THE EVALUATION OF NEW BUSINESS DEVELOPMENT PROJECTS IN COMMERCIAL BANKS

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ABSTRACT

This thesis examines the management of new business development (NBD) projects in commercial banks, and focuses on the evaluation process. NBD consists of the development of new products to satisfy new customer needs. For firms operating in changing markets, and using changing technologies, this is of great importance in sustaining competitive advantage. Successful NBD results from the skilful selection and implementation of projects. Evaluation is an important feature of this process.

The study was designed to achieve three broad aims. First, to describe the nature and influence of evaluation in NBD projects. Second, to classify projects according to differences in evaluation. Third, to test for associations between project success and failure, and the relative importance of internal and external evaluative criteria.

The fieldwork consisted of ten case investigations of recent NBD projects in the Treasury divisions of six large commercial banks. The main findings were:

The evaluation processes observed were predominantly unstructured and unsystematic. The use of evaluation was generally *ad hoc*, and neither in great depth, nor of great influence on the development process. This is due to the great uncertainties involved, and the relatively small investments in such projects. Project managers tend to make assumptions rather than systematic evaluations, and subsequently to make any necessary changes after development and launch. The evaluation process is typically selective rather than comprehensive, and judgmental rather than analytical.

NBD projects can be classified according to the sophistication of the target customers and the degree of standardisation of the offering. Failed projects typically involved mismatch between these factors, due to poor evaluation.

Limited support was found for the hypothesis that evaluation focusing heavily on external criteria leads to project success. A clear association was observed between a general lack of evaluation and failure.

The need for further research is identified in the following areas: i) differences between the processes of developing new "products" and new "services"; ii) the theoretical distinction between new product development and new business development; iii) the nature of project evaluation and selection in other unstructured NBD contexts.

CHAPTER 1. INTRODUCTION

The subject matter and theoretical context of this thesis may be described under three headings:

1. The **phenomenon**, or business activity under investigation. The phenomenon of this study is **new business development** (NBD). This is defined as the development of new products to satisfy new customer needs.

2. The **business context** in which an examination of the phenomenon is made. The business context of the study in broad terms is commercial financial services. In specific terms: **the Treasury business of large commercial banks.**

3. The **analytical perspective** brought to bear to analyse and describe the phenomenon. NBD is viewed in this research as an "unstructured decision process". The analytical aim is to describe and explain the **evaluation process** in NBD projects.

This chapter describes, using these concepts, the business problem addressed, the theoretical approach adopted, the new features and the findings of this research.

1.1 THE BUSINESS PROBLEM

New business development is well recognised as an important activity for the managers of commercial enterprises. The working definition of NBD used in this thesis is **"the development of new products to satisfy new customer needs"**. We are specifically concerned with

NBD that is carried out within existing businesses (as opposed to separate venture units, joint ventures or acquisitions). NBD represents a business problem in the form of the risks and difficulties of gauging changing needs and managing the process of developing new products to meet these.

The problems presented by NBD to practising managers are equally well recognised, and have been the subject of much academic attention. Research on NBD is, however, fragmented and without any unifying theory. Relevant prior research is found in several distinct, but related disciplines, broadly: Marketing, Strategy and New Product Development. Even within each of these disciplines, approaches to the analysis of NBD are manifold and diverse. This is due to the lack of a common paradigm with which to approach such issues within the general field of the management of commercial organisations.

There are two major implications of the lack of such a paradigm. First, that the conceptualisation of the goals, aims or ends of corporate activity are inadequate (take, for example the questions "is strategy a means to an end, or an end in itself?", and "is business development an end in itself, or a simply a means of surviving and generating profits?"). Second, there is no common body of theory for the analysis and description of the activities devoted to such activities as NBD. The need for a conceptual framework with which to delineate all the potential problems, contexts and theoretical perspectives in the field of business development is argued in Section 2.1.2.

1.1.1 The Phenomenon

Literature relevant to NBD is diverse in theroetical approach and practical focus, as will be shown the literature review in Chapter 2. Even given this diversity, however, it is still possible to present the phenomenon of this study - NBD - in the context of other research.

The term **"new business development"** has previously been used by Littler & Sweeting (1983, 1983a, 1984, 1987). Their use of the term is similar (but not identical) to that adopted here, in that they also make use of the distinction between internal (or organic) NBD and external (via acquisition) NBD.

The term **"business development"** is used by Kraushar (1985, 1986), with a categorisation of different types, based on practical observation rather than rigorous conceptualisation. The definition of NBD as a particular type of **business development** is adopted in this thesis.

Much research has been devoted to the concept of **business ventures**: "new ventures", "venture units" and "venture departments" - Hopkins (1975), Dunn (1977), Fast (1978, 1979, 1979a), Roberts (1980) and Bart (1988). These researchers are concerned with the same goal (NBD) as we are in this thesis. Their studies may be distinguished from the present one, however, in that they are examining separate organizational units outside the traditional structures for the development of new businesses. This thesis specifically concerns NBD activities managed **within** existing organization structures.

The term **"internal corporate venturing"** has been used by Burgelman (1983, 1984, 1988) and Hutt et al 1988) in a similar vein. These researchers are concerned mainly with the issues of the process of NBD management. They do not use as rigorous a definition of the ends of NBD (in terms of newness of product and customer need) as is used in this study.

Many strategy researchers have used and built on the work of Johnson & Jones (1957) and Ansoff (1965), who categorise **strategy development** options in terms of product and market newness). This type of conceptualisation is a key feature of the development of the definition of NBD used in this thesis. The strategic option of new products for new markets is also often referred to as "diversification" - Ansoff (1965), Biggadike (1979), Johnson & Scholes (1988).

The closest body of research to the subject of this study, however, is that of **"new product development"** (or "product innovation"), for example Johne & Snelson (1988, 1988a); Crawford (1980, 1988); Cooper (1984, 1984a, 1988). Researchers in this field have examined the structures, procedures, skills and strategies associated with the successful development of new products. NPD researchers have tended to focus on the strategic importance of their topic, and on the primary importance of a marketing orientation in the development of new products. The hypotheses tested in this study relate to the importance of market criteria in the evaluation of NBD projects.

1.1.2 The Business Context

There is then, a rich and diverse body of research on the phenomenon of this study. How applicable is it,

though, to research in the chosen context of commercial financial services? This is a question that cannot be fully answered, given the current state of affairs in the fields of NPD and new service development (NSD). There is currently some controversy in the literature over the issue of whether "products" and "services" are fundamentally conceptually different or not (and consequently, whether NSD differs fundamentally in nature from NPD).

The literature quoted in the previous section concerns the study of manufacturing firms, whether in industrial or consumer markets. NPD in the service sector has been adressed recently by Easingwood (1986), Cowell (1988) and de Brentani (1988, 1989, 1989a). These researchers, along with Services Marketing academics - Shostack (1977), Berry (1980), Donnelly et al (1985), Grönroos (1982) - argue that services are fundamentally different from products. On the other hand, Mathur (1986, 1988) argues that all offerings may be looked at as comprising both product and service elements, differentiated in the eyes of the customer. According to Mathur's theory, the nature of the offering itself matters less than the issue of how customers choose between it and competitive offerings.

Given that little research has been done thus far involving direct comparisons between products and services, this dispute must be viewed as unresolved. The position taken in this research study is that NPD research based in manufacturing firms may be used for the purpose of forming hypotheses to be tested in the service sector, but that such theory may not safely be assumed to transfer directly. The lack of prior research in this particular context is therefore a primary motivation of this research study.

1.1.3 The Analytical Perspective

The choice of an analytical perspective with which to approach NBD was governed by the extent of prior research, and the findings of preliminary fieldwork. From an analysis of NPD literature it is evident that a major factor in the success of NPD projects is the quality of evaluation that takes place during the project - Cooper (1981), Cooper & de Brentani (1984), Ronkainen (1985), Baker & Albaum (1986), de Brentani & Dröge (1988).

These studies have all viewed evaluation as a distinct stage of the NPD process, and evaluation is typically modelled as a rationalistic, enumerated decision-making procedure. Most of these studies focus on the criteria used by management for evaluating the prospects of products and projects. Other studies go further and attempt to model the decision-making procedure in terms of the relative weights assigned to the individual criteria, and mathematical methods of combining these into predictive scores - Baker & Freeland (1975), Souder (1978), Danila (1989).

The inherent assumptions behind these approaches are: i) that evaluation is a discrete phase of the NPD process (rather than a recurring activity), and ii) that both evaluation and decision-making are purely rational and founded on complete knowledge. Unfortunately, these assumptions do not hold well in the context of NPD projects (particularly where both the need addressed and the product are new, as is the case with NBD), which are typically characterised by uncertainty, ambiguity and lack of information.

Most of the researchers mentioned above attribute the low observed usage of complex evaluation models to

lack of awareness on the part of management. Souder (1978), however, recognises that the weakness of all such models is founded in their inaccurate assumptions about the decision-making context.

In order to choose the appropriate analytical perspective, the preliminary fieldwork was geared to answering two principal questions. These were: **"Is evaluation important in the development of new Treasury businesses?"** and **"What is the typical decision-making context of NBD projects in the Treasury area?"**. On the basis of interviews with senior Treasury executives in UK and US banks, the answer to the former was typically: "Yes, but we're not sure how well we do it". The answer to the latter was typically: "unstructured, unsystematic, and dependent on the individuals involved".

This confirmed the initial suspicion that Treasury NBD projects conform to the nature of "unstructured decision processes" as described by Mintzberg et al (1976):

> "... characterized by novelty, complexity, and openendedness, by the fact that the organization usually begins with little understanding of the decision situation it faces or the route to its solution, and only a vague idea of what that solution might be and how it will be evaluated when it is developed. Only by groping through a recursive, discontinuous process involving many difficult steps and a host of dynamic factors over a considerable period of time is a final choice made. This is not the decision making under *uncertainty* of the textbook, where alternatives are given even if their consequences are not, but decision making under *ambiguity*, where almost nothing is given or easily determined."

Thus, although the initial expectation in this study had been to investigate the evaluative criteria used, the aims of the research were eventually focused upon

discovering the nature and importance of evaluation within the NBD process, in addition to examining the criteria used.

The application of the perspective of the unstructured decision process is a new and important feature of this research. The fact that this has not been used before (in a study of evaluation), allied to the lack of research into NPD or NBD in commercial financial services characterises the application of this analytical perspective as one of great novelty.

Although this is a departure in approach from previous NPD research, it is in keeping with recent work by strategy researchers. Lewis (1988), Johnson (1987), Burgelman (1988) and Hutt et al (1988) have all adopted a process orientation in their research. As NBD is undoubtedly a strategic issue for firms, this research study may be seen as following in this recent tradition.

1.2 THE RESEARCH APPROACH

The research approach chosen reflects the following factors: 1) that the phenomenon of NBD has not previously been precisely described; 2) that the phenomenon has not been researched in the context of the Treasury business; 3) that the analytical perspective applied is a departure from previous work. Prior research does not provide a sufficiently detailed picture of the phenomenon and context for a purely deductive research design. These factors in combination dictate that the research aims must be wide - encompassing description as well as experimentation.

The research question, reflecting the experimental aim of the research is:

To what extent is NBD project success associated with the relative importance attached to internal and external criteria in the project evaluation process?

Where external criteria are those related to customers, product features, markets and competitors. Internal criteria are those related to resources, skills, finance and synergy.

Before this question can be answered, however, the phenomenon and context must be described in sufficient detail to allow for hypothesis testing. This is reflected in the aims of the research, as stated below.

1.2.1 Aims

The aims of the research are:

- To identify and describe NBD projects that have taken place in the Treasury divisions of large UK-based commercial banks.

- To describe the nature and importance of evaluation within the process of the NBD projects.

- To categorise the NBD projects, reflecting observed differences in evaluation.

- To compare between successful and unsuccessful NBD projects, and to test the working hypothesis:

  NBD project success is associated with high relative importance of external to internal criteria in the project evaluation process.

There are therefore three distinct aims of this study: description, categorisation and testing for association. The methodological basis for the fulfillment of these three aims is respectively descriptive, inductive and deductive.

1.2.2 Methodology

The aims of the research are to describe the evaluation that occurs in NBD projects, and to identify and explain links between evaluation and project success. To achieve sufficient descriptive and explanatory detail, the approach chosen is qualitative, and based on the generation and analysis of case material, according to methodology advanced by Mintzberg (1979), Yin (1984) and Bonoma (1985).

Data is collected in the form of executives' recollections of the development of NBD projects, via semi-structured interviews conducted by the researcher. Questions asked of executives are phrased in as open a manner as is compatible with generating a detailed picture of how evaluation occurred and its impact on the project, while seeking not to force any particular issue into excessive prominence. Therefore, issues recounted unprompted by executives are regarded as those of primary importance and impact in the cognitive view of the project - Piore (1979).

A case description of each project examined is built up from interviews with the key executives who worked on that project, together with any written material available. These cases form the basic data for the qualitative, descriptive and categorical analyses performed.

For the purpose of testing the hypothesised associations between evaluative criteria and project success, a structured content analysis approach is used - Jauch et al (1980). The case data on each project is examined to determine the evaluative criteria evident in the process. In this examination, the depth, impact and timing of the criteria used are gauged. A content analysis schedule is used to generate an index of the importance attached to internal and external criteria in each case. These indices are then used to test the supporting hypotheses.

1.2.3 Experimental Design

The initial experimental design was to identify two projects, one success and one failure within each of eight of the largest commercial banks operating in the UK market for Treasury products. The dependent variable for the purpose of hypothesis testing is project success (measured subjectively according to the criteria of the management in each case). Preliminary fieldwork revealed that the criteria used by management to judge the success of NBD projects varied extensively and were subjective, ill-defined and often not stated explicitly. In these circumstances it was not thought possible to introduce an objective scale of measurement of project success by which to judge the projects. The experiment was therefore designed around the dichotomy of project success/failure. Executives in each bank were asked to identify two suitable projects, one of which should be a commercial success, the other a failure by their own criteria.

Although there were problems in identifying suitable projects in some of the banks, in most cases this selection process proved flexible, yet definitive enough

to generate suitable projects for study. Six of the eight banks approached agreed to take part in the study, and two projects were identified at each. From these twelve, a total of five successful and five unsuccessful cases of NBD were identified and researched. Data were also collected on two projects, which, it was decided during analysis, did not sufficiently meet the selection criteria to be of comparative value. In one case, this was a proposal which was turned down before it became a serious project. In the other, a product nominated as a "success" had in fact attracted only one deal, and had lain dormant for some time, so could not be strictly adjudged successful. These exceptional cases reflect the difficulty observed in defining "projects", "success" and "failure" adequately in practical terms.

1.3 NEW FEATURES

The study contains several new features:

1. The phenomenon of the study - NBD - is treated as an "unstructured decision process" (Mintzberg et al, 1976). There is therefore no attempt to pre-specify the nature or elements of the process. The research approach is accordingly, qualitative analysis of case data gathered by open, semi-structured interviews - Piore (1979), Bonoma (1985).

2. In order to focus the investigation, the analytical perspective chosen is the evaluation process. This is not seen as a formal step, or stage of the NBD process, but as a recurring activity with both formal and informal elements. Treating the evaluation process as incorporating judgmental,

political and non-rational elements is a new approach - previous research on evaluation and screening has concentrated predominantly on the rational/analytical model - Cooper (1981), Cooper & de Brentani (1984), Ronkainen (1985), Baker & Albaum (1986), de Brentani & Dröge (1988).

3. For the purpose of examining evaluative criteria, these are considered as "internal" or "external" (an approach suggested by Day (1983)). External criteria are those related to customers, product features, markets and competitors. Internal criteria are those related to resources, skills, stated strategy and political situation.

4. The study focusses on NBD projects in the area of treasury products in commercial banking firms, in which there has not been any directly comparable previous research.

5. It tests the value of the assertion that new product and business development should be led by evaluation of customer needs - Johne & Snelson (1988a), Cooper (1988), Walker & Ruekert (1987), Anderson (1982), Shiner (1988), Day (1981).

1.4 FINDINGS

Corresponding to the aims of the study, the findings are presented in three groups: description, classification and association.

1.4.1 Description

The descriptive aim was to identify NBD projects in the Treasury context, and to describe their development processes, focussing on the role of evaluation therein. The principal findings of the descriptive analysis are that the projects were typically unstructured, managed in an *ad hoc* manner, and involved little systematic planning or evaluation.

The projects were generally the responsibility of one key executive, rather than a group. The executives working on such projects were typically engaged in a new products function or group, and often had extensive client contact, although none had specific marketing responsibilities. In none of the projects identified did a "marketing" department, group, function or executive play a major role. In essence, however, the roles of the project development executives typically involved many activities that would be classified as marketing responsibilities in a context where marketing was a more integrated function of the organisation. Where marketing was specifically mentioned by respondents, it was used to refer to functions which would be more accurately referred to as Sales, PR or Advertising.

No analytical evaluation models were found to be used in any of the projects studied. Only two of the cases contained any evidence of a systematic approach to evaluation. In all other cases evaluation of any specific criteria was only conducted when it was evidently necessary. In all cases the predominant nature of the evaluation activity was judgmental - Mintzberg et al (1976) - that is, intuitive as opposed to based on careful, logical weighing up of alternative possibilities.

1.4.2 Classification

In order to add to the detail provided by the project case descriptions, the cases were analysed for evidence of significant differences in evaluation by which they might be classified. Two constructs were identified by which the cases were split into four categories. The constructs are:

1) the degree of standardization of the product being developed, and

2) the degree of financial sophistication of the target customers for the product.

The projects are classified, using these constructs as the axes of a matrix. This categorisation shows a clear differentiation between successful and unsuccessful projects: successful projects were either tailored products for sophisticated customers, or standardised products for unsophisticated customers; unsuccessful projects involved the development of standardised products for sophisticated customers.

None of the projects studied was found to have a comprehensive analytical evaluation procedure. In general, the successful pojects incorporated a selective evaluation, focusing on the customer need. The reason the projects involving standardised products for sophisticated customers failed is that each represented a mismatch between offering and need. That these products were actually developed and offered is due to the lack of efficient evaluation of the requirements of customers, and of the nature of changing markets.

1.4.3 Association

The experimental aim of the study was to test the working hypothesis that NBD project success is associated with high relative importance of external to internal criteria in the project evaluation process. In order to test for theoretical replication, the working hypothesis is restated as two supporting hypotheses. These state the basic hypothesis to be tested in successful cases, and its inverse, to be tested in unsuccessful cases:

H1. In **successful** projects, greater importance is attached to external criteria than internal criteria in the evaluation process.

H2. In **unsuccessful** projects, greater importance is attached to internal criteria than external criteria in the evaluation process.

The hypotheses were tested by the application of a content analysis schedule in the form of a scoring model to the cases. The results were as follows:

H1. Accepted in four of the five successful cases.

H2. Accepted in three of the five unsuccessful cases.

In an examination of the cases in which the hypothesis does not hold, it is possible to highlight the specific reasons for the exceptions. It is thus possible to argue that the hypothesis would hold generally in a more tightly controlled experiment. This argument is not advanced in this thesis, however, as the very nature of the evaluation in all the projects differs from that assumed in the analysis.

Among the unsuccessful cases, an average of two external criteria and three internal criteria were identified per case. This is not sufficient to attribute great meaning to the results of the test, which is designed to gauge the "importance" attached to evaluation. The major conclusion to be drawn from the figures is that which has already been observed in description: there is very little evidence of evaluation in the cases.

In neither successful or unsuccessful projects is there evidence of a great difference in the importance attached to internal and external evaluation. In fact there are fairly consistent small differences, which is why in seven of the ten cases the working hypothesis may be said to hold. This is not a significant finding however, as the link between the structure of the analysis and the nature of the evaluation observed in the cases is tenuous.

There is however a difference of note in the figures generated by the content analysis. As it was not hypothesised beforehand, it must be considered an observation, and not a confirmed association. It is this. **Considerably greater importance is attached to <u>both</u> external and internal evaluation in successful projects than in unsuccessful projects.** The conclusion that both internal and external evaluation are important is born out in the case descriptions where the failure of two projects is demonstrably linked to inadequate internal evaluation. This observation is subject to the same caveat as the hypothesis tests, being based on figures from the same content analysis.

The general conclusion is that external, or market criteria are not more important than internal criteria, but equally important in the development of new business.

CHAPTER 2. LITERATURE REVIEW

The theme for the organization of this literature review is the threefold categorisation of subject matter into (i) phenomenon, (ii) business context, and (iii) analytical perspective. The benefit of using this categorisation lies in the ability to highlight the literature extant in each category. Thus the following critical factors emerge:

1. There is a rich and diverse literature on the phenomenon of NBD. It is lacking, however, in a unifying paradigm, or conceptual framework. Such a framework is proposed here, together with a new definition of NBD.

2. The business context of the bulk of literature on NBD is that of manufactured products. There has been some recent academic research interest in the service sector, but as yet, little in the context of commercial banking, and in particular, Treasury products.

3. Previous research using the analytical perspective of evaluation, or the evaluation process, has focused on rationalistic decision-models, with evaluative criteria as constructs. One finding of this thesis is that NBD projects in the Treasury context are typically unstructured in process and judgmental in nature. The analytical perspective of the "unstructured decision process" (developed by Mintzberg et al (1976)) is therefore more appropriate.

The review of literature on the **phenomenon** of NBD proceeds from a definition of *business development* to a conceptual framework placing *new* business development

(NBD) in the context of other business development options. On the basis of this conceptualisation, NBD is defined for the purpose of this thesis, and relevant literature is reviewed under the following four headings:

i) Competitive Strategy,
ii) Organizational Form,
iii) Direction of Development,
iv) Process of Development.

The review of literature on NBD in the **business context** of commercial financial services highlights three things. First, that the bulk of prior research has focused on manufactured products. Second, that there has recently been greater research interest in New Service Development (NSD), and in addition, controversy over the distinction between NSD and NPD. Third, that although academic research has been undertaken in the context of retail financial services, there has been very little in the context of commercial financial services, specifically in the case of Treasury products.

The review of literature on the **analytical perspective** of the evaluation process starts by examining research which refers to evaluation in the context of the NPD process. Research focusing on evaluative criteria is then discussed. The concept of the unstructured decision process is then examined, particularly the place of evaluation within this process. Finally, other recent research using the process perspective is reviewed. This is found in the areas of the strategy process, and strategy formulation.

2.1 THE PHENOMENON: NEW BUSINESS DEVELOPMENT

In order to define NBD accurately, it must first be placed within a wider conceptual framework of business development. Such a framework (or even an adequate definition) has not been found in current literature. In this section, the case for proposing a new conceptual framework, based on a new definition of business development is argued. From the definition of business development presented, two major issues arise. Firstly, the definition of NBD as the development of new products to satisfy new customer needs (thus distinguishing it from **current** business development, **new product** development, and **new market** development). Secondly, a means of categorising relevant literature under the four headings of Competitive Strategy, Organizational Form, Direction of Development, and Process of Development.

2.1.1 The Need For A Conceptual Framework

The conceptual framework proposed in this thesis derives from previous studies of business development, and from the observation that it is necessary to use theories from a number of academic disciplines to examine a phenomenon with the complexity of NBD. Literature in the fields of "Marketing", "New Product Development" and "Strategy" is of direct relevance, as will become clear in this review. Each of these fields has traditionally been a separate school of thought, however. Researchers in each field have used theories and findings from the other disciplines, but not within the context of an overarching conceptual framework. As a result, available theory and empirical research for the purpose of generating hypotheses and controlling experimental investigations is fragmented.

The lack of a conceptual framework for the examination of business development reflects the fact that we have no single paradigm - Kuhn (1972) - for the study of the management of organizations operating in competitive markets.

Authors in the field of strategy have recognised this explicitly. Ansoff (1987) suggests that we are at a "preparadigm phase of the evolution of knowledge", and proposes a paradigmic framework for the study of "strategic behavior". Shirley (1982) makes a similar point, characterising the discipline of corporate strategy by disagreement and confusion over fundamental concepts. Lewis (1988:2) comments:

> "the lack of a coherent conceptual framework which can be subjected to rigorous testing by researchers and communicated to practitioners is generally recognised to be a major problem."

Let us examine briefly, then, the approaches to business development found in the Marketing, NPD and Strategy literatures.

Marketing academics discuss business development and strategy within the context of a marketing "approach" or a "market orientation" of the firm. For example, Day (1983), Kotler (1988), Shiner (1988), Walker & Ruekert (1987) and Johne & Snelson (1988a) all argue that marketing executives should ensure business development activities are managed with a market orientation. The viewpoint is stated most clearly by Anderson (1982). He describes the influences on strategic planning in terms of powerful constituencies within the firm, which correspond closely with the traditional functional specialisations. Accordingly, the marketing function "specialises in negotiating customer exchanges", and its "chief responsibility... is to satisfy the long-term needs of its customer coalition".

Researchers in the field of New Product Development (NPD) generally view strategy in the context of policy guiding or governing the development of new products, for example: Crawford (1980, 1988), Johne (1985), Johne & Snelson (1990), Cooper (1984, 1984a). The viewpoint common to these researchers is that NPD is a business activity of sufficient importance in its own right to form the basis of a stated, defined strategy.

