, prototypes developed, and so forth.

• Employees receive recognition for innovative suggestions, and then a drawing is held at the end of the year for all accepted suggestions, with the winner receiving a sizable financial reward.

• One company has a “frequent innovator” program that works like an airline frequent flier program.

• “Hero biographies” are written about an employee, her background, and an innovation that she has championed. The stories are full of praise and a little humor.

• One company provides gift certificates within a day of an employee idea being implemented, and another takes employees to a “treasure box” where they can choose from among a number of gifts.

• A company gives 15 percent of out-of-pocket savings achieved by the innovator’s ideas in the first two years of use and, if the idea is for a product, 3 percent of first-year sales.

• The top-performing team in terms of innovation is sent to a resort for a week.

• A company gives a savings bond to the employee who raises the most challenging question in management meetings.

• One organization has $500 on-the-spot awards for anyone showing special initiative.

• Some companies have their own Olympics, rodeos, competitions, game shows, hit parades, and murder mysteries in an attempt to recognize initiative and excellence.

• Others have praise and recognition boards, threshold performance clubs, and atta-person awards, and some allow innovators to appear in company advertisements.

There are some key lessons for corporations and their new ventures:

• The corporate venture needs to create an environment that the corporate culture supports and facilitates.

• New venture goals and objectives are different from corporate goals and objectives.

• New ventures can learn valuable lessons from the corporate venture as a way of identifying innovative opportunities for growth and development.

• Having the right people in the right place at the right time is critical to new venture success.

• It takes time, commitment, and energy for the new venture to develop. It must be monitored and evaluated to measure its progress and recognize the need for changes or termination.

• Compensation and incentive practices should be fair and equitable in the context of the new venture’s goals and objectives, culture and needs of management, and the team.

**Summary**

This chapter focused on a fundamental component of corporate entrepreneurial venturing—attracting, recruiting, selecting, evaluating, and compensating the corporate entrepreneur and the team. The corporate entrepreneurial activity needs to attract talent and establish relationships with potential partners, advisors, consultants, and customers. A corporate entrepreneur needs to be committed and enthusiastic and effectively manage, lead, and integrate. The selection of a board of advisors adds support. Proper recruitment and selection procedures need to be established to ensure that potential internal and/or external innovative candidates are recruited and selected.

The corporate entrepreneurial activity needs to be monitored and evaluated by milestones that are based on the completion of tasks and whether desirable results are achieved. Continual evaluations are needed so that corrective action can be quickly taken. Appropriate compensation and incentive plans need to be in place. There should be both financial and nonfinancial compensation and incentive plans including equity, bonuses, salary increases, career progression and advancement, and recognition and rewards.