Corporate strategy theorists, such as Ansoff (1965), Hofer & Schendel (1978) and Johnson & Scholes (1988) argue that product policy follows from a statement of corporate strategy. The statement of corporate strategy, broadly, follows from a comprehensive analysis of the firm's internal and external environments. Within this viewpoint, new product development is one of a large number of activities which may be invoked in order to realise the goals of the corporate strategy.

Clearly, there is much overlap in the approaches to business development represented by the separate disciplines. It is the need to discuss these diverse but related disciplines together that leads to the focus on "business development" as a common theme. This is not, however, an attempt to collect and synthesise the "diverse working definitions into a 'new', 'improved' super definition" - Camerer (1985). The aim is to position the various approaches with respect to one common theme, rather than to explain away the boundaries between them.

There are two main propositions behind the use of the term "business development". Firstly, the fundamental problem facing managers of commercial enterprises is the successful development of their businesses over time. Strategy, marketing and product development are all means to the end of business development. Therefore, they are better discussed in

terms of their contributions to this end, rather than as ends in their own rights. Secondly, the term "business development" may be simply and logically defined in a manner that readily allows for a comprehensive classification of existing theory and research.

2.1.2 Business Development Definition

The definition of the term "business development" used in this thesis is original. There are two reasons for this. Firstly, no commonly observed definition of the term has been found in the literature surveyed. Secondly, no previous definition of the term has been found to have adequate conceptual underpinning for the purposes of this study. The reasons for this will be made clear in the following discussion of the two available definitions of business development, both of which are close in intention to that adopted here.

Kraushar (1985, 1986) uses the term "business development" to describe both the direction and the method of development. His definition is based upon practical observation, rather than theory, or empirical study. He lists the business development options facing the firm as:

1) Internal old product development.
2) International development of current business.
3) Diversification through internal development.
4) Development through acquisition.
5) Other forms of external development (joint ventures).
6) Development through disposal/rationalisation.

Littler & Sweeting (1983, 1983a, 1984, 1987) use the term "new business development" in reporting the reults of their research into 14 'mature' UK firms. Their usage is noted here, however, as the purpose of defining the term "business development" is to proceed to a definition of *new business development*. Littler & Sweeting (1984) define the term as one of six "strategic options for mature companies":

1) Cost cutting campaign.
2) Acquisitions in related areas.
3) Product and market development.
4) Rationalisation to core business.
5) New business development.
6) Development of overseas markets.

Within the option of new business development, Littler & Sweeting (1984) go on to list seven possible "entry strategies", corresponding to those described earlier by Roberts (1980):

- Acquisition.
- Licensing and franchising.
- Venture capital.
- Venture nurturing.
- Venture spin-off.
- Special joint ventures.
- Internal venture development.

Two features are common to the definitions used by Kraushar (1985) and Littler & Sweeting (1984). Firstly, their definitions actually consist of descriptions by way of listing options. Secondly, both are based on practical observation, and have no theoretical underpinning. Consequently, there is some confusion between means and ends in Kraushar's list, and no defining principle is evident in either.

A more rigorous definition is required for this study. This is because the definition of business development must serve as the basis for a conceptual framework with which to examine all the theoretical and practical issues relevant to this study. The proposed conceptual framework is used as the basis for organizing the review of related literature, and also to define and control the unit of analysis of the empirical study.

The definition of business development used in this study is derived from the consideration of what is a useful definition of the term "business".

A **business** is defined as:

> "a corporate unit serving a discrete set of customer needs with a discrete set of products";

The thinking behind this definition is similar to that of Mathur (1990), who seeks to define "competitive business units" (CBUs). Mathur argues that CBUs must be defined in competitive terms, and in a way which is beneficial to "strategic thinking". He defines competitive strategy in terms of the differentiation of the firm's offerings in the eyes of customers. Further, he defines four distinct, "polar" competitive strategies, on the basis that differentiation is used in two dimensions (discussed later). Thus, he defines a CBU as "a discrete set of offerings which have a single competitive strategy".

In the definition of "business" adopted in this thesis, the phrase "serving a discrete set of customer neeeds" is similar in meaning to Mathur's "which have a single competitive strategy". What is not stated is the basis by which the discrete set of customer needs is classified. It is intentionally a broader definition. Its utility lies in that, together with the introduction

of further moderating principles (such as "single strategy") it can form the basis of stricter definitions.

The other difference in principle from Mathur's definition is the inclusion of the term "corporate unit". Mathur is purely concerned with the issues of competitive strategy, within which the central concepts are customers, needs and offerings. He is not concerned with prescribing types of corporate unit for types of strategy, but with the issue that the thinking within the corporate unit must reflect the external competitive situation.

The definition of "business" employed here includes the phrase "corporate unit". This is because the definition forms the basis of a framework for discussing comprehesively, work relevant to business development. A large part of this work relates to the nature of the corporate unit responsible for the development of the busines.

To recap, a **business** is defined as: "a corporate unit serving a discrete set of customer needs with a discrete set of products". A dictionary definition of **development** (Chambers, 1985) is "the act or process of developing", while **to develop** is defined as "to bring out what is latent or potential in".

Thus, **business development** may be defined as:

"the act or process of developing a business".

From this definition, a conceptual framework for the discussion of the literature relevant to business development is proposed in the next section.

2.1.3 Business Development Conceptual Framework

Within the adopted definition of **"business"** are two key concepts:

1) the discrete set of customer needs, served by a discrete set of products;

2) the corporate unit which is responsible for the management of these products and the serving of needs.

Within the definition of **"development"** are a further two critical concepts:

3) the nature or the direction of the development taking place;

4) the process by which the development takes place.

It is from these four concepts that the proposed conceptual framework for the classification of existing theory and research relevant to business development is derived.

COMPETITIVE STRATEGY	The satisfaction of a given set of customer needs, by the provision of a set of products which are superior to competitive offerings.
ORGANIZATIONAL FORM	The form of the corporate unit which is responsible for the management of these products and the serving of the customer needs.

DIRECTION	The nature and direction of change taking place in the needs of the target customers, and in the products of the business.
PROCESS	The process by which change occurs, or is actively managed by firms.

This framework has been derived from the available literature, as a means of categorising. In order to remain concise, the literature quoted in this section to support the derivation of the framework has been the restricted to the minimum necessary. The bulk of the literature is discussed in the following sections, categorised under the framework's four headings.

2.1.4 Competitive Strategy

Strategic issues may be dealt with at the corporate, the functional, or the business level of the organization - Johnson & Scholes (1988). We are concerned here specifically with strategy at the **business level**, not corporate strategy (control of component businesses), or functional strategy (management of specialised activities) - Schendel & Hofer (1979). The reason for focusing at the business level is principally that of experimental control. The unit of analysis of this study is the NBD project. It is the intention to study initiatives taken at the business level, rather than top-down corporate strategic initiatives - the two processes have been shown to be very different by Burgelman (1983).

We have defined a business as a unit which competes with a discrete set of products, to serve a discrete set

of customer needs. In practical terms, a business competes in specific markets. Researchers of business strategy deal with the question, **"How should a business compete in a given market?"** - Schendel & Hofer (1979); Day (1984); Mathur (1986); Walker & Ruekert (1987); Johne & Snelson (1990).

Here, it is important to stress that the word "product" is used in its widest sense, as the bundle of benefits offered to the customer. This is the most common usage of the term in the relevant literature. The are however two main departures from this usage. Firstly, authors who make the distinction between "product" and "service", such as Cowell (1988) and Easingwood (1986). Secondly, the definition of "product" as a particular type of competitive strategy by Mathur (1986, 1988, 1990). Throughout this review, the word "product" is used in its general sense - as the bundle of benefits offered to the customer - unless otherwise specified.

In his exposition of competitive strategy, Porter (1985) shows that profitability stems from a number of interdependent variables, including inbound and outbound logistics, operations, marketing and service activities. The relationships between these variables may be examined in the context of a "value chain". This form of analysis can be used to discern the impact of potential developments on the capabilities, resources and economies of scale of a business. Moreover, it is important that business strategy addresses the development of the business in relation to customer needs, supply dynamics and the reactions of competitors.

Successful business development leads to more than simply additional sales volume: it leads to sustainable, defensible competitive advantage - Day (1984); O'Hare (1988); Johne & Snelson (1990). Sustainable competitive

advantage can be achieved by creatively managing the synergies between the value chains of the customers, the business itself and its suppliers - O'Hare (1988). By evaluating all possible synergies, managers can determine the true value to customers of the benefits their products provide. Consequently, they may discern how best to differentiate their products in the eyes of customers, - Johne & Snelson (1990); Lawless & Fisher (1990).

Evaluation of value chain synergies is a feature of the **"market-based approach"** to business development. This consists of analysing and predicting the current and potential benefits sought by customers, and then developing the capbility to supply these. By contrast, the **"asset-based approach"** consists of developing products according to the main operational strengths of the business only. Many business development opportunities based on other value chains are ignored by this approach - Johne & Snelson (1990). For example, the business focusing exclusively on technological improvement may miss out on potential demand for a low-tech product, stripped of refinements, but offering certain key benefits.

The actual responses of firms to the need to employ certain strategies in pursuit of competitive advantage have been studied in two different ways. On one hand, researchers have categorised firms in terms of observed, consistent approaches to competitive issues - Miles & Snow (1978); Johne (1985). On the other, research has focused on the exact nature of the intentions and decisions, which form the basis of **"generic strategies"** - Porter (1980); Mathur (1986).

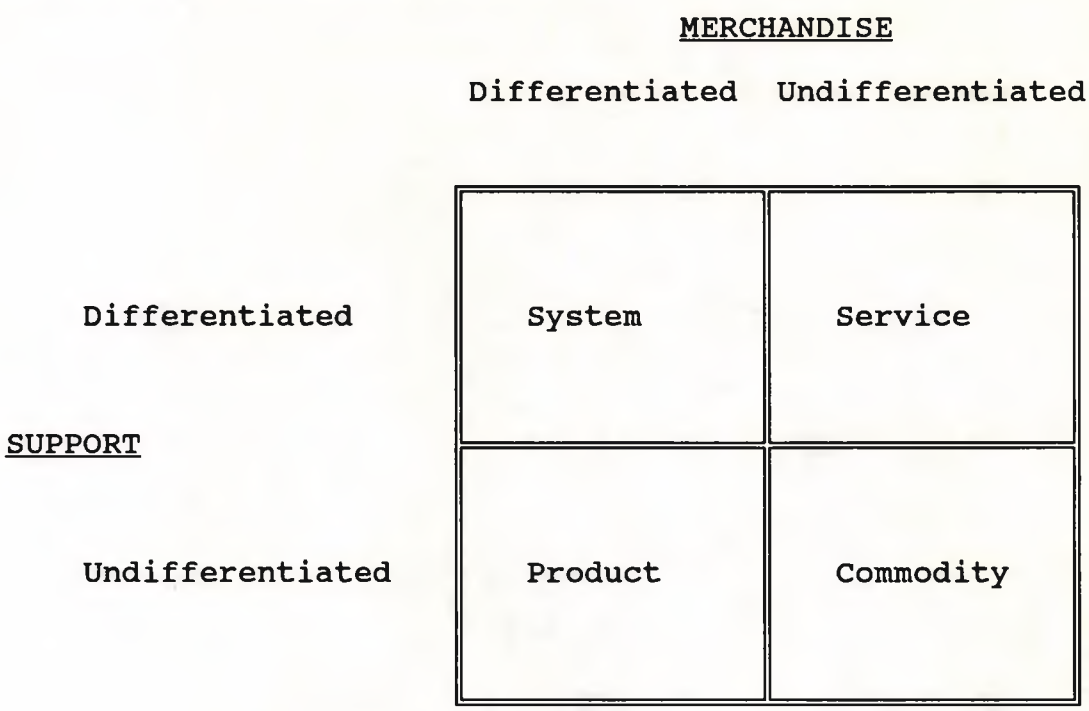
Miles & Snow (1978) identify four strategic types using two factors: intended rate of product market change, and market scope. Their types are:

"prospectors" (aggressive new product-market position in a broadly defined market), **"analyzers"** (secure core market though seeking new market positions), **"defenders"** (conservative new product-market position in a secure position) and **"reactors"** (no well developed plan for competing). Walker & Reukert (1987) suggest competitive business development options based on this typology. They define business strategy in terms of the desired rate of product-market development and the intended strategy (cost leadership or differentiation). The resulting types are "prospectors", "low cost defenders" and "differentiated defenders". Johne (1985) categorises firms by four different product innovation strategies: "broad span product innovators", "narrow span product innovators", "reactors" and "defenders".

Porter (1980) defines three generic strategies, based on how a business attempts to gain and maintain competitive advantage: **"cost leadership"**, **"differentiation"** and **"focus"**.

Mathur (1986, 1988) seeks to specify dimensions along which businesses can differentiate their offerings from those of their competitors. He classifies the options in terms of customer perceptions of the level of differentiation of the offering on two axes - "merchandise" and "support" as in Figure 1 overleaf.

FIGURE 1. COMPETITIVE STRATEGIES



Source: Mathur (1988).

In the schema in Figure 1, **merchandise** represents "the items made available to the customer", while **support** is defined as "the advice, training or assistance offered" on how to make use of the merchandise. Mathur, here is proposing a means of describing the offerings of the firm in terms of how they are bought - in effect, how customers choose between them and competitive offerings.

The terms **"system"**, **"service"**, **"product"** and **"commodity"** are not used in their traditional context, but as precisely defined labels for different ways of competing: generic strategies. It is not the presence or absence of merchandise or support features which defines an offering as a particular type, but the extent to which those features are differentiated in the eyes of customers. Thus, differentiation may be seen as the

main tool of competitive strategy, as it is only in the "commodity" sector that price is the predominant means of competition. Indeed, Mathur (1988) argues that in a true definition of competitive strategy we should consider only what determines the customer's buying decision. By this reasoning, "cost-leadership" does not count as a competitive strategy, but serves as an adjunct to what might be called a "price leadership" or "commodity" strategy.

2.1.5 Organizational Form

In this section, we will discuss literature that concerns the different organizational forms that may be adopted for the management of NBD. The main body of research in this area is in the field of new product development (NPD). Much of this literature does not differentiate between NPD for current markets and for new markets. Thus, the concepts and findings may be considered to apply generally to NBD in most cases.

The work of Benson & Chasin (1976) is important not only in listing the various structural forms available for NPD, but for proposing dimensions for their analysis and categorisation. These are:

1) Permanency status - temporary or permanent
2) Time commitment - full- or part-time
3) Servicing level - entire firm, division or product line

The categorisation yields twelve possible organizational forms, eight of which were found in their study to be used in practice:

- new product division
- new product department
- new product committee
- new product manager
- brand manager
- task force
- venture team
- ad hoc committee

Benson & Chasin (1976) also found that larger firms typically use more than one of these structures; indeed, they recommend a composite approach to take advantage of the different strengths of these structures.

Sands (1983) builds on the work of Benson & Chasin (1976), citing the following types of organizational form: new product group located in technical or marketing functions; new product department (line or staff); task forces/venture groups; new product committee; integrated new product organization.

Of the various forms cited above, those most relevant to NBD are venture groups and venture departments, both of which are now commented on in detail.

In a study of 18 new venture departments (NVDs), Fast (1978) found sufficient variation in size and scope to categorise them as "micro" and "macro". He found that NVDs were typically autonomous units within their organizations. These often had a short lifespan, incompatible with the long term timeframe of their mission. The reasons behind this were found to be political and directional - Fast (1979, 1979a). NVDs with short lifespans were found to evolve in three ways: **maturation** of the business; **redefinition** of the role of the NVD as a planning unit; or **elimination**. Further findings were that related ventures are more successful

than unrelated ventures, and that the "organizational assymetry" of NVDs in political and strategic terms is the key to their success or failure - Fast (1979a).

Concerning venture groups, Hopkins (1975) reports, from a survey of senior executives that advantages associated with these are specialisation and autonomy. Problems with this approach relate to the key importance of the team leader (getting the right person), and the longer-term development of the venture group (does it become an established business or go on to seek further new ventures?) This corresponds to the issue of maturation raised by Fast (1978).

Dunn (1977) studied ten cases of venture group failure. He identifies the principal causes of failure as being excessively broad charters, institutionalised operating procedures and too entrepreneurial incentive systems. He goes on to describe the emerging trend in the firms towards more traditional organizational approaches to business development: restricted charters, less autonomy and lower profile for new ventures.

In another study of the causes of venture failure - Hill & Hlavacek (1977), the major issues cited are concerned with process, systems and strategy rather than structure. The authors compare the observed causes of venture failure with reasons cited by executives, finding very little correlation.

Roberts (1980) relates the type of organization structure required to the venture strategy pursued. He constructs a spectrum of venture strategies. Ranging from low to high corporate involvement, these are: venture capital; venture nurturing; venture spin-off; joint ventures; venture merging and melding; internal ventures.

Burgelman (1986), reporting research on internal corporate venturing (which has more important implications in the field of process - as will be seen in the next section), identifies nine organization design alternatives. These are:

- direct integration into current business
- new product/business development
- special business units (uncertain strategic importance)
- micro new ventures departments
- new venture divisions
- independent business units (uncertain strategic importance)
- nurturing plus contracting
- contracting
- complete spin-off

The choice and implementation of such designs is founded in an analysis of the dimensions of "strategic importance" and "operational relatedness".

In a recent espousal of the value of new venture units (NVUs), Bart (1988) positions these as the way to manage innovation for larger firms. Based on a survey of senior managers with NVU experience, Bart differentiates NVUs from operating units on fifteen organizational dimensions. He goes on to discuss the practical problems of strategy, structure, staff, rewards and when to merge new ventures with existing operations.

Academic interest in the issues of structure and organizational form has recently however given way to a focus on the strategy, directions and process of business development. Discussion of appropriate forms for business development has moved away from "new venture departments", and towards smaller, less

permanent groups, units and teams - Takeuchi & Nonaka (1986), Johne & Snelson (1990).

There is some question though, as to whether such units and groups should be managed within the existing (current business) structure. Johne & Snelson (1990) found that most successful business development units operated outside the main structure, but were free to build on key operational strengths of the existing business if it was advantageous to do so. On the other hand, there has been recognition of the role of internal corporate venturing, autonomous strategic behaviour - Burgelman (1986) - and "intrapreneuring" - Pinchot (1985). These authors highlight the potential for the development of new business by individuals taking initiatives while working within the existing business. This is the type of business development with which this thesis is concerned - the principal reason being that no evidence was found of the use of separate organizational units for BD in the Treasury Divisions of the banks studied.

2.1.6 Direction

In this section, literature relating to the direction of development of businesses in terms of rejuvenation and novelty is examined. The main issues here are the different possibilities open to firms to develop current and new products and markets.

A common feature in strategy literature is the use of matrices to illustrate potential business development directions for firms. These matrices have typically used as axes the "newness" to the firm of the **product** (or technologies embodied in it), and of the **market** (whether defined in terms of customers, needs, or

geographic regions). The use of such matrices originated with the seminal work of Johnson & Jones (1957), details of which are shown in Figure 2.

FIGURE 2. TECHNOLOGY-MARKET MATRIX

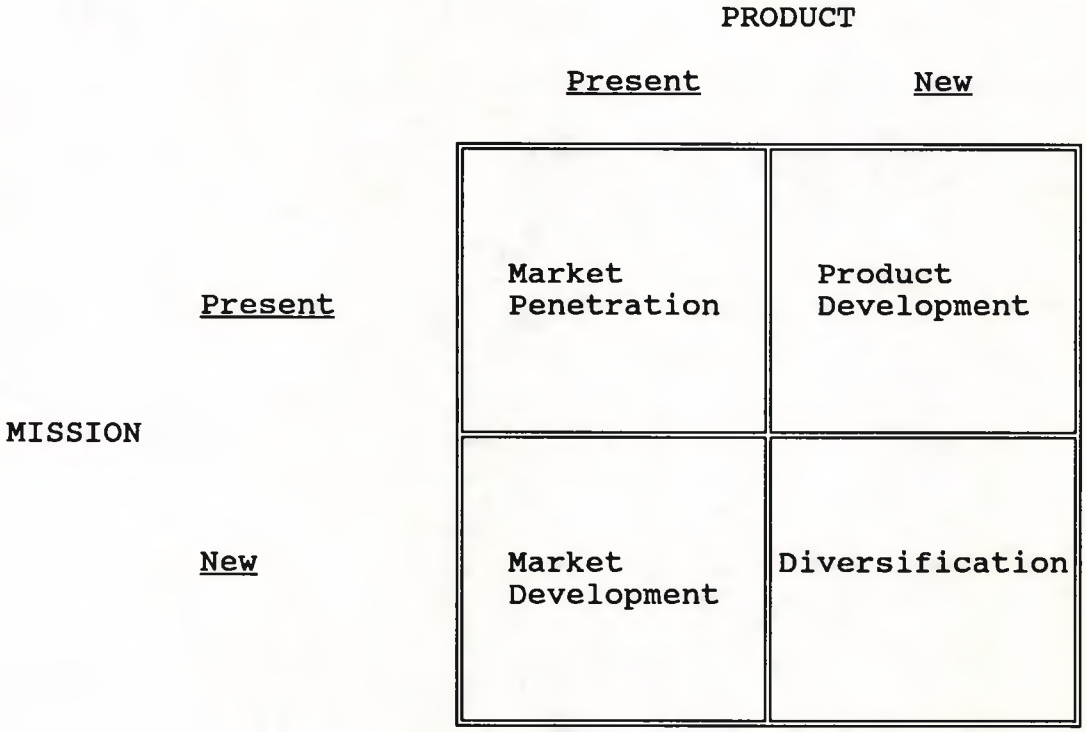
	TECHNOLOGY UNCHANGED	IMPROVED TECHNOLOGY	NEW TECHNOLOGY
MARKET UNCHANGED		Reformulation Improved cost/ quality of existing products	Replacement Better product formulations using new technology
STRENGTHENED MARKET	Remerchandising Increase sales penetration of existing market	Improved Products Provide improved product attributes to existing customers	Product line Extension Apply new technology to broaden product line offered to present customers
NEW MARKET	New Use Find new types of customers that can use current product	Market Extension To reach new customers by modifying present product	Diversification Add classes of customers by developing new technologies

Source: Johnson & Jones (1957)

The axes used in this matrix are the **market** and the **technology** of the firm. The boxes represent the strategic aims, according to the "newness" of the technology or market desired. This type of analysis of the strategic ends or goals served by different types of business development was taken up and developed by other

researchers. Consequently, different constructs were employed as axes and different contents posited. Notable among the researchers who have developed the matrix is Ansoff (1965), whose original matrix is shown in Figure 3.

FIGURE 3. ANSOFF MATRIX



Source: Ansoff (1965)

Ansoff (1965) proffers a simpler four-box matrix, with the axes: **product** and **mission**. It is conceptually more advanced than that of Johnson & Jones (1957) in that it focuses more closely on **competitive** strategies. This is due to the adoption of "product", rather than "technology" as an axis. The problem with the use of "technology" is that a new or improved technology does not result in a changed competitive situation unless the end-product is changed in the eyes of the customer - Mathur (1988). By "mission", is denoted the intended market of the firm, for the given product.

Other researchers have adapted Ansoff's matrix to illustrate their cases. In a recent revised edition, Ansoff (1987a) himself adjusts the original matrix by adding a dimension or vector: the "geographical growth vector". The reasoning behind this is that a new market may be either a new customer segment in the current geographical base, or any customer segment of a new geographical area.

Johnson & Scholes (1988) in a recent exposition of corporate strategy theory, differentiate between **"generic strategies"**, **"alternative directions"** and **"alternative methods"**. Generic strategies are: cost leadership, differentiation and focus, following from the work of Porter (1980). Alternative directions are stated via the matrix shown in Figure 4.

FIGURE 4. ALTERNATIVE DIRECTIONS MATRIX

MARKET	PRODUCT: Present	PRODUCT: New
Present	1. Do nothing 2. Withdraw 3. Consolidate 4. Penetrate	New product development
New	New market Development	Diversification 1. Related 2. Unrelated

Source: Johnson & Scholes (1988)

This schema consolidates previous work, using **"market"** and **"product"** as axes. It provides a more comprehensive classification of the options open in the present market/present product box, acknowledging, apart from increased penetration and consolidation, the possibility that withdrawal is a valid strategic goal, and that no change may be equally desirable. Furthermore, this matrix clarifies the options in the new market/new product box. Related diversification may be forward or backward, vertical or horizontal integration.

The possible alternative methods of achieving these development goals, according to Johnson & Scholes (1988) are:

1) Internal development
2) Aquisition
3) Joint development (consortia/franchising/licensing/ agents)

For the purposes of this study, it is necessary to introduce some consistency of terminology, and a rigorous definition of "new business development". To achieve this, a matrix to categorise possible directions for business development is proposed. This is shown in Figure 5. overleaf.

FIGURE 5. BUSINESS DEVELOPMENT DIRECTIONS MATRIX

CUSTOMER NEED	PRODUCT: Present	PRODUCT: New
Present	Current Business Development	New Product Development
New	New Market Development	New Business Development

The reasoning for the use of **product** and **customer need** as axes stems from the original definition of a business as a corporate unit serving a discrete set of customer needs with a discrete set of products. Here again it must be stressed that the term **product** is used in its broadest sense, meaning the offering of the firm, however it is differentiated from competing offerings.

Furthermore, the term "product" is used here in an output- rather than input-oriented manner. Business developments are viewed in competitive terms (that is, in terms of the modifications they introduce to the firm's ability to compete for custom). Accordingly, products are seen as the sum of benefits sought by customers, rather than the sum of technologies and components, and the results of processes. The development of a new technology or process behind a product does not <u>necessarily</u> lead to a development in the competitive positioning of that product - Mathur (1988).

Customer need is used here in preference to **"market"**, as it provides a tighter definition. The term "market" may be thought of as comprising an aggregation of similar needs, served in particular geographic locations. The geographical dimension is considered separate. The term "customer" could conceivably be used in the matrix, but would prove too tight a definition usefully to describe market development.

A market development may be said to occur if a significantly new set of customer needs is addressed by the firm (whether with existing, or new products). The instance of a firm offering its current products into a new geographical region, would be referred to as current business development involving geographic expansion. The exception in such a case would be where the product met a different need for customers in the new region than in the current location.

The matrix shown in Figure 5. provides the basis for the definition of "new business development" which is used in this research study. NBD is defined as **"the development of a new product to satisfy a new customer need".**

We have already defined a **business** as "a corporate unit serving a discrete set of customer needs with a discrete set of products", and **business development as** "the act or process of developing a business". The process of arriving at this definition of NBD, therefore, has been to deconstruct the concept of business development into the components of:

Competitive strategy,
Organizational form,
Direction of development,
Process of development.

Of these, the **direction** of development has been further deconstructed into:

Current business development,
New product development,
New market development,
New business development.

It would theoretically have been possible to arrive at a tighter definition of NBD by including specific restrictions, based on the other components of the conceptual framework. The benefit of restricting the definition to the direction of development lies in its simplicity and clarity. This had practical advantages, for it was essential to make it clear to executives in the course of project selection, exactly what was required. For experimental purposes, it is sufficient to recognise the potential for variance in the other components (competitive strategy, organizational form and process). In this particular study, **direction** is used as a control on selection; **process** is what we are trying to explain; **competitive strategy** and **organizational form** are elements of the context we are aiming to describe.

2.1.7 Process of Development

This section concerns literature which examines the management of specific activities within the NBD process. Here, we are concerned with research that is focussed on the process of management of new product and new business development. Research that has dealt with the nature of decision-making processes in general, and the evaluation process in particular is considered in Section 2.3. in which analytical perspectives are discussed.

Researchers in the field of NPD have sought to model the NPD process in terms of stages or phases. Their work is quoted here insofar as it is applicable to the context of NBD. As has been described, NPD may be conceptually distinguished from NPD in terms of the newness of the customer need addressed. This distinction is not often made explicit in the NPD literature, however. Thus, it is a fair assumption to quote the following studies in connection with NBD - particularly in the absence of any such studies explicitly devoted to NBD.

An influential study of the NPD process is that of Booz, Allen & Hamilton (1982). Although this is a practical, normative paper by consultants, not an academic study, it has found sufficient support to be quoted in many academic papers. The recommended NPD process is:

1. New product strategy development
2. Idea generation
3. Screening and evaluation
4. Business analysis
5. Development
6. Testing
7. Commercialisation.

Along similar lines, Crawford (1983) suggests the following "new products creation and marketing process":

1. Strategic planning for new products
2. Concept generation and development
3. Screening
4. Development:

Technical	Evaluative	Marketing
Prototype	Concept	Strategy
Preproduction	Product	Tactics
Production	Market	Control

5. Launch of the product.

In a review of success factors in product development, Johne & Snelson (1988) develop Crawford's schema slightly:

1. New product planning
2. Idea generation
3. Screening
4. Development: Concept Evaluation
   Technical
   Marketing
5. Launch.

Cooper (1983) builds a normative NPD process model from the lessons of research into new product success and failure. He emphasises a market orientation and the necessity for multifunctional cooperation and integration. There are seven stages in this model:

1. Idea
2. Preliminary assessment
3. Concept
4. Development
5. Testing
6. Trial
7. Launch

In later empirical work, however, Cooper & Kleinschmidt (1986) demonstrate how incomplete the process is in many companies. In a study of 123 firms and 252 new product histories the authors investigate: what occurs in the NPD process; how well specific activities are undertaken, and what the impact is on project outcomes.

Cooper & Kleinschmidt (1986) use a model of the new product process, consisting of the following activities:

1. initial screening;
2. preliminary market assessment;
3. preliminary technical assessment;
4. detailed market study/market research;
5. business/financial analysis;
6. product development;
7. in-house product testing;
8. customer tests of product;
9. test market/trial sell;
10. trial production;
11. pre-commercialization business analysis;
12. production start-up;
13. market launch.

The results of the Cooper & Kleinschmidt (1986) study show that the new product process is, in practice, truncated when compared to prescribed models. In particular, market research, trial sell, and detailed business analysis are commonly missed out. Most frequently omitted are marketing activities (test market and detailed market study). Only 2% of the cases featured all 13 activities in the authors' conceptual model. The weakest activities were the up-front ones (screening, preliminary market assessment, detailed market study) - that is to say, those which are involved with evaluation of the market. An important finding was that more successful projects had more complete processes - that is, containing more of the activities.

This type of conceptualisation is characterised by Saren (1984) as an "activity-stage model", in a five-fold categorisation of the various types of models of the "innovation process":

Departmental - Stage models. The innovation process is viewed as a series of stages associated with departments or functions in the firm.

Activity - Stage models. The most common portrayal of the innovation process. These models tend to assume that innovation is a logical, sequential process.

Decision - Stage models portray innovation as a series of decisions. They are useful in that they recognise innovation as a process of deciding between options.

Conversion - process. At the core of these models is a series of 'black boxes' showing various inputs and outputs. They are useful in emphasising that innovation can take idiosyncratic routes depending on the inputs used, but are not helpful in explaining the process.

Response - models. Grounded in behavioral psychology, these models show that a firm responds to a stimulus to produce innovation, but they do not elucidate the details of the process.

It will be shown in Section 2.3 that most studies dealing with *evaluation* in particular have used activity-stage models. These typically include evaluation (or screening) as a discrete stage of the process. It will be argued that, for the NBD projects which are the subject of this study, a decision process model is more appropriate to the study of evaluation.

2.2 THE BUSINESS CONTEXT

The aim of this section is to show that, although research has been conducted in related areas, very little has been specifically focused on new business development in commercial financial services. The areas discussed in this section are: new service development; commercial banking product development; and treasury products.

The discussion of the phenomenon of NBD in the previous section was based almost entirely on empirical research in manufacturing industry, or conceptual work, explicitly, or implicitly based on manufacturing industry. It is only relatively recently (within the last ten years) that researchers have started taking an active interest in the issue of business development in services firms.

2.2.1 New Service Development

What research there has been into the development of new services has stemmed from research interest into the marketing of services. Conceptual work on the marketing of services has focused on the issue of how products and services differ - Berry (1980), Levitt (1981), Zeithaml et al (1985), Cowell (1984). Five distinguishing factors have emerged from this research:

1) Intangibility - customers can not physically touch or examine most services.

2) Simultaneity - services are frequently produced and consumed simultaneously - the delivery of the service forms part of the service itself.

3) Perishability - services cannot be stocked as can tangible products.

4) Heterogeneity - as the delivery system forms part of the service, any one service can vary between two purchase occasions.

5) Ownership - if production and consumption occur simultaneously, then there is nothing for the consumer to own as a result.

In contrast to these conceptual distinctions, Mathur (1986, 1988) argues that all corporate offerings can be categorised according to customers' perceptions of differentiation. He argues that customers perceive differentiation in two dimensions: **merchandise** and **support** (respectively corresponding to **"items made available to the customer"**, and **"advice, training or assistance offered"**). According to these definitions, Mathur derives a schema of four strategies by which offerings may be positioned in the eyes of customers (this was shown earlier in Figure 1). By "product", Mathur denotes an offering which is differentiated in terms of merchandise, but not in terms of support. By "service", he denotes an offering which is differentiated in terms of support, but not in terms of merchandise.

Of more importance than the technical distinctions between different definitions of products and services is the output-orientation of Mathur's work. He argues that it is more important to focus on the benefits the customer seeks, than on the distinguishing features which mark the offering to be a product or a service.

A number of researchers have directly addressed the phenomenon of new service development (NSD). They have addressed it in the light of how NSD activities differ from NPD activities, given the conceptual differences between products and services - Shostack (1984), Easingwood (1986), Cowell (1988), de Brentani (1988, 1989, 1989a, 1990). Most of these studies, however, have been based on firms in a variety of service industries, in an attempt to discern the characteristics of NSD which are general across service industries, rather than specific to an industry. Studies specific to **financial** services, and to banking, are dealt with in the following sections.

A number of researchers have commented on the **process** NSD; their work is of direct relevance to this study, and is discussed below.

Shostack (1984a) suggests a new service design process (using the example of the introduction of discount brokerage) consisting of two consecutive phases of new service definition, analysis and synthesis, followed by two implementation stages: market introduction and post-introduction audit.

Cowell (1988), building on the notion of the five "distinctive features of services" - Cowell (1984) - suggests six "reasons for developing new services":

- Obsolescence,
- Competition,
- Spare capacity,
- Seasonal effects,
- Risk reduction,
- Opportunities.

He also suggests a set of four "strategic options" open to service organizations; these are similar to the directions of development discussed in section 2.1.6. They are:

(a) Attempting to sell more existing services to existing clients.
(b) Attempting to sell existing services to new clients.
(c) Attempting to sell new services to existing clients.
(d) Attempting to sell new services in new markets.

Cowell (1988) goes on to discuss the new service development process, using a typical sequential model from the NPD literature. In doing so, he comments on how the activities within the process differ from NPD

due to the distinctive features of services, and special issues relating to services marketing.

Different process models of NSD have been put forward by other researchers. Most of these models have been developed from models of the NPD process, and so bear a close resemblance to the NPD process models discussed in section 2.1.7.

Donnelly, Berry & Thompson (1985) offer a six step model:

1. Strategic guidelines,
2. Explanation,
3. Screening,
4. Comprehensive analysis,
5. Development and testing,
6. Introduction.

Highlighting the common heritage of NSD process models in the NPD literature, Johnson, Scheuing & Gaida (1986) propose a similar model, consisting of:

1. Strategy formulation,
2. Idea generation,
3. Analysis,
4. Service design and process development,
5. Testing,
6. Introduction.

Using an approach similar to that of Cooper & Kleinschmidt (1986), Scheuing & Johnson (1989) develop a normative model of the NSD process, consisting of 15 stages:

1. Formulation of new service objectives and strategy,
2. Idea generation,
3. Idea screening,

4. Concept development,
5. Concept testing,
6. Business analysis,
7. Project authorisation,
8. Service design and testing,
9. Process and system design and testing,
10. Marketing programme design and testing,
11. Personnel training,
12. Service testing and pilot run,
13. Test marketing,
14. Full-scale launch,
15. Post-launch review.

Scheuing & Johnson (1989) investigated the usage of the stages in this model in a survey of the chief marketing officers of 400 financial services companies in the US (with a response rate of 16.5%). On a six point scale, from 0 (not at all) to 5 (all the time), all but three of these activities rated over 3 (occasionally). The three activities with lower reported usage were concept testing, service testing and test marketing. More importantly, perhaps:

> "Only slightly over half the respondent institutions use a formal, structured process for new product development and introduction. This finding suggests that new product development may occur by chance in many financial institutions."

Scheuing & Johnson (1989) present their model of the NSD process in the context of a general discussion of the process of developing new services. As their study was conducted exclusively among financial services companies, however, their conclusions are discussed in the next section, which focuses specifically on financial services.

2.2.2 Financial Services

Financial services, and banking in particular, have recently received attention from researchers in marketing and NSD. Most work on banking, however, has focused on the retail sector. Research specifically on commercial banking is dealt with in the next section. The role of product development has been examined both within the context of bank marketing - Meidan (1984), and within the more general context of marketing financial services - Watkins & Wright (1986).

A number of authors have examined NSD in the context of banking strategy. Varadarajan & Berry (1983) give an analysis of the directions of development open to banks. Meidan (1983) examines the marketing strategies available to banks, dividing these into growth strategies and competitive strategies. Carey (1989) discusses comprehensively the issues behind strategy formulation in banks, including industry and market analysis. Different approaches to segmentation of banking markets have been examined by Martin (1986) and Cheron et al (1989). Easingwood & Mahajan (1989) have discussed how financial services can best be positioned for competitive advantage. Stevenson (1989) has addressed the broader issue of product management in corporate banking. Moutinho & Meidan (1989) have examined the effect of new technology on banking product development in terms of its impact on customers, and potential changes in marketing policies.

In the personal financial services sector, Davison et al (1989) have analysed the contribution of market research to product development. They conducted a survey of 375 firms in the UK market, comprising 98 banks, 121 insurance companies and 156 building societies, achieving an overall response rate of 29.3%.

Companies were asked about their NPD activities during the past year; a considerable amount was reported. Over 84% of respondents had developed new products for existing markets, and 50% had developed new products for new markets (an activity which corresponds fairly closely to the definition of NBD in this study).

Although the study of Davison et al (1989) concerns a wider range of marketing issues than this thesis, and focuses on the retail sector rather than the commercial sector, it contains a number of important and similar findings. First among these is that:

> "The development of new products within respondents [sic] organizations did not follow the procedural stages recommended within the literature. Essentially, little market research takes place between the product's conception and its subsequent launch"

Furthermore, the usage of market research at the concept testing stage was observed to be very limited:

> "A major reason for not tracking consumer reaction at this stage was because it was too expensive and time consuming, and not seen as necessary by respondents because of the reactive nature of ideas."

Instead, responding executives made

> "informed guesses... as it was felt that they had enough knowledge about their customer base to know what appealed to them."

Pilot testing of products was generally found to be little used, and considered unnecessary "as financial products incur low downside development costs". Finally, a number of reasons were identified for the limited use of market research in responding firms:

- Ease of copying ideas by competitors;
- Product complexity;
- Cost of research (cases where the cost of failure of the product would be less than the cost of conducting market research);
- Early commitment to launch;
- Lack of consumer interest; and
- The personal nature of financial products.

The study of Davison et al (1989) is important in highlighting the lack of market evaluation, and the lack of formality and structure in the process of developing new financial products. Although drawn from the personal, not the commercial sector, many of their conclusions correspond closely to those of this thesis.

The lack of formality and structure to the new service development process in financial institutions is also a feature of the findings of Scheuing & Johnson (1989), who present ten propositions:

1. Most financial institutions do not have a specialised new product function.

2. Marketing is largely responsible for new products in financial institutions.

3. Marketing research techniques find limited use in the new product development process.

4. The use of a formal new product development process is limited.

5. Most institutions use new product evaluation committees to assess new product ideas.

6. Most institutions use new product project teams to implement new product ideas.

7. New product leaders or champions rarely reap personal rewards from their financial institutions.

8. Profitability is the overriding concern when evaluating new products.

9. Competitors are the most powerful idea source for new products.

10. The overall level of new product activity is limited in most financial institutions.

The research studies quoted in this section have been controlled at the level of "financial services". The contexts observed, approaches used and findings therefore differ widely. The context of the projects studied in this thesis is considerably more tightly controlled: we are concerned exclusively with commercial banks (and with a particular sector of their business). Other studies which have focused specifically on commercial banking are presented in the next section.

2.2.3 Commercial Banking

Studies focusing on the development of new banking products directly are rarer than those addressing financial products or financial institutions in general. Haaroff (1983) describes the history of one commercial banking product development case in detail (the introduction of the International Cash Management Service by Midland Bank). His study focuses on the rationale for offering the product in terms of the customer needs, and goes on to describe the development process and the launch.

Johne & Harborne (1985) have analysed how large commercial banks manage product innovation in terms of the operating structures used for the purpose. In a study comparing three consistently innovative banks with six others, they looked for differences in both formal and hidden operating structures. For the purpose of analysis, the innovation process was considereed as a sequence of activities, split into two stages: "initiation" and "implementation". The principal finding was that the innovative banks controlled initiation activities more loosely, and implementation activities more tightly than the less innovative banks.

One important report on recent innovations in commercial banking has been published by the Bank for International Settlements (1986). This report takes a macroeconomic view of financial innovation. Financial instruments are viewed as combinations of characteristics such as yields, different types of risk, liquidity, pricing and duration. Determinants of the supply of new products are described as technology, regulatory pressure, and competition. On the demand side, five categories of determinants are identified:

1) Price-risk transfer
2) Credit-risk transfer
3) Liquidity enhancement
4) Credit generation
5) Equity generation.

The BIS report provides an analysis of the logic of the supply and demand for new banking products, but does not provide any insight into how banks actually go about developing the products and satisfying the customer needs.

2.2.4 Treasury Products

There were two main reasons for focusing this thesis on treasury products. Firstly, no studies have been found which examine the development of new treasury products from a marketing perspective. Secondly, in the course of preliminary fieldwork, and in the banking literature, it was determined that treasury products has been a principal area of NBD in commercial banking in recent years - McGill & Knight (1988), Ireland (1988), Duker (1989), Buckley (1989), Bartlett (1989), Ducros (1989), Carverhill (1989).

What are treasury products? Under the classification of the BIS report quoted in the previous section, they may be referred to as price-risk transfer instruments. From the perspective of the customer, the Corporate Treasurer of a corporation, treasury products are a means of maximising assets and minimising liabilities, when these are subject to price fluctuation. Firms typically have exposures to risk in foreign currencies, interest rates and commodity markets. Until recently, the main preoccupation of treasurers was with currency risks - McGill & Knight (1988). Thus, basic treasury products have traditionally concerned the trading of currencies, and offering firms the opportunity to eliminate, to define, or to hedge their exposures to fluctuating exchange rates.

Recent developments may be encapsulated in a fourfold categorisation of liability management, according to McGill & Knight (1988):

1) Liquidity risk - the risk arising from having under- or over-committed working capital.

2) Counterparty risk - the risk of default by banks and institutions engaged in lending and borrowing activities with the firm.

3) Interest rate risk - the risk arising from adverse interest rate movements.

4) Currency risk - the risk of adverse exchange rate movements.

Currency risk can be further broken down into three forms of exposure: transaction, translation and economic - Buckley (1989). A transaction exposure arises when a cashflow occurs in a foreign currency which may fluctuate in value against the home currency. A translation exposure arises when fixed assets and liabilities denominated in foreign currencies must be represented on the balance sheet. Economic exposure concerns ability to compete in both home and foreign markets due to exchange rates affecting import and export prices.

There has undoubtedly been an explosion in recent years of the availability of products for the management of the various rate exposures - Ireland (1988), Duker (1989). The stimulus for this thesis is the explanation of the process of development of such products from a marketing perspective, which has not been done before.

2.3 THE ANALYTICAL PERSPECTIVE

In this section, analytical perspectives on evaluation in the NBD process are examined. The majority of prior research in this area has focused on evaluation as a phase or activity in the process. The product of such research is typically lists of evaluative criteria used, and normative mathematical models for evaluating and predicting success. This type of research is shown to be based on the assumptions of rationalistic decision theory which, it is argued, do not hold in the context of treasury NBD.

An alternative perspective is available: the "unstructured decision process", in which evaluation is considered as a "routine" which may occur and recur frequently within the process - Mintzberg et al (1976). As NBD projects are typical of "unstructured decision processes", this is the perspective adopted in this thesis.

The study of "strategy", or "decision-making" as a process has been a feature of a number of recent studies, for example Johnson (1987), Lewis (1988), Mintzberg et al (1990). These are discussed in section 2.3.5.

2.3.1 Evaluation in the NPD process

One theoretical treatment of evaluation in the business development process is that of screening and selection methods for NPD projects. Past research in this field has taken a rational/analytical approach to the process. Theories generally take the form of scoring models, although the level of complexity varies. Such models are likely to be of greatest usefulness in routine decision-making settings such as minor current product and business developments. In this study, NBD is found to be a complex, uncertain and ambiguous setting however, in which the structure and formality of these models is inapplicable. Consequently, it has been necessary to use a model of the evaluation process incorporating the judgmental, informal and political aspects of evaluation which are actually observed in this context.

Nonetheless, the literature on screening and selection of NPD projects is valuable as a source of criteria which are typically used in the evaluation process. The concepts of screening and selection differ from the concept of evaluation used here. Screening and selection models are typically for use at particular points in the project's development. Evaluation is a considerably wider phenomenon, denoting an activity that may be invoked throughout a project as a means of developing an increasingly accurate gauge of its potential, and refining the concept to reflect what the customer requires.

Muncaster (1981) presents a practically derived screening process incorporating a detailed venture screen with eight criteria categories.

Cooper (1981) derives a thirteen element screening model from empirical research into new product success and failure (project NewProd). This, he later develops into a screening system for managers to redevelop their own screening models on the basis of their experiences - Cooper (1985). In this, there are three major categories: market criteria, product advantage and synergy criteria.

Cooper & de Brentani (1984) conducted a study of the screening criteria used in a sample of 45 firms. In order to build a complete list of the criteria used, they conducted personal interviews with the executives responsible for the decisions. Three separate approaches were used: *attribute elicitation* - direct questioning; *modified repertory grid* - comparing recent decisions to focus on differing criteria; *list completion* - where respondents were asked to check off criteria used, from a "comprehensive list... developed from the literature". This process yielded a total of 86 screening criteria.

The 86 criteria were found in practise to be strongly correlated however. Using factor analysis, Cooper & de Brentani (1984) reduced this to a list of eleven screening dimensions:

- product differential advantage
- corporate synergy
- technological and production synergy
- project financing
- financial potential
- size of market
- diversification strategy
- market maintenance strategy
- product life
- rational market
- domestic market

Of these, the most important factors were found to be financial potential, corporate synergy, technological and production synergy, and product differential advantage (accounting for 86.5% of the variance explained by their regression model). Two conclusions are presented. Firstly, "that many managers may over-simplify the screening decision by reducing it to a handful of evaluative criteria" (one contention of this thesis is the converse: researchers have over-complicated the screening decisions actually made by managers). Secondly, "that almost no market criteria are present in these dominant dimensions points to an unbalanced screening approach". It might be contended, however, that market criteria are in fact implicit in any statement of financial potential, and product differential advantage.

De Brentani (1986) discusses the question of whether firms need a custom-designed screening tool. Her research aim is to discover whether firm-specific factors account for significant differences between the evaluation methods used by companies. Seven characteristics which might account for such differences are identified: firm size, growth rate, industry, level of government suppport for R&D, foreign control, innovativeness and risk orientation. The results of the analysis, however, show that none of these factors is significant in explaining differences in screening behaviour. The conclusion is that "common decision criteria used by all managers far outweigh the firm-specific criteria in importance".

Ronkainen (1985) observes the variation of product, market and financial criteria across development stages in four firms. For this purpose, a five phase model of the product development process is used: concept, feasibility, product and process development, scale-up and standardization. Averaging across the four firms,

market criteria were found to be used most at the concept phase, least at the development phase, but increasingly towards the standardisation phase. Product criteria were found to be used most during the feasibility and development phases. Financial criteria were found to be used least at the concept phase, increasing to most at the standardization phase.

Baker & Albaum (1986) in a comparative analysis of four mathematical screening models - conjunctive, disjunctive, lexicographic and linear compensatory - use a checklist of 39 evaluative criteria, categorized into societal, business risk, market acceptance and competitive factors, and demand analysis. Their objective, however, is not to comment on the evaluative criteria themselves, but upon the effects of the different mathematical models in terms of decision recommendation.

Considerably closer to the context of this thesis, one recent study has examined the role of evaluation in the process of developing new financial services: Easingwood & Percival (1991). Their study focuses specifically on the nature and importance of "non-direct benefits" in the evaluation process. Among their contentions is that evaluation "is almost entirely based on the use of financial criteria". They suggest that

> "It is true that criteria of a non-financial nature are included at the new product evaluation stage. For instance the product may be assessed on a number of non-financial criteria that measure how well the new product matches market requirements, but these criteria are included only because they help discriminate between products that are and products that are not likely eventually to be financially successful."

In an analysis that contrasts with the approach of other researchers of evaluation (and certainly with that

of this thesis), Easingwood & Percival (1991) categorise non-financial criteria as "non-direct benefits". By this they denote benefits to the company of developing the new product, which are not directly related to its profitability. They identify six such benefits:

1. Corporate reputation enhancement
2. Existing customers buying more existing products
3. Improved new services development capability
4. New customers buying existing products
5. Improved loyalty of existing customers
6. Helping redirect the company in a new direction

In a survey of managers of responsible for the development of 14 new financial services, these non-direct benefits were found to be accorded a degree of importance not far below that of the direct benefits. Furthermore, the existence of non-direct benefits was found to be correlated with the success of the new services. The viewpoint of Easingwood & Percival (1991) on new service development, to contrast with the approach of this thesis, is exclusively internal. The argument, and indeed the finding of this thesis is that evaluation should focus on benefits to the **customers**, rather than benefits to the company of any new development.

In addition to the issues of how managers should screen and evaluate new products, a number of researchers have actually sought to evaluate methods of evaluation. Baker & Freeland (1975) review the types of quantitative models available for screening and selection. They introduce a model for evaluating these models on the basis of realism, flexibility, capability, usage and cost criteria. Souder (1978) takes a similar approach, introducing a system for using project evaluation methods. In a recent review, Danila (1989)

finds five types of model - consensus, financial score index, checklists, multicriteria and systemic.

Researchers generally attribute the low observed usage of complex quantitative models to a lack of knowledge (of their existence, or of their application) on the part of managers. Souder (1978), however, stresses that all these models have inherent weaknesses founded in their assumptions of the decision-making context. That is, they ignore multiple, non-economic objectives and human and organizational influences:

> "Management science models reflect only the analytical aspects of project evaluation. But in real world project evaluation, decisions are often profoundly influenced by a multitude of organizational and human behavioral factors. Emotions, departmental loyalties, conflicts in desires, coalitions and divergencies in viewpoints, are some of the important aspects not accounted for in management science models. In short, the models are especially weak in their organization behavioral content."

This is precisely the deficiency which renders such models inappropriate to a particularly unstructured context such as that of Treasury NBD. It is somewhat surprising that this assertion has not been built on before; it is quite fundamental to the research approach of the present study.

2.3.2 Evaluative Criteria

The studies cited in the previous section, although specifying many and various evaluative criteria, make no attempt to define these analytically. Day (1983) has proposed in the strategic marketing context, that factors should be considered as internal or external influences. The utility of this classification is apparent in that market factors are primarily external factors:

External: customers, markets, needs, competition, product characteristics as perceived by customers.

Internal: resources, skills, strategy, production capability, synergy, financial performance.

These are not evaluative criteria *per se*, but categories of factors which influence the evaluation process, whether explicitly assessed, or as judgmental or implicit influences. It is the intention in this research to avoid pre-specifying the existence or influence of various elements - criteria or methods - of the evaluation process. However, an indication of the likely breadth and depth of certain of these categories may be gained from the literature quoted in the last section (for example, the study of Cooper & de Brentani (1984), identifying 86 separate "criteria" and eleven screening "dimensions").

The dichotomy of internal and external evaluative criteria is a feature of the working hypothesis tested in this study. Consequently, it is also the basis for the definition of the independent variables and the content analysis schedule (shown in Appendix 3). The

evaluative criteria that appear in the content analysis schedule have been drawn from the empirical studies quoted in the previous section.

The content analysis schedule used in this study contains 61 evaluative criteria. These are drawn from the studies of Muncaster (1981), Cooper (1981), Cooper (1985), Cooper & de Brentani (1984), Ronkainen (1985) and Baker & Albaum (1986). The full list of 86 criteria offered by Cooper & de Brentani (1984) is not used here, however, as it contains too much correlation and near-replication for each criterion to be considered individually useful. For the purposes of analysis, the criteria are divided into internal and external groups. Further, reflecting groupings used by the previous researchers, internal criteria are split into four categories: product, financial, resources, synergy; external criterias are split into three categories: product, market and customer need.

Both the internal and external sets contain a "product" category. This reflects the fact that the product may be thought of, and evaluated in terms of the resources, skills and technologies which go into producing it (internal), or as the features and benefits it embodies in terms of what customers need (external).

The criteria, and their categories are shown in Tables 1. and 2. below.

TABLE 1. EVALUATIVE CRITERIA (INTERNAL)

PRODUCT

- Feasibility
- Ease of service
- Legality
- Organizational support
- Safety
- Technological strength
- Patentable
- Long expected life
- Future development pattern clear

FINANCIAL

- RoI potential
- Cash flows
- Total investment requirement
- Payback period
- Development costs
- Outside funding required
- Complex financing required
- Major customer investment required
- Business risk

RESOURCES

- Financial (capital) resources
- R + D resources
- Engineering skills
- Market Research skills
- Production resources compatible?
- Salesforce resources
- Advertising/promotion skills

SYNERGY

- Fits with present business
- Aimed at current customers
- Fits firms organization
- Fits top management preferences
- Fits corporate strategy

TABLE 2. EVALUATIVE CRITERIA (EXTERNAL)

PRODUCT

- Exclusivity
- Performance
- Newness/innovativeness
- Uniqueness (features)
- Superiority
- Lets customer reduce costs
- Does unique task
- Quality
- First to market
- Price higher than competitors
- Opportunity window
- Differentiation

MARKET

- Size
- Growth rate
- Distribution characteristics
- Relation to present product lines
- Distribution channels
- Political/social factors
- Expected sales growth
- Expected market growth
- Demand fluctuation
- Product lifecycle length

CUSTOMER NEED

- Attitude compatibility
- Level of need
- Learning required?
- Dependence on other products
- Difficulty of communicating benefits
- Promotion
- Service back-up
- Understanding of need
- Buyer behaviour

2.3.3 The Unstructured Decision Process

Most of the past studies of evaluation in NPD have assumed a structured, formal process. In practise these models do not apply well to the context of treasury NBD, which is characteristically lacking in structure and forrmality. An alternative perspective is, however, available. The NBD process can be viewed as an "unstructured", strategic decision process, according to the definition of Mintzberg et al (1976). Their study of 25 strategic decision processes in a variety of organizations is a seminal work in the recognition of the limited applicability of traditional, rational, analytical models to the decision-making process. It was found that decisions could be categorised as follows:

1) Stimulus
   - opportunity
   - problem
   - crisis

2) Solution
   - given (at the outset)
   - ready-made (found during process)
   - custom-made (developed during process)
   - modified (combination)

3) Process

- phases	- routines
- identification	- recognition
	- diagnosis
- development	- search
	- design
- selection	- evaluation/choice
	- authorisation

Eight of the decision processes studied by Mintzberg et al (1976) were business development projects, principally in manufacturing and service organizations.

Of these, six were opportunity stimulated, two were problem stimulated. All represented "custom-made" type solutions (developed specially for that particular decision). All corresponded to a process type referred to as "basic design", and all were concerned with marketing issues. In these processes, design and evaluation routines predominated.

The "basic design" unstructured decision process is the type to which Treasury NBD projects are found most closely to conform. In this context, the NBD process may be characterized as an "unstructured" strategic decision process, typically **opportunity-led, custom-solved** and incorporating principally **design and evaluation** routines.

2.3.4 Evaluation in the Unstructured Decision Process

Mintzberg et al (1976) refer to the "evaluation/ choice routine" as an element of the strategic decision making process. They identify three modes: judgment, bargaining and analysis. **Judgment** is the exercise of choice by an individual; **bargaining** is the use of judgment by members of a group, leading to choice; **analysis** is factual evaluation which forms the basis of subsequent judgmental or bargaining choice. Of these three types, they observe that:

> "Judgment seems to be the most favored mode of selection, perhaps because it is the fastest, most convenient and least stressful of the three; it is especially suited to the kinds of data found in strategic decision making."

Furthermore,

> "The normative literature emphasizes the analytic mode, clearly distinguishing fact and value in the selection phase. It postulates

> that alternatives are carefully and objectively evaluated, their factual consequences explicitly determined along various goal, or value, dimensions and then combined according to some predetermined utility function - a choice finally made to maximize utility."

This pre-occupation with the rational/analytical mode of decision-making was identified as a foundation of the bulk of the literature on evaluation in the NPD process (in section 2.3.1). In contrast, Mintzberg et al (1976) state that their study "reveals very little use of such an analytic approach". Summarising the role of the evaluation/choice routine in unstructured decision processes, they further observe that:

> "Virtually every student of actual selection procedures agrees that the selection of strategic alternatives requires consideration of a great number of factors, most of them "soft" or nonquantitative; as a result they find that the evaluation-choice routine is in practice a crude one. A plethora of value and factual issues, few of them concrete, many involving emotions, politics, power and personality must be considered. This is further complicated by dynamic factors and uncertainty. Thus, the evaluation-choice routine gets distorted, both by cognitive limitations, that is, by information overload, and by unintended as well as intended biases."

This description was found to apply well to the type of evaluation observed in the NBD projects examined in this thesis, confirming the suitability of choosing the overall analytical perspective of the unstructured decision process.

2.3.5 The Strategy Process

This study is concerned with an examination of the role of evaluation in the decision processes of NBD projects. As we have seen, NBD is a phenomenon which has received attention from strategy researchers. Many of these have examined the decision process, and some have commented on the role of evaluation in the process of strategy formulation. Such researchers are mainly concerned however with the issue of what constitutes strategy, and how strategy is formulated, rather than what constitutes business development, and how it is managed. Their work, although not directly comparable, is therefore of considerable interest.

The focus of this study is the NBD project, specifically, the evaluation process within it. In practise, this may or may not be affected by predetermined, explicit strategy; it may or may not include an element of specific strategy formulation. Nonetheless, NBD projects are typical of what are called strategic decisions by strategy researchers, and it is therefore useful to review literature on strategy, particularly that with a process perspective.

Firstly, the concept of the strategy process needs defining. Two major, recent expositions of this subject help - Lewis (1988) and Johnson (1987). Lewis (1988) suggests that strategy research and theories can be conceptualised according to two dichotomies. The first dichotomy is this: strategy may be viewed either as

1) a **process**, or
2) as the **outcome**, or the **solution** of a process - otherwise referred to as the **"content"** of the strategy - Pettigrew (1985), Robinson & Pearce (1988).

These are analogous to the "managerial" and "positional" views of strategy described by Bower & Doz (1979). The positional view is defined as the "pattern of administrative and positional outputs in the relationship of the organization to its environment"; the managerial view, as "the process which generates this pattern of output".

The second dichotomy is: strategy may be viewed either as

1) an **economic/rational** phenomenon, or
2) as an **organizational/social** phenomenon.

This corresponds closely to the dichotomy of man as a **rational** actor or as a **social** actor in organizations - Peters & Waterman (1982). Rational/analytical models of strategy correspond to the former type: Ansoff (1965), Argenti (1974), Hofer & Schendel (1978). Behavioural models correspond to the latter type: Cohen, March & Olsen (1972), March (1978), Pettigrew (1973).

The perspectives generated by these two dichotomies are summarized in Figure 6. overleaf.

FIGURE 6. SCHEMATIC DIAGRAM OF PERSPECTIVES ON STRATEGY

	ECONOMIC/RATIONAL	SOCIAL/ORGANIZATIONAL
PROCESS	Normative business policy models eg Hofer & Schendel (1978)	Political/social process models eg Pettigrew (1973), Burgelman (1988)
SOLUTION	Strategy types; generic strategies eg Galbraith & Schendel (1983), Porter (1980)	Culture/performance models eg Miles & Snow (1978), Peters & Waterman (1982)

Source: adapted from Lewis (1988)

The analytical perspective of NBD used in this study is that of the process. Previous studies of evaluation have also used a process perspective, but predominantly, the economic/rational process perspective. In this thesis, the perspective adopted is the **organizational/ social process**, which corresponds to the "unstructured decision process" of Mintzberg et al (1976). This approach was chosen because it allows for description of the informal, judgmental nature of the evaluation processes in NBD projects. This is not to suggest that rational/economic evaluation does not occur in such projects - merely that it is not found to be a major factor.

Indeed, the adoption of organizational/processs perspective allows the description of both informal, judgmental evaluation and formal, rational evaluation.

This objective is consistent with more recent approaches to the strategy process, which attempt to combine or integrate the economic/rational and organizational/ social perspectives. Examples are Pettigrew (1985), Quinn (1986), Burgelman (1983a) and Johnson (1987).

Johnson's (1987) model of perspectives on the strategy process is important, as it incorporates greater detail, and views perspectives on a continuum, rather than as watertight categories. Johnson (1987) defines three broad approaches:

1. The "rationalistic" view - strategy seen as the outcome of planned search for optimal solutions to defined problems.

2. The "incremental" or adaptive view - strategy as the outcome of both logical and political managerial action undertaken to cope with an uncertain and complex environment.

3. The "interpretative" view - strategy seen as the product of individual or collective sense-making about the organization and environment, in cognitive or symbolic terms.

Although we are not concerned here with an analysis of the "strategy process", we are examining what are often referred to as strategic decisions. Thus it is helpful to characterise the perspective of this study in terms of the three categories described by Johnson (1987). A striking feature of prior research on the evaluation process is that it has exclusively adopted the "rationalistic" perspective. In this thesis, the aim is to demonstrate that the unstructured nature of NBD projects renders the rationalistic perspective inappropriate to an analysis of the evaluation process. In an analysis of the evaluation process itself, it is

found that the incremental perspective affords the greatest insights. If the unit of analysis were the individual, or individuals responsible for evaluation (rather than the *project*), it is likely that the interpretative view would be most appropriate.

2.3.6 The Internal Corporate Venturing Process

According to the schema of Lewis (1988) presented in the previous section, the analytical perspective of this study is that of the social/organizational process. One other, relevant body of research falls into this category: internal corporate venturing.

Littler & Sweeting (1883), report on research into fourteen UK firms' experience with NBD, commenting mainly on strategy and process issues. In later work they suggest a normative, idealised NBD process - Littler & Sweeting (1987). Although they suggest success is linked to the adoption of a strong marketing perspective, firms were found to place strong emphasis on the manipulation of accounting and financial information.

The most significant work on the internal corporate venturing (ICV) process has been that of Burgelman (1983, 1983a, 1984, 1986, 1988).

In an in-depth study of the ICV process in a major, diversified corporation, Burgelman (1983) discerned four stages of development:

- conceptual
- pre-venture
- entrepeneurial
- organizational

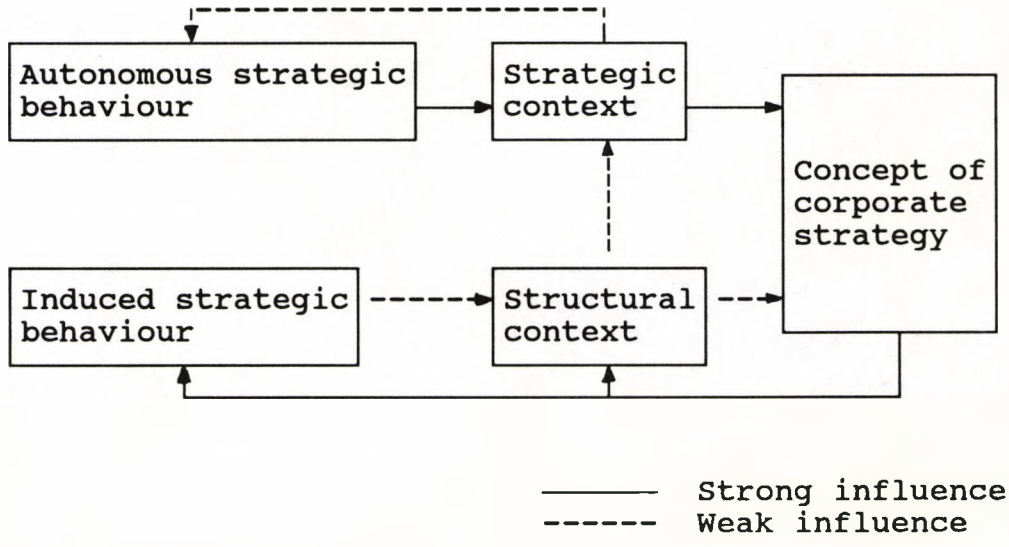
The process model suggested by Burgelman (1983) consists of a matrix of four core and overlaying processes, and three levels of management. The core processes are "definition" and "impetus"; the overlaying processes are "strategic context" and "structural context". The three levels of management are "corporate management", "new venture development management", and "group leaders".

This process model is used to elucidate major problem areas with internal corporate venturing - Burgelman (1984):

- vicious circles in the definition process
- managerial dilemmas in the impetus process
- perverse selective pressures exerted by the structural context

To illustrate the influence of the different levels and different contexts on the ICV process, Burgelman (1983a) also proposes a model strategic behaviour, shown in Figure 7.

FIGURE 7. MODEL OF STRATEGIC BEHAVIOUR



Source: Burgelman (1983a)

In this model the terminology denotes:

Induced strategic behaviour

- behaviour consistent with the firm's strategic planning system, and top-down statements of corporate strategy.

Autonomous strategic behaviour

- entrepeneurial new business activities at the product/market level of the firm.

Structural context

- mechanisms used by corporate management to regulate the activities of strategic actors, eg formalisation, screening criteria, performance measures.

Strategic context

- the efforts of middle management to link autonomous strategic behaviour into the accepted notion of corporate strategy.

Concept of corporate strategy

- more or less explicit articulation of the firm's theory about its past concrete achievements. Definition of "identity" of the firm.

Burgelman's model of strategic behaviour puts into context various elements of strategy research. The proposition that "structure follows strategy", established by Chandler (1962) is included in terms of the influence of structural context on strategic context, and the concept of strategy; the influence is regarded as weak, however. The related view of strategy-making as a top-down process, and exclusively a top management activity is included in terms of the influence of the concept of strategy on induced strategic behaviour. Contrary views of strategic management, such as behavioural (eg Cohen, March & Olsen

(1972) and incremental (eg Quinn (1986)) which stress the role of middle management, and propose that "strategy follows structure" are also included. These are represented by the influences of autonomous strategic behaviour and structural context on the strategic context.

The concepts of "autonomous" and "induced" behaviour can also be used to describe the type of new business development projects which are the subject of this study. We are concerned in this thesis with NBD projects which are initiated and managed at the business level (as opposed to the corporate level), thus conforming to the type of behaviour described by Burgelman (1983a) as autonomous. Consequently, we exclude projects which have arisen on the basis of top-down, explicitly stated strategic directions. This choice is principally due to experimental control, exercised in order to avoid treating autonomous and induced projects as alike. It is also partially due, however, to finding at the preliminary research stage that most Treasury NBD projects do seem fall into the "autonomous" category.

2.4 SUMMARY

This literature review has been split into three major categories: the **phenomenon** of the study, the **business context** of the investigation, and the **analytical perspective** adopted.

In the discussion of the **phenomenon** of the study, it was argued that literature from a number of separate disciplines - Strategy, Marketing and New Product Development - is relevant to the understanding of new business development. In order to gather together the relevant research, it was further argued that there is a need for a unifying conceptual framework. Proceeding from a definition of a business as *a corporate unit serving a discrete set of customer needs with a discrete set of products*, a framework of four constructs was proposed. These were: Competitive Strategy, Organisational Form, Direction of Development, and Process of Development.

Literature on Competitive Strategy and Organisational Form is relevant to an understanding of the context in which NBD occurs. Literature on the Process of Development is particularly relevant to the analytical perspective adopted. Literature on the Direction of Development was used to develop a definition of NBD for the purposes of theoretical precision and experimental control. This was achieved by examining the analytic matrices found principally in Strategy literature, which typically use terms such as "product" and "market" newness as axes. The key to an improved analysis was suggested to be the use of a matrix with the axes "product" and "customer need" (Figure 5). The resulting definition of NBD is "the development of a new product to satisfy a new customer need".

In the discussion of the **business context** of the study, it was highlighted that the literature on NBD has generally issued from the context of manufactured products. In an examination of literature on the development of new services, it was identified that there is much need for further work. Three major issues were raised. Firstly, there is disagreement as to whether services should be seen as fundamentally different from products, or as *types* of offering differing in degree, rather than kind. Secondly, a number of recent research studies on the development of new Financial Services have highlighted a lack of structure and a lack of marketing expertise in the processes studied. Thirdly, previous academic treatment of the specific context of treasury products has focused on the economic basis for their development; no prior study was found to have a marketing or a process perspective. This last issue provides the impetus for proceeding with a marketing study. The first two provide the theoretical justification for assuming this context to be sufficiently different (to the manufacturing context) to demand a descriptive study.

The discussion of literature on the **analytical perspective** of the evaluation process highlights two key issues. Firstly, there have been a large number of studies of evaluation and screening in NPD. These have typically reported or assumed a rationalistic and highly systematic approach, and focused on the evaluative criteria used in great detail. Secondly, there have been several strategy studies that have focused on the process of decision-making. These have highlighted that evaluation and choice in unstructured contexts such as NBD are conducted in an intuitive, judgmental manner. According to one recent classification, therefore, this study's perspective on evaluation is as a process (rather than a solution) and as an organisational/social (rather than an economic/rational) phenomenon.

CHAPTER 3. RESEARCH AIMS AND METHODOLOGY

The purpose of this chapter is to describe the research methodology chosen, and to explain the logic of adopting this methodology to fulfil the stated aims. The methodology chosen is that of the case study. The research design consists of multiple case studies, in each of which the same set of hypotheses is tested.

3.1 RESEARCH AIMS

The research aims are:

1. to describe the nature and importance of evaluation in NBD projects in the treasury divisions of large commercial banks;

2. to establish a classification of projects according to observed differences in evaluation;

3. to test the proposition that success in NBD projects is associated with evaluation in which greater importance is attached to external criteria than internal criteria.

The logic of choosing these objectives as the research aims is grounded in prior reported research. As discussed in Chapter 2, the phenomenon of NBD may be conceptually well defined on the basis of past research. The context of the the bulk of this research, however, has been manufacturing industry.

The first research aim is descriptive: to describe the role of evaluation in NBD projects *in the context of the treasury business of large commercial banks*. It is

because NBD is largely unresearched in this context that this descriptive aim is a critical foundation of this thesis. That the phenomenon has not previously been described in this context is not enough, however, to justify making the descriptive aim a key feature of the research.

If extant literature on the conceptual similarities and differences between products and services had been conclusive, a number of working assumptions about the context could have been made. This would have allowed greater prominence to the experimental aim of theoretical replication of hypotheses. Two factors militated against this approach. Firstly, there is disagreement in the literature on conceptual differences between products and services, and between the processes of developing new products and services. Secondly, preliminary fieldwork showed quite clearly that the process of development of new treasury products is not of the structured, formal nature that would have been expected on the basis of the NPD literature.

The premise for making the description of the context of the NBD process in which evaluation takes place the primary goal of the research is therefore as follows. We do not have any prior description of the NBD process in this context, but we have reason to believe, on the basis of preliminary fieldwork, that it differs considerably from the process described in the traditional context of manufactured products. We wish, ultimately, to test hypotheses positing associations between *success* and the *relative importance attached to internal and external criteria* in the evaluation process. In order to do so, however, we must either: i) have an accurate description of the process and its elements; ii) have sufficiently solid conceptual backing to make working assumptions in order to interpret the observed process; or iii) establish empirical

descriptions of the process in sufficient detail to lend confidence to the abstractions made for hypothesis testing.

The logic of this argument is similar to that of Bonoma (1985) in his advancement of the "research continuum": description, classification, comparison, measurement/estimation, establishing association, determining cause and effect (the implications of which are dealt with in the next section). The important precept attached to this continuum is that in order to carry out research at any point, all the prior stages must already have been fulfilled. Thus, if the ultimate objective of this research is to be the establishment of associations, in the absence of prior research which describes, classifies, compares and introduces means of measurement, we must also achieve these.

The first and third objectives have already been explained: description and establishing association. These two, with reference to the quoted continuum, define the scope of the enquiry. The intermediate objective (which we have called the 'second' research objective) is classification. It is necessary to provide the justification for why classification is chosen from the intervening stages on the continuum as a separate aim.

The reason is that, in designing a deductive experiment, prior to the execution of the fieldwork, it was necessary to borrow constructs from previous research in order to introduce classification and measurement. The establishment of these constructs is an essential adjunct to the design of such an experiment. They were established before the fieldwork execution, specifically to support the experiment, and *not* subsequently, on the basis of the descriptive findings. This is what qualifies the classifications

and measurements of success/failure and internal/ external evaluative criteria as elements of the experimental design, rather than research aims. This is also why "classification" receives separate attention as a research objective.

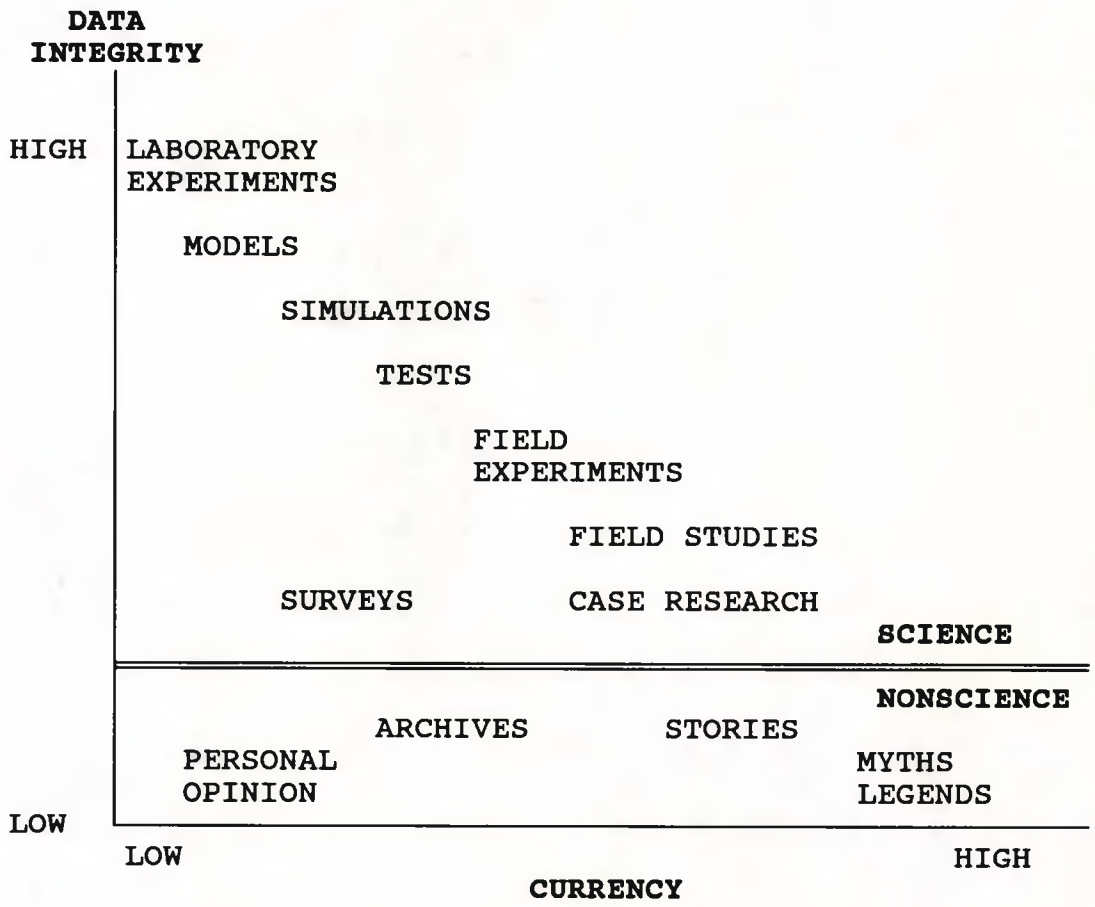
In a research design which focused exclusively on description and deductive hypothesis testing, there would be two risks. Firstly, that the pre-specified constructs may in practise apply poorly to the classification and measurement of the phenomenon. Secondly, that they may apply well, but that they classify and measure according to elements of the process which are relatively trivial. In designing this research study, it was clear, after preliminary fieldwork, that these risks were both high in this case. Thus the objective of classification according to *observed* differences in evaluation was introduced. This aim is fulfilled by the inductive process of examining the case studies and *comparing* them (indepedently to testing for association, which is deductive, and on a case-by-case basis).

3.2 CASE STUDY METHODOLOGY

The logic of adopting the case study approach lies in the scope of enquiry defined by the research aims, as stated in the previous section. Thus, a research methodology was required which would allow for i) description of the phenomenon in the new context; ii) classification of observed differences in the phenomenon; iii) the testing of propositions derived from previous research. The methodology that suits these purposes best is that of the case study.

The case study has only relatively recently received formal recognition as a research strategy in its own right. Yin (1984) distinguishes it from experiments, surveys, archival analysis, and history. Bonoma (1985) positions case research on a graph with the axes "data integrity", and "currency". By data integrity, he denotes "internal validity" and "reliability"; by currency, he denotes "generalizability" and "contextual relevance". On this graph (shown below in Figure 8), methodologies are shown ranging from high integrity, low currency to low integrity high currency. Bonoma (1985) comments that within any methodology, researchers aim to maximise both currency and data integrity, but that there seems to be a necessary trade off between the two.

FIGURE 8. RESEARCH METHODOLOGIES



Source: Bonoma (1985)

It is for the very reason that case research is positioned close to the boundaries of "science" and "nonscience" that it has only recently received formal recognition as an independent strategy. The argument forwarded by Bonoma (1985) in favour of case research is that it is an essential early point in a continuum of research methods. Bonoma's suggested research continuum, which draws on the work of Simon (1978), McGrath (1982) and Cook & Campbell (1979) is:

> description,
> classification,
> comparison,
> measurement/estimation,
> establishing association,
> determining cause and effect".

The presumption is that at each step of the continuum in any field, studies of the preceding types have been undertaken:

> "For instance, without evidence of association there is no *a priori* reason to consider issues of cause and effect. Similarly, until a phenomenon has been described, it cannot be adequately classified nor can operational measures be defined. In this sense, studies toward the description end of the continuum might be associated more frequently with *theory building*, whereas those near the cause-and-effect end are more frequently used for *theory disconfirmation*."

The implication of Bonoma's argument is that case research is a valuable tool for description and grounding of theory - Glaser & Strauss (1967) - where the existing body of knowledge and theory is poorly developed.

In contrast, Yin (1984) argues that case research may be used for exploratory, descriptive or explanatory purposes. His reasoning is that research strategies

should be distinguished not by the type of hierarchy or continuum suggested by Bonoma (1985), but by a set of three principles. These are: i)the type of research question posed, ii)the extent of control the investigator has over actual behavioural events, and iii) the degree of focus on contemporary as opposed to historical events. Yin (1984) uses these three principles to construct a table of appropriate situations for different research strategies - this is shown below in Table 3.

TABLE 3. APPROPRIATE SITUATIONS FOR RESEARCH STRATEGIES

STRATEGY	FORM OF RESEARCH QUESTION	REQUIRES CONTROL OVER BEHAVIOURAL EVENTS ?	FOCUSES ON CONTEMPORARY EVENTS ?
Experiment	how, why	yes	yes
Survey	who, what*, where, how many, how much	no	yes
Archival analysis	who, what*, where, how many, how much	no	yes/no
History	how, why	no	no
Case study	how, why	no	yes

* "What" questions, when asked as part of an exploratory study, pertain to all five strategies.

Source: Yin (1984)

In the case of this thesis, it has already been established in the literature review that NBD may be well defined conceptually. We have also seen that

evaluation has been demonstrated to have an important role in the NBD process in the context of manufactured goods (in which the bulk of the previous research has been done). Thus, the form of the fundamental **questions** behind this research study is not "what is new business development?", but "how are new business development projects managed in the context of commercial banking?". However, it has also been noted that there are conflicting models of the process of NBD management, and of the role of evaluation. Therefore we must also ask "what is the nature of evaluation in the NBD process?" and "how is evaluation associated with the success of NBD projects". Within this range of questions there are exploratory, descriptive and comparative aims - the chosen research methodology reflects these wide objectives.

Concerning the degree of **contemporaneity** of the events being studied, it is not possible in a short research study to observe contemporary events longitudinally (although this would be highly desirable from the viewpoint of data integrity). A retrospective approach is necessary. In this case, projects were studied that had taken place during the last three years (ie. the three years prior to commencement of the field study). The events studied are more contemporary than historical in that the data available are more in the form of recollections than of records (although in a more systematically managed environment it is likely that considerably more written record would be available).

Finally, in a retrospective study we have no **control** over the behavioural events except insofar as we may choose only to include certain cases according to the presence of set criteria. When the context is largely unknown, however, there is not even much scope for the introduction of selection controls to form a quasi-

experiment. This is the case with this research study, although every effort was made, at the stage of selecting projects for study, to ensure that the projects were comparable in nature (see Chapter 4 for a discussion of the controls used in project selection).

Yin (1984) summarises the points made in Table 3. by noting that the case study as a research strategy has a distinct advantage when:

> "A 'how' or 'why' question is being asked about a contemporary set of events, over which the investigator has little or no control."

Thus the case study strategy is well suited to the investigation of the phenomenon of NBD in the chosen context of the treasury business of commercial banking. Case study methodology is particularly suited in this instance, as the objective is to describe and explain the evaluation process in NBD projects (which are viewed analytically as decision-making processes). This corresponds well with the assertion of Schramm (1971) that the central feature of a case study is "that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result".

Having described the reasoning behind the use of case study methodology for this research, two definitions of case studies may be cited to describe the form adopted here. Bonoma (1985), propounding the value of the case study as a research strategy in the field of Marketing, defines a case study as:

1) a description of a management situation;
2) using multiple data sources;
3) sensitive to the context in which the events occur;
4) involving direct observation of management behaviour.

As has been noted before, this study does not focus on absolutely contemporary events, and can not therefore be described as direct observation. The fourth qualification of Bonoma's definition is however intended principally to preclude the use of previously compiled cases.

Yin (1981), in a more general analysis of the features of the case study approach in comparison with other research strategies, defines a case study as an empirical enquiry that:

1) investigates a contemporary phenomenon within its real-life context; when
2) the boundaries between phenomenon and context are not clearly evident; and in which
3) multiple sources of evidence are used.

Given the qualifications on contemporaneity and direct observation, these definitions encapsulate the methodological approach used in this research study.

3.3 RESEARCH DESIGN

In the previous sections, the aims of this research, and the chosen methodology have been discussed. Within the case study approach though, a number of research designs are possible. It is now necessary to explain the chosen design, and to elucidate how this serves to fulfil the stated research aims. Yin (1984) identifies five components of research design relevant to case study research:

1) The study's questions;
2) Its propositions;
3) Its unit of analysis;
4) The logic linking the data to the propositions; and
5) The criteria for interpreting the findings.

The study's questions are the research questions, the form of which was discussed in the previous section. The propositions are the working and supoorting hypotheses. The unit of analysis for each case is the NBD project. The logic linking the data to the propositions consists of the dependent and independent variables of the experiment, and the constructs used to define these. The criteria for interpreting the findings are the benchmarks to which the results are compared in order to establish their true relevance.

3.3.1 The Research Questions

As explained in section 3.2, the specific experimental aim of this thesis defines a wide scope of enquiry for the whole research study. The experimental aim is encapsulated in the fundamental research question of the thesis:

> To what extent is NBD project success associated with the relative importance attached to internal and external criteria in the project evaluation process?

This question is stated in a manner which makes it clear that the aim is to test for the existence of an association. The posited association, between **success** and the relative **importance** attached to internal and external criteria is embodied in the research propositions. These, in the form of working and supporting hypotheses are presented in the next section. The important fact about the research question stated above is that it defines the limits of the scope of enquiry at **association.** Due to the absence of previous descriptions, comparisons and classifications in this particular context, these objectives must also be satisfied in this study.

Thus the following questions are also asked in this study, in order to describe the context and classify the projects.

> By what process are NBD projects managed in the context of commercial banking?

> What are the important elements of the decision-making process in this context?

What is the nature of evaluation in the NBD process?

How important is evaluation to the managers of NBD projects in this context?

How important is evaluation to the success of NBD projects?

What are the important evaluative criteria in NBD projects in this context?

These are the general questions which define the type of information sought from interviews with the executives responsible for managing the selected NBD projects.

3.3.2 The Research Propositions

The experimental aim of this research study is to test deductively the working hypothesis. The working hypothesis embodies the main proposition of the thesis, which postulates an association between project success and evaluative criteria. Before stating the working and supporting hypotheses and explaining their derivation, two features of the experimental design need to be clarified. First is the use of replication logic in a multiple-case design. Second, the aim for theoretical replication - the prediction of opposite results in cases which are successful and those which are failures.

Replication logic is a feature of multiple-case study designs which distinguishes them from surveys and quasi-experiments. In a survey or a quasi-experiment of a sample of firms or organisational units, the basis of the experimental design is **sampling logic**. According to

Yin (1984), replication logic is analogous to the use of multiple experiments, in each of which a similar result is predicted. By contrast, according to sampling logic, data taken from a number of subjects is assumed to represent the data that might have been collected from the entire population of such subjects. Yin (1984) states that:

> "sampling logic demands an operational enumeration of the entire universe or pool of potential respondents, and then a statistical procedure for selecting the specific subset of respondents to be surveyed. This logic is applicable whenever an investigator is interested in determining the prevalence or frequency of a particular phenomenon and when it is too expensive or impractical to survey the entire universe or pool. The resulting data... are assumed to reflect the entire universe or pool, with inferential statistics used to establish the confidence intervals for which this representation is actually accurate."

Yin (1984) goes on to argue that sampling logic is misplaced in case study designs which are not concerned with the incidence of phenomena, but with establishing and describing the contexts in which phenomena take place.

Following a replication logic, each case in a multiple-case design is viewed as an individual experiment. The same hypotheses or propositions are tested in each case, and the aim is to replicate the results of the tests across the cases. The implication is that contrary results must be explicable in terms of the contexts of the cases, if the theory is to hold.

Within a multiple-case design, two types of replication logic are possible: literal replication and theoretical replication. Yin (1984) describes these as follows:

> "Each case must be carefully selected so that it either (a) predicts similar results (a *literal replication* or (b) produces contrary results but for predictable reasons (a *theoretical replication*)"

Theoretical replication is the experimental design adopted in this thesis. The working hypothesis is couched in such a way that it yields two principal supporting hypotheses. The supporting hypotheses state the theoretically opposite propositions that are to be tested in the two sets of projects (successful and unsuccessful).

3.3.2.1 Working Hypothesis

The working hypothesis tested in this study is that:

NBD project success is associated with high relative importance of external to internal criteria in the project evaluation process.

The working hypothesis is deliberately couched in terms that reflect the experimental design by which it will be tested. It posits an association between the importance of evaluative criteria and project success. The phrase "NBD project success" reflects both the unit of analysis - the NBD project - and the dependent variable - the success of the project. Internal and external criteria are the constructs by which the project evaluation process is analysed. The importance of these evaluative criteria is the basis for the definition of the independent variables. The importance is defined in relative terms (between external and internal criteria). This is so that the theoretically contrasting propositions may have opposite direction (success - high relative importance; failure - low relative importance).

The theoretical basis for the working hypothesis is the assertion that new product and business development should be led by the market, or by the customer need - Johne & Snelson (1988a, 1990), Cooper (1988), Walker & Ruekert (1987), Anderson (1982), Shiner (1988), Day (1981). It follows from this assertion that success in NBD will occur when the evaluation of the market and the customer need has been done sufficiently well that the new offering reflects the demands of customers precisely. This corresponds with the proposition that it is particularly important to conduct market evaluation thoroughly at an early stage of the development process - Cooper & Kleinschmidt (1986), Cooper & de Brentani (1984), Ronkainen (1985).

The hypothesis is actually stated in terms of "external" (market related) and "internal" (resource related) criteria. The hypothesis associates success with high relative importance of external criteria. This is a reflection of the proposition common to the researchers quoted in the previous paragraph that the market need is more important to the development than the technical capability to develoop new products. The view is perhaps summed up by Johne & Snelson (1988a), who argue that "the marketing function has on balance a more important contribution to make in identifying and initiating product development options than the technical function".

3.3.2.2 Hypothesised Associations

Implicit in the working hypothesis are two principal associations. The hypothesised associations concern the differences between the importance attached to internal and external evaluative criteria in each project. According to the objective of theoretical replication,

opposite results are predicted in successful and unsuccessful projects. External criteria are predicted to have higher importance than internal criteria in successful projects (those that have met with commercial success). Internal criteria are predicted to have higher importance than external criteria in unsuccessful projects (those that have been stopped or terminated after considerable development). This is illustrated in the schema shown below in Figure 9:

FIGURE 9. HYPOTHESISED ASSOCIATIONS

(Importance of)	Successful Projects	Unsuccessful Projects
External Criteria	HIGHER	LOWER
Internal Criteria	LOWER	HIGHER

The associations shown in this schema form the basis of the definitions of the supporting hypotheses, which are stated in the next section. A corollary of the adoption of the replication logic for the experimental design is that the hypotheses are tested **within** each case, rather than between cases. Thus, although it would appear to be possible to make comparison between successful and unsuccessful projects according to the schema in Figure 9, this is **not** an experimental aim. The supporting hypotheses relate only to the vertical relationships (ie. within cases) in the above schema.

3.3.2.3 Supporting Hypotheses

The supporting hypotheses are stated as follows:

1. In **successful** projects, greater importance is attached to external criteria than internal criteria in the evaluation process.

2. In **unsuccessful** projects, greater importance is attached to internal criteria than external criteria in the evaluation process.

For the purpose of testing, these supporting hypotheses are restated, operationalising the concept of "importance" in terms of the **range** of criteria used, the **depth** of evaluation, how **early** in the process it occurs, and what **impact** it has on the development. The logic behind this operationalisation is described in section 3.3.4 which discusses the dependent and independent variables. The detailed supporting hypotheses are shown below.

DETAILED SUPPORTING HYPOTHESES

1. Supporting hypotheses concerning the difference in importance of internal and external criteria in successful projects.

H1. In **successful** projects, greater importance is attached to external criteria than internal criteria in the evaluation process.

H1.1 A wider range of external than internal criteria is used in the evaluation of successful projects.

H1.2 External criteria are evaluated in greater depth than internal criteria in successful projects.

H1.3 External criteria are evaluated earlier than internal criteria in the development of successful projects.

H1.4 Evaluation of external criteria has a greater impact than evaluation of internal criteria in successful projects.

DETAILED SUPPORTING HYPOTHESES

2. Supporting hypotheses concerning the difference in importance of internal and external criteria in unsuccessful projects.

H2. In **unsuccessful** projects, greater importance is attached to internal criteria than external criteria in the evaluation process.

H2.1 A wider range of internal than external criteria is used in the evaluation of unsuccessful projects.

H2.2 Internal criteria are evaluated in greater depth than external criteria in unsuccessful projects.

H2.3 Internal criteria are evaluated earlier than external criteria in the development of unsuccessful projects.

H2.4 Evaluation of internal criteria has a greater impact than evaluation of external criteria in unsuccessful projects.

3.3.3 The Unit of Analysis

The unit of analysis in this study is the NBD project. This particular unit was chosen for a number of reasons. Primary among these was that the research aims are to describe the evaluation that takes place in the course of NBD, and to test for associations with success.

To choose a unit of analysis other than the individual project would have necessitated abstracting from the evaluation which was *actually* carried out to the general principles. For example, possible alternative units of analysis for this study could have been the NBD project; the executive or executives responsible for the project; the team or group of executives responsible for NBD; the ongoing program of business development projects within a business unit; the business unit itself; the corporation. Among these, the NBD project is the most specific, the most readily delimitable, and more importantly, the level of analysis at which it is easiest to focus on the actual activities carried out.

It was considered of foremost importance in selecting the unit of analysis, that the research design should enable an examination of what evaluation was conducted and how this was done. At the higher levels of analysis represented by the forms listed above, it would have been impossible to avoid generalising evaluation from an activity to a principle. The dominant form of questioning would have had to be "what factors do you take into account when evaluating NBD projects?". Responses to questions eliciting principles or generalisations, however, are only likely to give an accurate picture of processes which are formal, structured, and consistent between applications. This

is emphatically not the case in treasury NBD in commercial banks. The likely result of pursuing the "what generally happens?" or "what typically happens?" line of enquiry is opinion about best practice, rather than actual practice.

Another problem of selecting a wider unit of analysis than the project is the issue of delimiting its boundaries. Although the project is the most common unit of analysis in NPD research, some researchers have focused on the product development program - Cooper (1984, 1985), Johne & Snelson (1988a, 1988b). The argument for preferring the program as the unit of analysis is that a single successful project does not necessarily lead to a successful program (alternatively, a successful new business development program is crucial to general business success, whereas a successful NBD project is incidental).

Leaving aside the objections to the program as a unit of analysis on the grounds of poor focus on the phenomenon, it is still possible to argue that a successful program is nothing more than a series of successful projects. Following this argument, if we find success factors which are general to projects, then these are also general to successful programs. If, on the other hand, we cannot find success factors general to projects, then we must conclude that success factors are unique to successful programs, and make it a priority to use the program as a unit of analysis in future. There is no evidence to assume that the latter case may be true though, so the argument cannot be considered detrimental to the selection of the project as the unit of analysis.

Success, in particular the measurement of success is in fact another important reason behind the selection of the project as the unit of analysis. In the

unstructured environment which is found to be typical of treasury NBD projects, there appears to be no common definition of what constitutes success, and indeed little or no attempt to measure or gauge the success of NBD efforts at any level. Where projects themselves are unstructured and irregular, the concept of the program has little applicability. Where specific success criteria are not specified for projects, they are certainly not specified series of projects, whether these form definite programs or not.

These arguments have largely concerned what prevents the selection of different units of analysis. There were equally a number of positive reasons for the adoption of the NBD project in this study:

- The analysis is focussed on the activities which were actually undertaken during the project.

- Success can be adequately defined, in terms of the commercial success or failure of the project (according to the criteria of the institution).

- The presence, absence or manner of evaluation in each project can be linked directly to its success or failure.

- The boundaries of the project can be clearly delimited by the idea's conception, and the subsequent launch or dropping of the product.

- The type of business development involved can be controlled closely - that is, NBD, or the development of a new product to satisfy a new customer need.

- The project is a familiar entity to the executives involved with NBD, which aids the selection

procedure, and establishing the boundaries of what is required in data-gathering.

In addition to being a major factor in selection of the unit of analysis, success is also what is operationalised as the dependent variable of the experiment. This, together with the logic behind the defeinition of independent variables is discussed in the next section.

3.3.4 Dependent and Independent Variables

The dependent and independent variables are defined in order to link the data to be gathered and analysed to the propositions to be tested. From the statement of the working hypothesis, it is clearly evident that the dependent variable is success in new business development. From the definition of the unit analysis as the NBD project, it follows that the variable must be defined in terms of project success.

The **dependent variable** is NBD project success. For experimental purposes, this is not measured on a quantitative scale, but dichotomised between "successful" and "unsuccessful" projects. Successful projects are defined as those which have met commercial objectives, and "unsuccessful" projects, those which have not, or which have been terminated after a significant amount of development work, but before launch.

The dichotomisation of success and failure is a common approach in the field of NPD, in the absence of sufficiently objective measures of successful performance to create a meaningful scale. In this case, it is a necessity, as the objectives and criteria for

gauging the success of projects are simply not made explicit by executives in this context.

The definition of the independent variable is also initmated in the statement of the working hypothesis: the relative importance attached to external and internal criteria in the evaluation process. The precise definition is also presupposed in the statements of the detailed supporting hypotheses. In fact, the concept of the "importance" which is attached to the various evaluative criteria is deconstructed into four elements which, combined together, form the definition of the independent variable - importance. These are:

a) **Range** of criteria (wider range, higher importance)
b) **Depth** (greater depth, higher importance)
c) **Timing** (earlier use, higher importance)
d) **Impact** (greater impact, higher importance)

Just as the basic constructs for what is being measured (the evaluative criteria) are drawn from the literature on evaluation and screening in the NPD process, so is the reasoning for the definition of importance. It is an argument common to all researchers of evaluation and screening that a more complete process is better - Muncaster (1981), Cooper (1981), Cooper (1985), Cooper & de Brentani (1984), De Brentani (1986), Ronkainen (1985), Baker & Albaum (1986). Thus we conclude that the wider the range of criteria used *within a category* (internal or external), the more importance has been accorded to that category in the evaluation process. A similar reasoning applies to the depth of the analysis - the greater the detail or depth in which an individual criterion is examined, the greater importance is being accorded to that criterion. Also common to the researchers quoted above is the notion that the earlier in the process evaluation is carried out, the more important is its effect. Finally,

the notion of the impact of evaluation on the process is introduced here - it is not found in the quoted literature. Essentially, the logic is that if a criterion is evaluated, and the evaluation subsequently ignored in the development process, then it has had no impact; by contrast, if the result of evaluation is acted upon directly, then that criterion **has** had a significant impact on the process. Curiously enough, there are incidences in the cases studied in this thesis where evaluation of an important criterion has been carried out, and then overlooked. Such evaluation can not be described as having had much importance attached to it.

3.3.5 Content Analysis Schedule

Three of these four elements - depth, stage and impact are operationalised in the content analysis schedule (see Appendix 3). "Range", of course refers to the number of criteria actually used in each of the two categories - internal and external. In order to use these elements to measure the importance attached to each individual criterion, they are dichotomised. Thus, great depth scores 2, while superficial depth scores 1. If a criterion is evaluated at an early stage of the process, it scores 2, if at a late stage, 1. If a criterion has had a significant impact on the process, it scores 2, if not then 1.

In the analysis of these figures, each criterion which is found to be used is given a score. The score for each criterion is multiplied across, and can therefore be between 1 (1x1x1) and 8 (2x2x2). To establish the importance attached to evaluative criteria within each category, the scores of the individual critria are added together. Thus the final result of

the analysis is two figures for each case, one representing the imporatnce attached to internal criteria, the other representing the importance attached to external criteria. These are the figures used to test the stated supporting hypothesis in each case.

3.3.6 Criteria for Interpreting the Findings

As there has been so little research previously in this context, there are few benchmarks to compare the results of the hypothesis tests with directly. What it is neccessary to state though, is that the results of the hypothesis tests are only meaningful insofar as the constructs they are based upon are found to apply in the context of the study. Thus, if it is found that evaluation is a largely ignored activity in the NBD process, then few criteria will be evident. In the scenario where only a small number of criteria are evaluated, and these with little depth or impact, the results of the hypothesis tests are largely meaningless. A similar conclusion would hold if evaluation were to occur, but not using the criteria specified in the content analysis schedule.

Thus, it is important that the findings of this thesis are not limited to the results of testing the stated hypotheses. In fact, this was taken into account in the research design, by defining the research aims in wider terms. In the scenario where little can be drawn from the hypothesis tests, it is still possible to look to the descriptive and classificatory findings for explanations as to why this is so. Furthermore, in the event that the constructs used are found to apply poorly, the descriptive findings are of use in suggesting constructs that may be applied to future examinations of NBD in this context.

CHAPTER 4. THE FIELD STUDY

The aim of this chapter is to describe the fieldwork undertaken. Two stages of fieldwork were employed. Preliminary research at an early stage was used to narrow the field of enquiry and to help define the phenomenon, the appropriate analytical perspective, the unit of analysis and the experimental controls. Observations made at the preliminary stage were subsequently used in constructing the second stage: the full field study.

In this chapter, the questions addressed at the preliminary fieldwork stage are discussed first. The design and execution of the full field study are then covered in detail. The practical parameters about which the experiment was designed are explained with reference to the previous discussion of methodology. The process of selecting banks to be the subjects of study is described, followed by the method of approaching the chosen institutions to request access. The selection of individual projects for the study is covered, and the final section deals with the gathering of data for analysis.

4.1 PRELIMINARY RESEARCH

Two stages of preliminary fieldwork were employed. The aim of each of the stages was to narrow the scope of the enqiry. The first stage was focused very broadly on the phenomenon of the study (NBD). The second stage was focused specifically on the chosen context of commercial banking.

4.1.1 Stage 1: Phenomenon

At the time the first stage of preliminary fieldwork was executed, a literature review of the phenomenon of new business development had been carried out. The context and analytical perspective of the full study remained to be defined however, and it was to this end that the preliminary fieldwork was devoted. From the literature survey, it was clear that most of the prior research had been conducted in the manufacturing sector, and that little work had been done in the context of financial services. A number of research designs were possible for the full study, including either or both of these contexts, so both were included in the initial research. Furthermore, several analytical perspectives were under consideration: the role of the product champion; the role of the marketing executive; the business development control structure (corporate or business level control); the strategy formulation process; the evaluation process. Thus, the initial research was also geared to finding out which of these issues were considered important by business development executives.

The form of the initial preliminary research was semi-structured interviews with business development managers. The method of selection was as follows. A list of large banks and high technology industrial corporations based in the UK was drawn up, representing the two contexts of interest. The corporate membership list of the Strategic Planning Society was then scanned for those firms which had representatives at the society. Among these, the representatives who were formally designated *business development directors, managers or executives* were selected.

A total of twenty companies were approached. A letter delineating the aims of the research study and requesting an interview was sent directly to the executives on the list. This was followed up by telephoning shortly after the mailing, with the following results. In six cases, a meeting was immediately arranged with the executive approached. In a further six cases, meetings were organised with business development executives other than those approached directly. In three cases, meetings were arranged with two executives with different business development responsibilities. Three of the executives approached declined to participate on the grounds that their organisations were UK subsidiaries of major multinationals in which business development policy and decision making occur centrally. Three expressed an interest in participating, but were not able to make time for an interview immediately owing to time pressures. Two declined to participate without offering a reason.

The questions asked at the interviews at this initial stage were designed to identify i) how important NBD is in relation to other business development activities; ii) which types of business development are managed at the business level, and which at the corporate level; iii) whether any of the firms had a predominant focus on any particular means of managing NBD (that is, by acquisition, joint venture, or organic growth); iv) by what criteria the success of new business development is actually measured.

The answers to these questions formed the basis of decisions concerning the context and the analytical perspective, made in order to proceed to the next stage.

4.1.1.1 Level of Focus

Analysis of the responses showed that NBD was broadly recognised among the business development executives interviewed, but not universally accorded a great deal of importance. There appeared to be two contexts in which NBD is important, which have sharply different managerial implications. First is the organic growth of new business out of existing business. This was typically managed by executives responsible for new *products*, working in development teams within the organisation structure for the management of existing business (what may be described as the business *level* of the firm). Second is the acquisition of new business by purchase of other companies. This was found to be controlled by executives working at the corporate centre, independent of the existing business units.

The distinction between these two types of NBD is not simply a matter of the level of the organization at which they take place. In fact, the activities undertaken by managers of corporate and business level NBD are entirely different. The manager of corporate level NBD is concerned with issues which relate to the "fit" of the new business to the existing business, both in terms of products, markets and the structure and culture of the acquired business. Managers of NBD at the business level are more typically concerned with developing products to fulfil and even anticipate customer needs. The distinction can be drawn broadly (within the limits of the generalisation) by noting that strategic and organizational issues are the principal concerns at the corporate level, whilst products, markets and customer needs are the main issues at the business level. Drawing this distinction practically was an important step in refining the context of the final study.

As the overall aim of this study was to examine the role of marketing in successful new business development, the logical step was to focus at the level at which marketing activity takes place. This is primarily at the business level. The decision to focus at the business level reflects not only the practical finding of the preliminary research, but the theoretical distinction proposed by Burgelman (1986) (discussed in Chapter 2). The distinction between corporate and business level NBD is similar to Burgelman's distinction between "induced" and "autonomous" strategic behaviour. Induced strategic behaviour, consisting of managerial action within the framework of stated, top-down corporate strategy, corresponds to business development at the *corporate* level. Autonomous strategic behaviour, consisting of initiatives taken at the product/market level of the firm which are **later** justified in the context of strategy, corresponds to business development at the *business* level.

The decision to focus on business level NBD is a matter of research design which has certain implications for the selection of the unit of analysis - these will be discussed in the next section. This decision also narrowed the scope of the choice of analytical perspective however. Examining NBD in terms of strategy formulation, or in terms of the style of corporate control would only be relevant at the corporate level. It was clear from the responses in the initial fieldwork that evaluation was considered an important issue, and also that there was some doubt as to how well it was done. This suggested that it would be profitable to focus on evaluation as an analytical perspective, but that choice remained to be tested in the second stage of preliminary fieldwork, focusing on the context of commercial financial services.

4.1.1.2 Choice of Context

Another important factor in the choice of research design emerged during the preliminary research - the choice of the context. At the initial stage, the context was broad - both high technology manufacturing companies and banks were included. It became clear from the responses of the executives that, although NBD is of importance in both broad contexts, at the level of specific markets, there is much difference. In the simplest terms, NBD is important in changing, developing markets. The question of whether markets change and develop because of the NBD activities of firms, or NBD activities follow changing market preferences is open. What is clear is that at any time, there is much NBD activity in certain markets, and little in others.

The implication for research design is that control should not be exerted at the level of the *industry* (eg. either financial services or high technology manufacturing) but at the level of the market. Consequently, the approach of designing a study to compare between financial services firms and manufacturing firms was considered inappropriate. With similar reasoning, the potential design comparing between firms within the same sector was discounted. The intention then, was to compare NBD activities that occurred in the same market. By extension, these activities occur in the same sector. The choice of the commercial banking sector in the end, was not motivated by the practical findings of the preliminary research, but by the extent of former research (as described in chapters 2 and 3). What remained to be examined in the course of the second stage of the preliminary research was the choice of the market by which the experiment should be controlled, and the value of using evaluation as an analytical perspective.

4.1.2 Stage 2: Context

The second stage of the preliminary research was conducted within the chosen context of commercial banking. The principal objective was to establish a particular market in which there had recently been aonsiderable NBD activity. There were also a number of secondary objectives however. These included establishing the practicality of using the NBD project as the unit of analysis; the definition of the dependent variable (success); and the general importance of evaluation in the NBD process.

The starting point for defining the approach for this second stage was what had already been learnt from the literature, and from discussions with business development executives at banks during the first stage. The picture that had emerged, and which needed to be tested, was that the market for treasury products was one in which there had been a lot of recent new business development. Therefore, it was decided to contact senior treasury executives in a number of the major banks. Contact was made by telephone, and meetings were arranged with executives at five banks. These were in the areas of Treasury Sales, Derivative Products, Foreign Exchange Products, Financial Engineering and Rate Risk Management.

Unstructured interviews were carried out with these executives, and the following results were established. The treasury market was indeed a principal area of new business development activity over recent years, with an explosion of new products, principally in the field of risk management. Executives were able to identify the development of individual products as projects, but described the development process as *ad hoc* and unstructured. No common measures of project or product

success were evident - a number of reasons will be discussed in the next section on experimental design. Evaluation was viewed as an important activity, but the common perception was that it was not well understood. The reasons for this appeared to be the general lack of formulation of specific objectives, and the difficulty of working with new products and markets. The specific implications of these findings are dealt with in the next section.

The results of the interviews supported the intention to focus on the market for treasury products as an experimental control. In addition to the discussion of the market and the recent business developments, the executives were finally asked whether they could tentatively identify any recent NBD projects, and whether these could be classified as successes and failures. In most cases, successful projects were readily identifiable, and failed projects with some difficulty. The intention of this line of discussion was not to pre-specify a number of possible subjects for the full study, but to sharpen up the definitions of "project" and "success" to be used in the eventual selection procedure (which is discussed fully in section 4.5). A further important finding from this stage of the research was that the theoretical definition of new business development employed was readily understandable by the executives interviewed.

The second stage of the preliminary research was successful in establishing that the subject of the study, the definitions and the controls used were readily communicable to the executives in the field. Further, it supported the intention to focus on the market for treasury products in the full field study, and provided the foundations necessary for the final experimental design.

4.2 RESEARCH DESIGN

The reasoning behind the selected research design has already been described - the theoretical basis in Section 3.3, the practical basis in Section 4.1. It remains for the components of the design to be stated briefly as a prelude to description of the fieldwork that took place in the course of the full field study.

The context of the study is commercial financial services. The subjects of the study are large commercial banks operating in the UK market for treasury products. The level of focus is the market for treasury products. The unit of analysis is the NBD project. NBD is defined as the development of a new product to satisfy a new customer need. The project is defined as the management activity that goes into the development of the new product. The time boundaries of the project are defined as the first consideration of the idea at the outset, and the launch of the product, or its shelving due to failure.

The experimental design consists of comparing between successful and failed projects. Success and failure are defined as subjective to the organisation concerned. A successful project is defined as one that has met or exceeded commercial objectives in its first year after launch. A failed project is defined as one that has been shelved or abandoned due to commercial failure, or before launch, but after a significant amount of development work. Two controls on project selection are exercised: projects must have occurred during the three years preceding the fieldwork execution; the projects must be examples of initiatives designed to lead, rather than follow the competition. The process of putting this research design into practise is described in the following sections.

4.3 ORGANIZATIONS STUDIED

The organizations chosen as subjects in which to study NBD projects were large commercial banks. As has been described, once the decision was made to focus on the general context of commercial financial services, a particular market had to be chosen by which to control the experiment. The decision to concentrate on the market for treasury products in the UK restricts the number of banks available to study, but is not sufficient. The intention was to conduct case studies in some descriptive depth, therefore the number of projects examined in the study was put initially at no more than sixteen. Furthermore, the logic behind the experimental design is replication, rather than sampling. The requirement of control over the cases is therefore that they should occur in as nearly identical contexts as possible, rather than that they should be representative of a wider population.

Using the treasury products market as a control thus requires that the banks selected as subjects of the study be direct competitors in this market. The UK market for treasury products may be basically split into the interbank market and the corporate market. Within the corporate market, it is common among the large British based banks to distinguish a number of fairly clear segments. Firstly, there are the large multinational corporations which are experienced and sophisticated users of treasury products. Secondly, there are mid-size, less sophisticated firms which are regular users. Thirdly, there are small businesses who are in the process of discovering the value and usage of treasury products. For the purpose of this analysis, we may also recognise a fourth distinct segment consisting of UK based subsidiaries of foreign-owned companies.

The purpose of splitting up the market in this manner is to identify which banks are direct competitors. Looking at the first category, the banks competing in this segment are the UK clearing banks, other large UK commercial banks, and large multinational banks based in other countries (which have trading offices in the major world money centres). In the second category, the competitors are principally British banks - the clearing banks, and medium to large sized commercial banks. The third category is dominated by the largest UK banks with wide corporate branch networks, providing traditional small-business services. The fourth category is largely served by foreign-owned banks operating in the UK specifically to serve subsidiaries of companies based in their country of origin.

At anything other than the level of the largest companies and the largest banks (where the bulk of the treasury products market is executed), it is in fact somewhat difficult to guage accurately who are the direct competitors. The reason is that only at the highest level of sophistication is it evident that firms compare between the offerings of different institutions, rather than buy from the one with which they have a long-standing relationship. The level at which this study is focused is therefore that of the largest multinational commercial banks operating in the UK corporate market for treasury products.

4.3.1 Potential Subjects

The corporate market for treasury products in the UK is served by the large UK commercial banks, and by the UK offices of multinational banks. For the purpose of drawing up a list of potential subjects for this study,

the specialist press was consulted. Finding estimates of market shares in the wide market for treasury products proved impossible. *Euromoney*, however, publishes an annual "foreign exchange review", which takes the form of a poll of the treasurers of major corporations. The poll elicits from treasurers their favoured banks for a variety of foreign exchange products and transactions. These are reported, together with estimated market shares.

The *Euromoney* Foreign Exchange review of May 1989 was used as the guide to selecting potential subjects. This was considered as a guide, rather than an authoritative definition for two reasons. First, the review focuses on foreign exchange (FX) products; the market for *treasury* products is wider, but the FX transactions are the fundamental basis of the vast majority of treasury products. Second, the *Euromoney* review is a worldwide poll; this reflects the increasingly global nature of the trading of currencies, the global trading systems of the major banks, and the ability of treasurers to deal with institutions operating in any of the major money centres. This is not a significant problem for selection, as London is principal among the financial trading centres.

The results of the *Euromoney* 1989 poll are shown overleaf in Table 4. The rankings reflect the preferences expressed by corporate treasurers for banks to deal with in foreign exchange transactions.

TABLE 4. TREASURERS' FAVOURITE BANKS

Rank	Bank	Est. Market Share (%)
1	Citibank	6.1
2	Barclays	4.2
3	Chase Manhattan	3.2
4	Chemical	3.0
5	Royal Bank of Canada	2.9
6	Morgan Guaranty	2.1
7	National Westminster	1.9
8	Lloyds	1.6
9	Westpac	1.6
10	National Australia	1.6
11	Bank of Tokyo	1.4
12	Commonwealth Bank of Australia	1.4
13	Bankers Trust	1.2
14	Dai-Ichi Kangyo Bank	1.1
15	Midland	0.9
16	Goldman Sachs	0.9
17	Standard Chartered	0.9
18	Bank of America	0.9
19	Security Pacific	0.8
20	ANZ	0.8
	Total market share for top 20 banks	38.3

Source: Lewis (1989)

The banks in the *Euromoney* ranking are American, British, Australian, Japanese and Canadian. Those that appear consistently at the top of the various lists provided in this poll, however, are American banks, and the UK clearing banks. As it was previously decided that the study should focus on no more than eight banks or sixteen projects, it was considered desirable at this stage to limit the potential subjects to the largest American banks, and the UK clearing banks.

4.3.2 Banks Targeted

According to the selection procedure outlined in the previous section, the banks selected as potential subjects for the study are four leading American banks and the four UK clearing banks. The list of banks that were targeted as subjects was therefore as shown below:

Barclays
Lloyds
Midland
Natwest
Chase Manhattan
Chemical Bank
Citicorp
Morgan Guaranty

4.4 HOW THE BANKS WERE APPROACHED

Having selected the target banks, the method of approach was to write to the CEO with details of the study, and request co-operation. This was followed up by telephoning the CEO's office to establish contact with a senior manager in the treasury division. A presentation of the research aims and design was then given to the senior treasury executives.

4.4.1 CEO Letters

The letters sent to the chief executives of the target banks were short and to the point - a single page, together with two pages of attachments detailing the study's aims. The letter and attachments are shown in Appendix 1. The logic behind such a short letter is that it should simply stimulate the interest of the CEO, and suggest that he pass it on to a senior treasury executive. It would of course have been possible to send letters straight to the heads of treasury divisions. It was considered preferable that the letters should come to them from the CEO's office however, as this would lend them some weight. The risks of sending direct to the CEO's office are that the letter may be dealt with by an assistant, or that it may be sent to a PR department, rather than straight to the treasury division. These risks did, in fact affect this study, and the outcomes are described in the sections below.

The CEO letters incorporated four main features: statement of the topic; description of the importance of the topic; benefits to the bank of participating; a suggestion that the letter be passed to a senior treasury executive for consideration. The benefits offered to each bank for their cooperation in providing time and resources to the study were a practical analysis of the results and comments on success factors. It was considered to be important here to emphasise that confidentiality of the respondents' material would be safeguarded.

4.4.2 Follow Up

In the majority of the cases, this approach met with the desired result. Upon telephoning the CEO's office I was informed that the letter had been passed onto a senior treasury manager, and I was given his name and telephone number. In these cases, meetings were quickly arranged with the executives, and presentations were made - these are described in the following sections.

In two cases, however, there were problems. The PA to the CEO of Chemical Bank requested that a letter be sent direct to the Treasurer. This was done, but upon telephoning the Treasurer's office, I was told simply that there was no interest in participating in the study, and that I would not be able to discuss it with him on the phone. A similar result was obtained at Morgan Guaranty, where the letter, instead of being passed to the Treasury, was passed to the PR office. In telephone conversation, the PR manager was persuaded to pass the letter on to the Treasury. He eventually responded that the head of the Treasury was not interested, giving the reason that he would not have the time to devote to it.

Although the motive for refusal at Chemical Bank was not divulged, it is possible that it was, as at Morgan, time pressure. The senior executive who I discussed the project with at Chase Manhattan offered a possible explanation (although he had agreed to participate): at the American banks, people are directly responsible for their profits, and their time is a direct input into the profit equation. It is possible to speculate as to whether the refusal to participate at Morgan was due to the given reason, or to the fact that the letter came through the PR office, rather than direct from the CEO. The former is perhaps more likely, as the result at

Natwest was favourable, even though the letter had taken a similarly circuitous route through the PR department there as well.

4.4.3 Banks Offering Access

Of the eight banks originally approached therefore, six offered access. These were:

Barclays
Lloyds
Midland
Natwest
Chase Manhattan
Citicorp

In all these cases, telephone contact was made with the CEO's office to establish the name of the executive to whom the letter had been passed. In certain case, the responsibility for dealing with the study had been passed down from the head of the treasury division, to an executive directly below; in another, the letter was passed through PR before getting to the right place. Eventually, however, telephone contact was made with a senior Treasury executive at each of the six banks, and a meeting was arranged, in order to present the aims of the research.

4.4.4 Presentations

At the first meetings organised, the aim was to make a half-hour presentation outlining the scope and requirements of the research study. This was typically followed by half an hour or more of discussion of the

types of project which would be suitable for the study. In some cases executives responsible for projects were brought in to the discussion to lend their views to the issue of project selection.

The presentations dealt in greater depth with the material covered in the attachments to the initial approach letter (shown in Appendix 1). In addition to the basic description of the research design and aims, the issue of confidentiality was stressed heavily at this stage. This proved to be a matter of some concern to most of the banks involved, to the extent that letters promising confidential treatment of all data collected were mailed to the senior treasury executives at each bank (a copy is shown in Appendix 1).

4.5 PROJECT SELECTION

The process of selecting projects to be studied was, in most cases, straightforward. The controls on project selection were explained during the initial discussions, together with the definitions of successful and unsuccessful. Where problems did occur, they tended to be with the definition of success, rather than the issue of what constitutes a project, or what constitutes new business development.

4.5.1 Aims

The aims of the project selection stage were to identify two recent NBD projects - one successful, one unsuccessful - at each of the banks in the study. The controls on the types of project required were explained in section 3.3. For practical purposes, these aims were

set out both in the attachments to the approach letters (see Appendix 1), and in the presentation given to the senior treasury executives.

4.5.2 Initial Discussions

The initial discussions with the senior treasury executives centred around the definitions of new business development and of success. In five of the six banks, communicating these definitions presented no problems, and the senior executives were able to come up with a shortlist of suitable projects immediately. Having done this, it was necessary to narrow the list down to two projects at each bank. Successful projects appeared to be more readily identifiable than unsuccessful ones. This is partly due to the fact that failures are somewhat embarrassing to admit to and talk about, and partly due to the fact that most projects which actually reach a formal level, and are eventually launched are not highly risky ventures. Where there was a choice of more than one successful project, an attempt was made to establish which was most typical of the development procedures used at that bank.

4.5.3 Problems With Selection

The problems that occurred in the selection of projects were minor in most cases, but are worth noting as they differed between the banks particpating in the study. In two cases, the projects yielded in the selection process were considered marginal for experimental purposes at the time of data collexction. Data was collected, and the two projects were examined, but they were subsequently left out of the analysis due

to the fact that they did not sufficiently meet the control requirements. These two projects, and the reasoning for leaving them out of the analysis are discussed in the next section. In this section, the minor problems affecting the selection of projects at the different banks are discussed.

At most of the banks, there appeared to be a slight problem with a formal definition of "project" insofar as the whole development process is very informal and unstructured. Defining the project as the management input into the development of the new offering helped to clarify this. Otherwise, the decision to use a subjective definition of success or failure proved to have been correct, as there was no evidence of the use of formal measures of the success of products.

At Barclays, there was no problem in the selection of a successful project - in fact the successful case was the most formally managed project encountered in this study. With the unsuccessful project, however, there was some difficulty, owing to the requirements that the project be a genuine new business development, and that it should be leading rather than following the competition. In this case, the project actually chosen was less than ideal for a number of reasons. First was that it was atypical of the other projects studied in that it actually involved considerable investment. Second was that the objective that qualifies it as a new business development project is secondary. The main objective was to develop a new system to improve the dealing capabilities of Barclays' traders; had the system been successful then it would have had a wider commercial market however. Third, the project appeared to have been such a disaster that the senior management responsible had since left the bank - the only source of data was therefore the manager who had been in charge of the technical side of the development. Altogether, the

project is marginal in terms of comparability and data integrity, but it was included as an interesting example of the evident lack of evaluation, even in projects with high capital investment.

At Lloyds, there were problems both with finding an unsuccessful project, and with the requirement that projects should be leading rather than following. Both problems stem from the fact that Lloyds appears to be extremely reactive and risk averse. The lack of unsuccessful projects probably indicates that they simply did not embark on any that did not have an extremely high likelihood of success. The lack of projects that were truly new initiatives reflects the fact that Lloyds is culturally a follower rather than a leader. A further problem was evident in the identification of individual new products. This was due to the fact that the philosophy in the Treasury Products Group was deliberately geared away from thinking in terms of selling products, and towards solving clients' problems. A greater amount of time was spent at Lloyds in project selection meetings than at any of the other banks. Eventually, a good example of a successful project was identified, but the 'best' unsuccessful project avaliable was one that failed to live up to the control criteria (discussed in the next section).

At Midland Bank, a similar problem existed in the prevailing philosophy towards "products". Here, the treasury executives were actively engaged in providing solutions for customer needs. This was the result of a recent major rethink, and the introduction of this particular marketing approach. In the end though, the projects chosen fitted the control requirements well. In fact, the two Midland cases themselves make an intersting comparison in isolation, in that one occurred before the introduction of the new marketing approach, and one after.

At Natwest, there were no major problems with project selection. The definition of success was the source of minor problems though. The successful project chosen was in fact only genuinely successful when about a year after introduction, it was technically revised and priced differently. The unsuccessful project was not a resounding failure - rather, it was a product that had been introduced, and which had sold enough to cover the development costs, but in which sales had tailed off fairly quickly. Insofar as the product was effectively on the shelf, therefore, and not attracting any custom, it was deemed to fit the definition of failure sufficiently to be included.

A good example of a successful project was found quickly at Chase Manhattan. There was a some difficulty in finding an unsuccessful project though. The project that was eventually chosen was definitely a failure, but was not ideal in terms of the extent to which it was a genuine new business development. The product itself was new, and the executives at the bank argued that it was an attempt to satisfy a new customer need. In reality however, this was a viewpoint from the angle of the supplier. The "new" benefit to the customer was in fact restricted to a higher return on a deposit than might otherwise have been achieved. This places the product somewhere between a new product development and a new business development according to the classification used in this study. The project was selected as it was the best available, and otherwise fitted the requirements well.

At Citicorp, an unsuccessful project which fitted the selection requirements was found quickly. Finding a successful project was more of a problem though. This stemmed from the fact that most of the projects which were engaged in were for the development of a new type of deal. The deals in this case were typically very

large scale, complex transactions. The profits from a single transaction would be very high, but few would be expected to be completed. Given that development costs are extremely difficult to compute (consisting of overheads and executives salaries), in some cases, a single deal is regarded as success for a project. The senior executive with whom the selection of projects was discussed, in fact suggested a project on this basis. Upon collection of the data, however, it became apparent that although a deal had been done, the product had been on the shelf for some time, and could not be described as a success for the purposes of this study. The reasoning is given in more detail in the next section, which concerns the suitability of the projects chosen in retrospect to their examination.

4.5.4 Project Suitability in Retrospect

The whole process of selecting projects was somewhat vexed by a lack of prior knowledge of the context in which they occur. Thus, there is considerable scope for reflecting after the event, on how the process might have been improved, and how the failures of the selection process might have been avoided. The minor problems of project suitability have been dealt with in the last section. Here we will discuss the two projects which, although selected for want of more suitable alternatives, were left out of the final analysis as they did not fit the control structure of the experimental design.

The search for an unsuccessful project at Lloyds bank led to discussions outside the immediate area of the Treasury Products Group, as executives there were simply unable to come up with anything. As was intimated in the previous section, there are two strands

to the explanation for this. First is that the Treasury Products Group is reactive in both senses: to customers' needs and to competitive pressures. The former, in combination with the risk-averse culture, leads to a lack of evidence of any genuinely "new", risky initiatives. The latter, similarly, leads to a lack of experimentation with new financial technologies to the end of product development (although Lloyds is a leader in certain sectors of the more sophisticated treasury markets, such as long-dated swaps).

The search outside the central treasury area led to the Commercial Banking division, which was a logical step, as the successful project already selected had been implemented there. Here again, there was difficulty in finding a genuine failure. The closest that was found was in fact a lengthy proposal that had been turned down before the implementation stage. An interview was carried out with the executive who had worked on the proposal, but it quickly became clear that this did not amount to a full project.

In fact, this was an instance of a proposal where evaluation had yielded the information that a potential market existed, but that no effective means of distribution could be envisaged. The project was turned down on this basis, and rather than classify it as an unsuccessful venture, it is preferable to view it as an example of where evaluation has successfully been applied to stop a project which would have failed if it had been implemented. If the unit of analysis of this study had been, for example, the evaluation process, rather than the NBD project, such examples of evaluation would have made useful adjuncts to an alternative experimental design. In this experimental design, however, it was considered inadmissible. Time pressure eventually prevented further search for an unsuccessful project at Lloyds, as by this stage all the remaining

data on the other projects had been collected and analysis was in progress.

The problem with finding suitable projects at Citicorp was the opposite of that at Lloyds. The culture of the Financial Engineering section at Citicorp, which is responsible for the development of new treasury products is by contrast, high-risk/high-return. This was a feature of both the projects selected at Citicorp, although the successful project was the second of the two cases to be dropped from the analysis.

The project that was recommended by the Head of Financial Engineering, in the course of the initial discussions was "Income Generating Swaps". This was put forward as a successful project, with the rider that it had not fulfilled its potential yet, in the absence of other more suitable projects. In fact, when it came to collecting data on this project, it became apparent that this was not exactly the case. The product had been used only once in a major deal, which, according to the executive responsible for development was enough to make the development worthwhile. No business had been done, though, for about one year after this. Thus Citicorp were still looking for business with this product, in an attempt to fulfil what was considered to be its potential. At the time of data collection, though, the potential was looking tenuous rather than promising.

The definition of "unsuccessful" employed for the control of project selection allows for either products which have been launched and subsequently shelved, or those which are dropped after a significant amount of development work. The project in question at Citicorp falls sufficiently close to the former of these for it to be considered inappropriate to be included in the analysis. This is the more compelling in the light of

the decision to include a project from Natwest as unsuccessful, which had been launched, had covered costs, but no longer attracted any business. The principal difference between these two cases is the profile of the business generated by the two products. The Natwest product was relatively high volume, low margin, whereas the Citicorp product was very low volume, high margin. Other products of this latter type have been included in this study as successes where they have attracted a large number of deals (where "large" may be in the tens, twentys or thirtys for this type of product). One tentative possible explanation for why this project was put forward by Citicorp for the study (as a success) is that the treasury managers hoped for some feedback on why it was not genuinely successful.

The dropping of two of the selected projects from the analysis does not significantly adversely affect the experimental design. This is because there is no need to establish a perfectly symmetrical experiment when the logic is that of replication, rather than sampling. Because the unit of analysis is the project, and the testing of hypotheses is conducted within cases, rather than across, the precise number of cases studied may vary. What is important in an attempt to test for theoretical replication, is that the conditions in which the *inverse* of the theory is predicted are controlled, and definably different from those in which the actual theory is predicted. This is why it is considered more important to establish which cases conform strictly to the controls than to include the largest possible number in the analysis.

Having described the process of selecting projects in this section, the process of gathering data for analysis is discussed in the next.

4.6 DATA GATHERING

Having gone through the process of selecting projects to study with the senior treasury executives at the banks, the next step was to gather data on each project. The data requirement for each project was defined broadly, as data describing the project management process in terms of the decision making of the executives involoved. The method used to collect the relevant data in each case was firstly to establish the executive who was principally responsible for the development project. A semi-structured interview was then administered with each of these executives. Additionally, these managers were asked if any other executives had contributed significantly to the project. In cases where this was so, these were also interviewed. Furthermore, the project development managers were also asked to provide any surviving documentation relating to the projects, such as proposals, or formal evaluations.

In most cases, the executives to be interviewed were identified at the stage of project selection, by the senior treasury executives with who the inital discussions were held. In two instances, the senior executives themselves were the managers of the projects selected - in these cases, the semi-structured interview schedule was administered in the same way as for the other projects. Surprisingly, in only three of the cases were other executives (apart from the project managers) involved in the project development sufficiently to demand conducting separate interviews. Moreover, the information gained from the executives who were not the principal managers of the projects proved to be of very little value in constructing a picture of the development process. Their responses to questions probing for any detail about the evaluation of the project tended to refer me back to the principal

manager. The overall picture that emerged of NBD project management in the treasury area is that of *individual* responsibility for the projects concerned.

With respect to the search for documentation related to the projects, there was in general, a complete lack. There appeared to be two reasons for this. First is that project development in this context appears to be a highly unstructured and informal process. Second is that whatever documentation was produced in the course of the developments was simply not kept after completion. The extent of the written material that was provided was so limited in fact that it may be listed here: Barclays (success) - product description brochure; Citicorp (failure) - product proposal; Lloyds (success) - product introduction briefing document; Natwest (success) - proposal and product description circular.

With such a paucity of documentary evidence relating to the management of the projects, much was required of the interviews conducted with the executives. In retrospect, therefore it appears doubly important that the interviews were designed as semi-structured, in an effort to gain as much supporting detail of the development process as possible.

4.6.1 Semi-structured Interview Approach

The approach to data gathering was heavily dependent on the fact that the bulk of the available data would be generated in interviews. In a context where the nature of the evaluation process had already been established, it would have been possible to use structured interviews, focusing specifically on evaluative criteria. In the absence of prior research on the

context of NBD in the treasury area, this would not have worked. Preliminary research had already shown that the environment of NBD in this context is unstructured and informal. The approach to data gathering had therefore to reflect the possibility of finding a variety of different types of evaluation. In addition, apart from establishing the types of evaluative criteria used, it was necessary to describe the entire context of the evaluation process in each project.

To achieve these broad aims, a semi-structured interview approach was used. The questions asked in such an interview are framed in a relatively open manner, in order to allow for a variety of responses. Perhaps the most important aspect of this approach was the necessity to avoid pre-specifying the existence of either evaluative criteria, or different approaches to evaluation. It was considered of paramount importance that the description of the activities undertaken during the project development, including evaluation, should come from the executives unprompted.

Furthermore, the approach to interview administration was designed to be flexible. The interview schedule was kept short, and the line of questioning was focused around the description of the process of development of the product. It was envisaged that the executives' descriptions of this process could best be utilised by following up particular lines of enquiry when they occurred in the answer, rather than in a set order on the interview schedule. These are the principles that shaped the interview schedule itself, the contents of which are described in the next section.

4.6.2 Interview Schedule

The interview schedule that was administered in the fieldwork is shown in Appendix 2. It is a five page document organised as follows. The first page consists of a factual record of the interview: the date, the company, division, and group in which the project took place, the name and position of the respondent, the title of the project and its classification as success or failure. The second page consists of aide memoire for use by the interviewer in the course of the interview. This describes the working and supporting hypotheses to be tested, and the definition of importance used in the independent variables. The aide memoire page was not only of use in keeping the focus of the data requirement in mind during the interview, but served also to help any questions the respondents had concerning the nature of the study.

The remainder of the interview schedule contains the actual questions asked. These are prefaced by a statement to the respondent explaining the precise nature of the information sought. The questions are spaced fairly closely, as no attempt was made to write down the answers on the schedule during the interviews. The questions are grouped according to subject matter. Thus, questions 1 to 1.2 relate to description of the new product and target market; questions 2 to 3, to the description of the development process; questions 4 to 6, to the nature and importance of evaluation in the project; questions 7 to 9 relate to the role of the respondent in the project, and success factors.

4.6.3 Interview Administration

The interview schedule was designed with two key administrative features in mind. Firstly, that all the interviews were to be recorded (and later transcribed). Second, that the structure of the interview should vary after the initial questions. The form that the interviews took was standard for the first three questions on the product and market. Thereafter, the respondents were asked to describe the principal events in the process of the project's development. During the description of this process, notes were made, and a schematic diagram of the events of the project was drawn. This was checked with the respondents during the interview for accuracy.

Having established the timeframe and the sequence of activities in each project, the nature of the evaluation that took place at each stage was elicited. Typically, this would come out of the discussion of the sequence of events, so it was unusual to have to go through the questions on the schedule in the order in which they were written. The main function of having all the questions laid out in this manner was to ensure that if a point was not covered during the elicitation of the project history, then it could be covered subsequently. Thus, after question 3. which asks about the project's progression over time, there is a list of eight events or activities. The method of administering this was to ask the question, and to follow the line of description, to draw up the schema, and then to check off the activities, asking about those which had not actually been mentioned. Similarly for subsequent questions about evaluation, which include prompts for the interviewer to follow if the issue is not raised in the answer.

The principle behind this method of questioning is that the initial questions are kept as open as possible. The answers then reflect most accurately the respondents' perceptions of the events that took place in the process. Rather than ask directly what evaluative criteria were used, the approach was to ask what sort of evaluation was carried out, how, and when. The interview schedule was deliberately designed in this fashion, in anticipation of an unstructured, *ad hoc* approach to evaluation. In retrospect, it would seem to have been an absolutely necessary decision: more formalised, direct and specific questions would have failed completely to elicit any information in cases where there was virtually no evaluation (of which there were several). The semi-structured interview with open questions proved flexible enough to yield useful data both on what evaluation did occur, and on why evaluation did not occur, when it did not.

The interviews lasted between half an hour, and one and a half hours. The shortest interviews were conducted in banks where the executives were under extreme time pressure. In these cases, an hour had been asked for, and refused. Fortunately, it proved possible to administer the questionnaire in this short period of time. Indeed the optimum time for conducting the interviews was about an hour. Any longer than this, and the extra information provided tended to be of little additional value. The tapes of the interviews were transcribed, and when a point remained unclear, this was clarified on the telephone with the respondent in question.

At the end of the interview, the respondents were asked if any other executives had contributed to the project's development significantly, and if any related documentary material remained. In mosts cases neither of these applied. Where they did, the written material

was collected, or another interview was arranged. The transcripts of the interviews, together with any available documents provided the basic data for the analysis, using the content analysis schedule as described in section 3.3.5. The results of that analysis, together with the descriptions of the evaluation processes in each case are reported in the next Chapter.

CHAPTER 5. RESULTS

This chapter concerns the statement of the results of the study. The statement of results is organised as follows. Firstly, description of the case histories of the NBD projects. Secondly, description of the evaluation processes observed within them. Thirdly, categorisation of the cases according to observed differences in evaluation process. Fourthly, analysis of the cases according to the evaluative criteria used, and tests of the hypothesised associations.

5.1 DESCRIPTION: CASE HISTORIES

This section contains case descriptions of each of the projects in the study. The case descriptions are organised according to the following format:

1. The timespan of the project.
2. Product description.
3. Target market.
4. The relationship of the project to the current business in both technical and market terms.
5. The sequence of activities in the project, including specific comment on evaluation activities.

The order in which the cases are presented is successful project followed by failed project for each bank in turn.

5.1.1 National Westminster Bank: Success

PRODUCT: Base Rate Caps

The Base Rate Cap (BRC) was developed between October 1985 and July 1987, when it was launched. It is effectively an insurance policy against interest rates rising above a certain level. The BRC is therefore a means of hedging interest repayments on loans, for companies who borrow against base rates.

The market for BRCs was defined as companies with exposure to base rate fluctuations. These being principally small to medium size corporations, a potentially wide market was envisaged, in deals of relatively small amounts.

The relationship of the BRC to the current business of the bank may be described in two ways: in terms of the target market, and of the product itself. The target market was one in which Natwest already had a significant share of the loans business. Thus, marketing links were well established with current customers, through the Domestic Banking Division (DBD). Technically, the product was similar in principle to the existing LIBOR (London Overnight Inter-Bank Rate) cap. The key differences were in i) **size** - amounts of £¼m as opposed to several millions; ii) **standardisation** - BRCs had set strike rates at intervals of ½%, set commencement and determination dates, and set time periods, whereas these factors are freely specified in LIBOR caps; iii) the underlying hedging mechanism for the bank itself.

The main force behind the early development of the BRC was John Greenacre. In late 1985, John was working

in Group Financial Engineering - part of the international arm of the bank - and responsible for developing new products for the UK market. The idea came from a lunchtime discussion with a customer, who mentioned that he could not effectively hedge his interest rate risk with LIBOR caps, as his borrowing was linked to base rates.

On the basis of this, John imagined that a base rate cap could have a wide potential application. He discussed the idea with several other clients and got an enthusiastic response. At this time, no other bank offered such a product. Key elements in John's thinking were firstly, that a BRC would demonstrate that Natwest were attuned to customer needs; secondly, the belief that smaller firms could and should benefit from the range of hedging products, which at that time were used only by larger, more sophisticated firms.

So he put his ideas on paper, together with a number of possible technical solutions. The concept was then passed to the DBD (the marketing arm for retail customers). DBD were initially keen, but eventually did nothing to push forward with the product because of perceived problems with hedging the underlying exposure.

As a result, the idea lay dormant until August 1986. At this point, a new Head of Financial Engineering was appointed. He took an interest in the BRC, and asked why nothing was happening. The first formal evaluation of the product then took place. This was an entirely internal affair - John believed that customers should not have been involved because the product's design was limited by the available hedging structures.

The contents of this evaluation were: detailed product specification; detailed legal requirements, including 7-page contract; internal procedures for

pricing, selling, and transfer of premium payments; financial control and accounting procedures. Although there was no evaluation of the need and the potential market with actual reference to customers, the advantages to the customer (as perceived by those developing the product) were included in the proposal.

On the basis of this evaluation, it was agreed to go ahead with the product. Domestic Treasury agreed to undertake the hedging of the underlying exposures, and to price the BRCs. Pricing was on the basis of the prices of a cross-section of LIBOR-linked caps, which were to be supplied daily by the section responsible for interest rate options.

The BRC was launched in July 1987, but was not an initial success. Little business was done until the second quarter of 1988. This was partly due to overpricing, and partly due to the fact that the BRC did not look like an attractive proposition at a time of falling interest rates. Business improved through 1988 as interest rates began to climb, but the product was losing money, and in danger of being dropped. The problem was identified as inadequate hedging of the bank's exposure resulting from the BRC deals. In January 1989, responsibility for pricing was passed to the interest rate options section, and a new hedging program was initiated. Since then, the product has been adjudged successful by the bank.

5.1.2 National Westminster Bank: Failure

PRODUCT: Participating Forward Contract

The Participating Forward Contract (PFC) was developed over a period of about four months between Spring and Autumn 1987. The PFC is similar to a standard forward agreement, in that it consists of a contract to buy or sell a foreign currency at a future date. It differs in that, if the exchange rate moves favourably, both buyer and bank participate to a pre-determined degree in the gain (over the contract rate).

The target market for the PFC was firms who wished to set a minimum price on a forward foreign exchange (FX) contract, but also wanted to benefit from any improvement in the exchange rate. Specifically, the PFC was aimed at firms who did not want to use FX options for this purpose, due to the margin payments required for these instruments.

The market for the PFC was seen as including both large, sophisticated corporations, and smaller companies with whom Natwest already did FX business. It was expected that larger firms would use them as complements to other instruments within an overall hedging strategy, whereas smaller firms would use them as an alternative to FX options. Technically, the product was similar in legal effect and documentation to existing forward and option contracts. As far as the bank was concerned, though, the PFC was executed by buying and selling two options simultaneously.

John Evans, a manager in the Product Development Section was responsible for the development of the PFC. When he started developing the concept, the idea had

been discussed in various forms for some time, and he was aware that other banks were working on similar products. The basis for going ahead at this stage was that demand was perceived for such a product, by the Corporate Marketing Executives of the Treasury, who were in regular contact with customers.

Technical solutions for the product were considered, and the twin option solution was decided upon as the only suitable mechanism. The Corporate Marketing Executives at this stage informally tested the water and found sufficient interest in the concept among customers to proceed. No formal evaluation of the potential market was carried out. John's rationale for the lack of market evaluation was: "The proof of the pudding, I suppose, is in the eating... we were basically satisfying what we perceived as a need, as opposed to designing a product and trying to sell it..."

The PFC was launched in Autumn 1987, and initially saw a fair level of business. Business tailed off during 1988, however, to a virtual standstill in 1989. John believes that the PFC has become a niche product now, which still has an application in a limited number of companies who find it particularly tax-efficient. He believes it is still worth having "on the shelf", to be offered as a component of a wider hedging strategy. Furthermore, although the costs of development were not quantified, he believes that the initial business done with the PFC justified its development.

Nonetheless, the PFC did not live up to the hopes for its success at the time of development. There are several reasons for this. These mainly relate to the fact that it is a derivative product, which was designed to do the job of a freely traded product - the FX option. In the first instance, the options market has developed considerably in volume since 1987 - it is more

competitive, and spreads are smaller. Firms have watched this process, and at the same time become more familiar with the notions of options, and premiums. In effect, one of the fundamental reasons for the development of the PFC - the reluctance of firms to pay options premiums - has virtually disappeared.

So the development of the over-the-counter options market, and the increasing sophistication of firms in their outlook on hedging products, have all but removed the rationale for the existence of the PFC. Although John does not expect business in the PFC to recover, he is happy that the product should be kept on the shelf for occasional applications. Furthermore, he does not believe that a detailed market evaluation would have been a worthwhile investment in the development of the PFC, given that it would have added considerably to the (minimal) development costs.

5.1.3 Barclays Bank: Success

PRODUCT: Barclays Exchange Rate Options

The Barclays Exchange Rate Option (BERO) was developed between late 1985 and its launch in September 1986. The product is a certificate, giving the bearer the option to buy foreign currency at a given exchange rate, before a given date.

The target market for the BERO was defined as companies having relatively small exposures to currency fluctuation - sums of thousands, rather than hundreds of thousands. Small export, import or travel businesses were the primary targets. It was also envisaged that the product might appeal to business travellers.

It was expected that, although the product was likely to appeal to existing customers of Barclays, a significant number of new customers would use the product. It was geared to be sold through the branch network, and to reach customers who would not previously have used any foreign exchange risk management products. The main differences between the BERO and over-the-counter currency options are: i) **size** - BEROs have a minimum premium of £15, OTC options £1000; ii) **simplicity** - the BERO is a bearer certificate with a single premium payment, whereas OTC options are contracts that require constant margin adjustments; iii) **currency** - BEROs are only available in £/$ and £/DM denominations (being the most commonly required by small businesses).

The responsibility for the development of the BERO lay mainly with Constantine Thanassoulas. Constantine was an econometrician in Barclays Global Treasury Services. He describes the source of the idea as a combination of requests from customers for FX options denominated in smaller amounts, and pressure from within the bank to "popularise" FX derivative products. He, together with Steve Mazloumian, who was Chief Dealer in Options at the time, put together a proposal. The stated aims at this stage were threefold: to attract business from smaller firms, to raise the profile of the bank, and for the product to pay for itself. This proposal was given a quick go-ahead in principle by Chief Manager of Trading, and the Treasurer.

During December 1985 and January 1986, the concept was developed in some detail. Project logistics and implementation costs were evaluated; it was decided that the BERO should be sold through the branches; that the format should be a transferable bearer certificate. Total project costs, including the printing of certificates were finally estimated at £30,000.

Initially it was assumed that dealers would provide price quotations to the branches over the phone. It was discovered that this would be too time-consuming, so the recommendation was to use Reuters screens, regularly updated by Treasury.

A formal proposal was put forward in January 1986. This incorporated the concept as described above, plus a basic demand analysis, a break-even/profit projection assuming a minimum of 100 contracts a month, and a worst scenario downside risk (a total loss of in the region of £100,000 if the product was launched and then dropped). The proposal was presented to the Treasurer as a request for the £30,000 budget, assuming no unforeseen legal or accounting problems. A firm go-ahead was given.

Thus, in February 1986, project implementation started. Constantine developed the pricing software, and the supply of Reuters screens was agreed. It was decide to proceed with £/$ and £/DM contracts at this stage, and to aim to launch in London, Hong Kong, Tokyo and New York. Detailed legal, accounting and tax evaluations were all commenced, and the branch network was advised of the development, for feedback on how the sales should be managed.

In March 1986 came the news that Midland Bank might be developing a similar product. It had always been anticipated that much of the value of offering a product like the BERO would be in its exclusivity to Barclays. At this point, however, it was decided that they would have to be the first to the market with the BERO if it was to be worth launching at all.

During the second quarter of 1986, the distribution and sales arrangements with Barclays branches were finalised - branches would receive a fixed commission of £5 per certificate sold. To explain and introduce the

product to salesmen, seminars were run at the 19 International branches. Branches were also provided with BERO brochures, and a question/answer type analysis of the FX exposures of small businesses, and the benefits of the product.

Preparation for the launch of the BERO took place in the summer of 1986, in the form of press announcements and PR briefings. The Marketing Department at Barclays designed an advertising campaign to run in the FT and the financial press. Legal restrictions (gambling laws) prevented the launch of the product in New York and Tokyo. The BERO was eventually launched in the UK in September 1986, and in Hong Kong in October. In the first few months, BERO was a great success, and generated a lot of interest. Thereafter, business settled down to between 500 and 1000 contracts per month (comparing with a break-even level, assessed at 100 to 200 contracts per month). The product has been adjudged a success ever since. Curiously, it has not yet met with any direct competition - this is possibly due to the first-to-the-market value which Barclays has clearly capitalised upon.

5.1.4 Barclays Bank: Failure

PRODUCT: Dealer Workstations

The product was a dealing workstation for use by foreign exchange and money market traders. Its unique feature was that it combined multiple colour graphic screens, with control from one keyboard, and one connection to a mainframe.

The dealer workstation is an unusual example of a new business development project, in that it was a product developed within the bank, while the target users were principally the banks own dealers. Among the projects aims, however, were two which qualify it as an NBD project within the definition of this study. First, is that the workstations would have supported improved communications facilities with the bank's key FX and money market customers, and would have led to new business as a result. Second, is that the workstations could potentially have been sold to other banks, as they would have been significantly better than any competing equipment.

It is a feature of this project, that the market for the workstations was never very well defined, either in internal, or external terms. Had Barclays managed to develop and patent the system, and then to sell it to other banks, it would have been a radical NBD; had they simply managed to manufacture and install it themselves it would have improved their ability to compete in the FX and money markets, and gain new business in these markets.

The man responsible for the development of the dealer workstations was Steve Henderson, a Systems Analyst; the project was run by the Management Services Department. There were three motivating factors behind the project. First, the continuing need of dealers for better equipment in order to provide prices to clients more quickly and more keenly. Second was the fact that the dealing room was to be moved to new premises at the end of 1988, and this would be a great opportunity to install new computing equipment. Third, Steve was very interested in the new "transputer" processor, which, although largely untried, could provide the power that was needed for this type of system.

In the summer of 1986, Steve had tried to build a system based on existing IBM PC equipment, and found that it could not be done, due to processing restrictions. In September 1986, he put forward a proposal for the development of a prototype system, based on the transputer chip. The proposal required about £60,000 worth of hardware, and the time of three and a half specialists for six months. This was authorised, on the basis that the systems currently used ran on single screens, which cost £1000/month to rent. At this stage, Steve's responsibilities were limited to the development of the hardware, and he was suspicious that the full implications of the project had not been evaluated by higher management, who were running the project in an extremely hands-off manner.

Six months and 708 man-days later, Steve and his team had prepared a working prototype system (an American manufacturer later revealed that it had taken them 20 man-years to develop one component of the system). The prototype was demonstrated to a senior dealer, who on the basis of the demonstration, phoned the dealing room to sell £30m worth of deutschmarks. A month later, the prototype was also shown to senior management, who agreed that work should go ahead on producing the system for the new dealing room.

Senior management were faced with the choice of whether to commission Steve and his team to organise the manufacture of the systems, or to use an outside hardware specialist. Steve asked for greater autonomy and reward for successful completion than senior management were willing to give him. They decided to commission an American manufacturer to produce the hardware.

From this point onwards, the information on this case is based on Steve's knowledge of events from the

outside, as he was moved on to other work. The senior managers who were involved with this project have since left the company. Consequently, the facts from this point on are not necessarily complete, none of the reasons are apparent, and more questions arise than are answered.

The American manufacturer was approached to do the work, and the prototype hardware was dismantled and sent to America in July 1987. In September, the manufacturers asked for a compiler, which had been shipped with the other equipment. At that stage, they had one person working on the job, and contractual negotiations had not got past the stage of signing the "heads of agreement" upon which the contract would be based. From mid 1987 through to early 1989, it appears that little progress was made on the manufacture of the system, or production of the software, although ten people were working on it. Eventually, by April 1989, the hardware was produced, and nineteen machines were shipped to Barclays at a cost of about £20,000 each. These went into storage in Poole, and were still there at the time of data collection in early 1990.

In May 1989, the project was officially stopped, with the reasoning that the machines would not have sufficient performance. In December 1989, a year later than originally planned, the dealing room moved to new premises. £1m was invested in a new computer architecture which had nothing to do with the transputer-based system, and did not match its capabilities.

5.1.5 Chase Manhattan Bank: Success

PRODUCT: Commodity Swaps

Commodity Swaps were developed between June 1985 and August 1987. The commodity swap is a principle rather than an individual product. It is a means of hedging against the risk of adverse price fluctuation of a specific commodity. The new business, developed on the basis of this principle in this case, is oil price hedging.

In theory, the market for commodity swaps is firms which experience significant risk from the price volatility of any widely traded commodity. The market in this case was defined as major shipping companies, but a wider market was envisaged, including oil firms and other major trading companies.

In technical terms, the commodity swap is similar to other hedging products that Chase already provided, such as currency and interest rate swaps. A particular innovation of the commodity swap was settlement against an average price for a period, rather than a spot price (a traditional flaw of swaps). At the time of development, however, all these were new products to customers. The client firms were not necessarily new to Chase, which already had relationships with many large multinationals. The need for the hedging of commodity price risks was one that had not been addressed before though.

Mike Hampton was the driving force behind the development of the commodity swaps business. He can justifiably be called its product champion. In June 1985, Mike was working on product development for

shipping companies. He went to a seminar on "Advanced Financial Risk Analysis" (AFRA), in which the major risks faced by companies were discussed - interest rate, currency and commodity price movements. The application of swaps to currencies and interest rates was mentioned, which left him asking "What about commodity swaps?", to which there was no answer, as they did not exist.

Mike's interest in commodity swaps was driven by the knowledge that shipping companies faced enormous volatility of freight rates, which are a type of commodity. He decided to try the idea out with a client company, which showed a genuine interest, and helped him to develop the concept. It turned out that other people in Chase were concerned with hedging the same sort of risks, but Mike was the first to come up with a mechanism and to push it through. By October 1985, he and Bruce Smith were ready to try to put a deal together with their trial customer. Bruce took the concept to a Risk Council meeting in New York, but it was turned down.

At that point, Mike was offered the chance to join the team who ran the AFRA seminars. He jumped at the chance, as it would allow him to improve his "blueprints" for commodity swaps. By the middle of 1986, there were still major problems with getting internal approvals at Chase, and with clearing the legality of the product. By the time Mike had finished his detailed concept development, he had also found support from Galen, in New York, who was ready to argue that the legality was at least a grey area. Galen was eventually given responsibility for setting up the business in New York. He struck one successful deal in October 1986, but did not get any further, eventually becoming stuck in regulatory problems.

By early 1987, Mike left the AFRA seminar team. He was given a telephone and nine months to make commodity swaps a successful business in the UK. Although he did not have Risk Council approval, or booking procedures established, he went out to sell the product. He spent eight months looking for business, and then did a successful deal in August. Then nothing happened for a further three months. He was advised by everyone at Chase - even his former partners - to get out, but he stuck to it, and his gamble paid off with a number of deals in November and December.

The business took off in 1988, with about thirty deals being closed, and profits of over $4m. Mike did eventually get Risk Council approval for commodity swaps, but only after it was noticed that he was making a lot of money. His perspective on the internal evaluations was "I had to prove the business was viable before I worried too much about the internal bullshit."

5.1.6 Chase Manhattan Bank: Failure

PRODUCT: Participation in Attractive Rate Transactions

PARTS was a project which ran between mid-1986 and mid-1987. The aim of the product was to provide attractive rates on deposits from corporations by selling them existing interbank placings.

The target market for PARTS was blue-chip US and UK corporations, in which Chase traditionally had a large share. This had declined recently, as Chase's rates had become less competitive, due to R-o-A restrictions.

Although PARTS was a new product as far as Chase were concerned, it was similar in principle to their "Asset Sales" program, as both were aimed at getting assets off-balance-sheet. The difference was that Asset Sales involved the sale of loans made to customers, whereas PARTS involved the sale of interbank deposits. As far as the customer was concerned, he would be offered a slightly higher rate of return for his deposit; that return, however, would come not from Chase, but from another bank. As Chase already had a large amount of corporate custom, they were looking for more custom rather than for new customers.

The PARTS concept was initially thought up in New York, and a legal agreement developed for use in the US. Richard Hutchison was responsible for marketing off-balance-sheet products in Europe at the time, and he was given responsibility for developing the product for the European market. Richard was handed the concept, together with the US legal agreement, which had been drafted on the basis of the Asset Sales documentation. The legal agreement was particularly important, because it had to establish that the deposits were sold without recourse to Chase. During late 1986 and early 1987, Chase's lawyers prepared the documentation for the UK market, and Richard approached his corporate clients to gauge interest in the product.

Up to February 1987, the reactions of clients to the concept had been very favourable. When Richard started putting the product together in concrete terms, however, things started to go wrong. Firstly, he developed an inventory of the interbank deposits that were up for sale. It turned out that these were not with top ten, blue-chip banks, as he had initially been led to believe, but with second-tier banks (in terms of credit ratings).

Secondly, the lawyers came up with a 32-page document. This was based on the Asset Sales agreement, which typically would have involved considerably larger amounts, longer terms, and greater profits to both parties. Richard found immediately that the advantages of PARTS to corporate treasurers were not worth the effort of evaluating and entering into a 32-page legal agreement. He attempted to draft a two page agreement, and sent it to the lawyers for review.

In the meantime, about six deals were done: "What would happen is that we would do a deal, send the legal agreement out the client, but it would never get signed - it would just go straight in the waste paper bin". This represented a risk for Richard, in that the deals were reported as off-balance-sheet, while effectively, they were not. He was willing to take the risk, though, on the basis that the amounts involved were not great, and that there was no credit risk, as the clients were established Chase customers.

In the end, a satisfactory legal document was never obtained. When the lawyers' fees arrived, they were so high that the project was effectively killed. The cost of developing the product, simply in terms of getting the legal agreement right, had outweighed the value of proceeding with it. Richard moved out of Treasury to another job shortly afterwards, and the project was dropped within two months.

5.1.7 Citicorp: Failure

PRODUCT: Project Risk Management

The Project Risk Management project ran between late 1986 and late 1987. The concept was to apply financial engineering techniques, to provide structured finance for firms bidding for very large projects. The target market was firms in the UK construction and export industries, bidding for infrastructure, energy and turnkey industrial projects of between $50m and $500m.

The financial instruments and techniques employed in structuring such finance were not new in themselves. What was new was the notion of packaging them together to provide them for a very specific target group of customers. The target customers were typically not existing customers of Citicorp, so this was a development aimed at solving a new customer need, among new customers.

Robert Wood was responsible for developing the concept, and for finding business with it. He joined Citicorp from a background in consulting engineering, in which he had worked on feasibility studies of major development projects. Robert was working in Treasury Marketing, and looking for an opportunity to move into project finance in late 1986. In December 1986, Robert was asked, together with his colleague Colin McDonald, to set up a Project Finance unit. They arranged to hire a senior transactor from Bank of America to head up the unit. This arrangement fell through however, so Colin and Robert were left to run the unit.

From customer contact, they had a very clear idea of the package they wanted to offer: structured finance for

specific projects, tailored to take advantage of any government subsidies and making use of any risk management techniques available. Accordingly, in January 1987, Robert started to do some internal evaluation. Firstly, he talked to lending officers on the institutional side of the bank (Citibank). He came across two problems fairly quickly.

Firstly, he found that the bank had been heavily involved with the UK construction industry three or four years before. It had been decided then, that the sector did not meet the bank's credit criteria. Unfortunately, the bank had severed links with most of these customers in a very abrupt and abrasive manner, so the relationships in many instances had been effectively destroyed.

Secondly, the institutional bank was under extreme pressure to reduce their loan portfolio. In order to take on a new loan, they would have to achieve a high return on asset criterion. This meant that they were in fact running down the unit that dealt with Export Credit Guarantee Department work, which was essential for Project Finance.

From February onwards, then, Colin and Robert were pushing the project forward in the face of a number of problems. Citicorp's relationship with their target clients was at best non-existent, and at worst, somewhat soured. Neither of them had transacted a deal before, so they had no reputations to build on. Finally, the institutional arm of the bank was not ready to provide finance to their clients. This meant that what they were offering was simply the structuring of the finance package, as distinct from the provision of finance itself. Nonetheless, they believed they could sell Project Risk Management on the basis of expertise in structuring alone.

So, from February to September 1986, Colin and Robert tried to find an application for their product. They visited about 50 companies during this period, and got involved in producing a number of quotes, some of which came close, but none of which came through. Three barriers persisted: i) the poor reputation of the bank in the construction industry; ii) the lack of previous relationships with clients meant that it was difficult to win their confidence in Citicorp's commitment; iii) customers were reluctant to accept the concept of unbundling the finance and the structuring if that meant using a separate bank for each.

In fact, the closest they came to doing deals was by approaching UK merchant banks and offering to provide the structuring behind their finance - remaining invisible to the customer in the process.

By October 1986, Robert felt that it was not worth pursuing the project further without considerable extra support and commitment from within the bank. He remained enthusiastic about the market, which has yielded enormous profits for those banks which have succeeded. It was not worth pushing ahead with the current set-up however. Robert wrote a paper on the prospects for Citicorp's Project Finance effort. He outlined five proposals. Four of these were to press on with the Project Finance business; all of these critically depended on full support from all sections of the bank however. The last was to abandon the project and disperse the unit. This was the option chosen.

5.1.8 Lloyds Bank: Success

PRODUCT: "Premier" Fixed Rate Loans

The Premier Fixed Rate Loan (PFRL) was developed between March and June 1988. The principle of the product was to use interest rate swaps to offer fixed rate loans in relatively small amounts - £½m and upwards. The target market for the PFRL was defined as Lloyds' "middle market" customers - those served by the Lloyds Bank Commercial Service (LBCS) branch network.

The product was conceptually closely related to the current middle market lending business of Lloyds. The PFRL was intended to fulfil a new need as far as the customers were concerned, as it was envisaged that it would be sold to customers who had previously borrowed only at floating rates. The product was defined in terms of fixed rate lending, rather than in terms of hedging interest rates. This was a deliberate attempt to focus on the level of financial sophistication of the target customers.

Technically, the PFRL differed from existing business as it consisted of a traditional loan, plus an interest rate swap. The novelty lay in the fact that the swaps created were smaller than normal, and that the swap itself was "hidden" from the customer.

Bernard Knight of Customer Services and Guy Huntrods of Treasury Products were the main forces behind the development of the PFRL. In March 1988, Bernard felt that he had identified a real need among his customers for fixed rate lending. Guy's thinking was that interest rates were low, and that this would provide firms with good opportunities to hedge. At this stage

there was a general commitment in the Treasury Products Group to help middle market companies by reducing the sophistication of hedging products. Between them, Guy and Bernard figured that there would be a market for swaps as small as £¼m (as opposed to the traditional minimum of about £5m), and that they could provide them.

Initially, their discussion had run along the lines of "there are customers who want to do small swaps". As the concept was developed, however, it became increasingly clear that what they really wanted was fixed rate protection. Having established what they wanted to offer, Guy and Bernard were keen to write to all the LBCS branches to explain the concept. Before this could happen, though, the Commercial Banking Department decided that the fixed rate loan would have to be fitted into their portfolio of "Premier" products.

The development of the "Premier" branding for the fixed rate loan, the amending of publicity material and service manuals took between March and June 1988. During this time, the book-keeping procedures for the product were also established.

The PFRL was formally launched in June 1988, and attracted a lot of interest in the next four months as interest rates were climbing. Business levelled off in the latter part of 1988, but through the first half and the last quarter of 1989, was well up to expectations.

Although there was no formal evaluation of the potential market for the PFRL, Bernard and Guy were confident in proceeding with it, as it was developed in answer to customer requests. Perhaps the most important feature, they believed, was focusing on the benefit to the customer, rather than on the product, or the means of achieving the benefit.

Also of great importance was the effort they put into educating the LBCS salesforce after the launch. Between them, Bernard and Guy visited most of the 90 LBCS offices, giving presentations about Treasury Products. The presentations reinforced their belief in the importance of focusing on the customer benefits, as this proved often the best way of describing products to the salesmen. Furthermore, they were able to emphasise to the salesmen that satisfying the customer's need is more important than selling a particular product. They prefer to view fixed rate lending, not as a product, but as an additional tool or capability with which to solve customers' problems.

The Treasury viewpoint of solving problems, and providing solutions as opposed to selling products was in some conflict with the approach of the Commercial Banking Department. The motivation behind branding the fixed rate loan as a discrete "Premier" product was from Commercial Banking. This was a feature which Guy and Bernard were somewhat sceptical of, initially. They thought that the effect of the branding was likely to detract from interest in the product itself. Eventually, in late 1989, the PFRL was removed from the Premier portfolio by Commercial Banking. Guy was delighted - his reaction was "The Premier Fixed Rate Loan is dead, long live the fixed rate loan". The Treasury Products Group continued to arrange fixed rate lending through the branch network. If anything, business improved as a result.

5.1.9 Midland Bank: Success

PRODUCT: Oil Hedging

The development of this project took place between mid-1987 and July 1988, when the first deals were done. The concept was to apply the principles of hedging instruments such as caps, floors and swaps to published, benchmark indices of oil prices. The target market for oil hedging was any wholesale user of fuel - for example, power boards, electricity companies, or firms using more than 20,000 tonnes annually.

Technically, the techniques used for oil hedging were similar to those that had been developed for currency and interest rate risk management. The novelty lay in the application of these instruments to the new indices. Although this was effectively a new product, satisfying a new customer need, Midland were reluctant to see it as a "new business development" in the isolated sense. In fact this was one of the first results of their deliberate re-orientation away from a product focus, and towards providing solutions for customer needs. Their philosophy, in financial engineering, is actively to search for the underlying needs of their customers. Expertise in oil price hedging is seen therefore as a component of a better service to a potentially wider group of customers, rather than as a new product.

At the outset of the project, Paul Ford was working in the Special Transactions Group. The group had a brief to spend time with customers and tailor solutions to their problems. During the latter part of 1987, Paul was talking to power boards. He found that their major unquantifiable financial risks lay in the price of fuel,

so he started looking for ways to cap fuel costs. Towards the end of 1987, he met a number of potential counterparties, and started to put together a package for hedging the exposure.

Paul took a number of factors into account in his package, including the size of the deal, and the return that would make it worthwhile. He decided that Midland should not take on the price risk, but take an arrangement fee for organizing the deal between counterparties. He checked that the deal met Bank of England requirements, and okayed it with the Tax, Legal, and Trading Departments at Midland. Finally, he wrote mandate letters delimiting the bank's liabilities in the proposed transaction, which were signed by customers.

By the end of January 1988, Paul had got all the sign-offs he needed, and given a price to the customer. During February, it transpired that the hedge was not sufficient for the client's requirements, so the deal eventually fell through. In the post-mortem discussion on the deal, however, it was suggested that jet kerosene might be a good commodity to hedge for airlines (until now, the commodity had been heavy fuel oil).

Paul followed up jet kerosene hedging, using the principle he had already developed, with a travel company, and as a result, organised to cover both their currency and commodity exposures in a deal struck in July 1988. This allowed the travel firm to go into 1989 offering their customers a guarantee of absolutely no surcharges. Paul described the benefits of this oil hedge in a Midland internal bulletin, and started talking to risk management specialists in the financial press. On the basis of publicity from this one deal, Midland very rapidly won both the commodity and the currency hedging business of a number of major airlines and travel companies.

5.1.10 Midland Bank: Failure

PRODUCT: 7-Day Floors

The 7-day floor was developed and dropped in a relatively short period, between October 1988 and the end of January 1989. The product was a means of hedging the minimum interest rate payable on sums deposited at 7-day rates.

The target market for the 7-day floor was one large industrial corporation in particular, and retailing companies in general - Midland are specialists in the retailing sector.

Products developed in Financial Engineering groups often start off as individual applications of a concept to a solution, before reaching a wider market. This was a good example, in that the concept arose in an attempt to solve a problem for one firm, the wider market being envisaged later. The target customers would in this case already have had relationships with Midland for money market and probably for hedging activity. The product itself was new, however, in that the shortest-term interest rate hedging instruments available were (and still are) based on three month rates. The 7-day floor therefore required a new hedging strategy for Midland to cover their underlying exposure.

The 7-day floor was developed by Nick Goulding, initially as a solution to a particular problem of a major client. The problem was that the client occasionally had very large amounts of cash, which could not be committed for long periods (eg longer than two months). In a period of volatile interest rates, the firm would have liked to fix the minimum rate it could

get on its deposit over several months. Although it had not been tried before, Nick worked out that Midland could provide a floor on the 7-day interest rates that the firm would receive over such a period.

At the time the concept was developed - October and November 1988, Nick also realised that retailers experienced a similar type of problem. This was that they receive massive cash inflows at Christmas and New Year in the sales, before business levels out again. Nick reckoned that the 7-day floor would provide a significant benefit to major retailers during this season.

Two factors created a great deal of time pressure on the project. First, if it was to be of use in the Christmas season, it had to be completed and publicised to the retailers before the rush. Second, some time ago, Midland Montagu had booked advertising space in the FT. The space was available in the first week of December, and it fell to Treasury to use it. They were thus faced with the choice of publicising the 7-day floor before it had been properly evaluated, or of using a standard corporate advert.

The 7-day floor got the advertising space, and a provocatively worded advert was inserted. Nick, in his own words, "was absolutely dreading it because the product itself was tailor made to one particular client, and had not been through our internal hoops... compliance, tax, legal, risk/asset weighting, credit, risk and exposure management or position risk". At this stage, Nick was still geared to working on the product as a "one deal, one client" solution - he had not even developed any documentation. He reckoned though, that it was worth taking the chance that the product would work with retailing customers.

There was a huge response to the advert - the phone never stopped ringing. In the advert, they had neglected to specify that the minimum transaction size was £10m. So, Nick received a multitude of enquiries, including a launderette manager with £2000 to hedge, but no-one with more than £50,000. The retailers were not among those who responded to the advert, so Nick followed up the matter with his contacts in retailing. He found some interest among the major firms, but definitely not enough to warrant the payment of a premium for the product. In effect, the retailers were used to managing their cash positions on a day-to-day basis, and saw no reason to change.

The final factor that led to the demise of the 7-day floor was further feedback from the large firm for which the product was developed in the first place. They reported that their cash-flow position had changed considerably, and that they were not likely to need such a product in the foreseeable future.

Nick acknowledges that virtually no evaluation took place in the project - he reasons, due to the time constraints. Given two or three months extra lead time, he imagines that the product would have been presented to the retailers in concept. A negative reaction at that point would have seen the project stopped before getting to any promotional activity. He still thinks, however, that the concept has potential application in the context of tailored one-off financial engineering solutions, should a client genuinely need it.

5.2 DESCRIPTION: EVALUATION PROCESSES

This section contains an analysis of the nature of the evaluation process in each of the projects studied. The analysis falls into three categories. First, the extent to which evaluation actually occurs in the projects - this varies considerably - and the aims of the evaluation that does occur. Second, the extent to which the evaluation observed is systematic - using the constructs of judgment, bargaining and analysis identified by Mintzberg et al (1976) (discussed earlier in section 2.3). Third, the contribution of evaluation to the whole project - an attempt to discern how the presence or absence of evaluation affected the project outcome.

5.2.1 National Westminster Bank: Success

There is relatively little evidence of evaluation in this project. The evaluation of external factors occurred early in the project, and was focused on gauging the existence and level of the need among customers for a product of this type. An internal evaluation was also carried out early on, focusing on synergy and feasibility. The effect of this was to highlight technical difficulties which held the project up for some time. Later, a fuller internal evaluation revealed that the product was feasible, and that there would be suficient internal support to develop and market it.

The entire project appears to have been managed in an *ad hoc* fashion, and there is no evidence of a systematic approach to evaluation. The external evaluation was carried out by one person, in a

judgmental manner. This was limited to discussions with a small number of customers, although going into the nature of their need in some depth. The internal evaluation is better characterised by the "bargaining" mode. There was some discussion between managers from different areas of the organisation, who each had different inputs concerning the technical feasibility of the product. This was not conducted in a genuinely analytical manner however, as initially, political preferences on the part of the technical specialists prevented the product from going ahead. There was no evidence of predetermined evaluative criteria or hurdles, or indeed of explicit targets or measures of the success of the product.

Evaluation can not be described as an important feature of this project. The project was pushed forward more on the basis of hunch, intuition and belief in the perception that the need existed, than on formal analysis. Internal evaluation only occurred when the need for involvement of others (outside the product development group) arose. The early, subjective, judgmental evaluation of the customer need does appear, however, to have been the foundation of both the drive to get the product launched, and its eventual success. There are grounds for arguing, however, that with a more comprehensive external evaluation the initial period of over-pricing could have been avoided. Furthermore, if the internal evaluation had been more comprehensive and analytical, the cost and hedging structure of the product could have been right from the start.

5.2.2 National Westminster Bank: Failure

There is little evidence of evaluation in this case. Initially there was some very informal evaluation of the need for this product. This took the form of conversations between "marketing" executives (who are effectively salesmen) of the treasury function and corporate customers. On this basis, a need was perceived for a product, which would be complementary to the existing range. Consequently there was some detailed examination of the possible technical solutions to the problem of providing such a product. Having established the technical feasibility, there was some further informal evaluation of customer reaction to the concept, after which the product was launched.

The project was managed in an unsystematic and reactive manner. Indeed, the rationale for the existence of the product development group at the time was to be reactive to customer needs. This did not extend, however, to a comprehensive analysis of customer needs or market developments. The nature of the external evaluation was entirely judgmental; it was however from a number of sources - the marketing executives. The internal evaluation was conducted in greater detail, and in an analytical manner, but was restricted to the issues of technical feasibility and synergy. No predetermined evaluative criteria were found.

Evaluation was not of any significant impact in this project. A need was perceived, and this was acted upon by developing a product to suit. The initial success of the product did not last, as the markets for other products developed, and customers preferences changed. It is possible that a more comprehensive analysis of the likely development of the market would have yielded a

better picture of future customer preferences. The manager chiefly responsible for the development of the product argued that this would not have been worthwhile in any case. He reckoned that a perceived demand was sufficient reason to develop and launch a product, given the minimal costs associated with development (principally the time of the executives involved in the development).

5.2.3 Barclays Bank: Success

This project contains the greatest evidence of the use of evaluation among those studied. It is the only project in which evaluative criteria were used in all the sections of the content analysis schedule. Compared to the other projects, the evaluation was systematic and comprehensive. The focus of the evaluation carried out was more on internal than external criteria however.

In common with most of the other projects, the evaluation of the customer need for the product occurred early on. This was fairly detailed, and judgmental in nature. What distinguishes the evaluation of external factors in this project is that attention was paid to the benefits provided, and customer perceptions of the proposed product. In addition, this was one of two projects in which there was any genuine conceptualisation of the potential size and nature of the market addressed. Although this evaluation occurred quite early in the development process, it was not of any great depth, and was also judgmental in nature.

This project was unique among those of this study in that the financial potential of the product was formally evaluated, and clear financial targets were specified as targets for the product's performance. Quite extensive

internal evaluations were carried out early on in the project, as the basis for the two occasions on which proposals were put forward for formal sign-off. These included technical feasibility, organizational support, synergy, financial and legal evaluation. The internal evaluations were the closest of those observed to the genuinely "analytic" mode of evaluation.

The evaluation carried out in this project formed part of a planned process, that was thought out at a very early stage. This was clearly the most systematically managed and evaluated of the projects. This was due however to careful planning and thinking on the part of the manager of the project, there was no evidence that this was due to any general, formalised or systematic approach to project management within the company.

Although the evaluation in this project was considerably more comrehensive and systematic than most of the others, there is little to indicate that it was a substantial success factor. The extensive internal evaluation clearly aided the smooth running of the project, and ensured that there was no danger of negative internal political intervention (as was the case in certain of the failed projects). The external evaluation was primarily judgmental, and focused on the existence of a need for the product, which was in practise substantiated. Having established the business however, executives at Barclays were still unsure of the true market potential for the product, as it was effectively added to an existing portfolio, and never actively promoted.

5.2.4 Barclays Bank: Failure

This project was characterised by an almost complete lack of evaluation, which went hand in hand with a lack of clarity over objectives, and a considerable lack of top management support. In analysing the evaluative criteria evident in this project, one external and two internal criteria were observed. In fact, the attribution of three evaluative criteria to this project is, if anything, generous. The basis for the project's development was the knowledge and assumptions of the project manager, a technical specialist.

The knowledge and assumptions that lay behind the project were obviously sufficient grounds for top management to sanction the development of the prototype system. Indeed, up to this point, the project could have been considered extremely successful. The technical specialists succeeded in developing a system which met the requirements of the end-users. It is between the successful prototype and the production of working systems that the project went catastrophically wrong. It is possible to identify factors which, had they been part of any evaluation process, could have saved the project. This would be to ignore the fact, though, that the project effectively foundered as a result of some large-scale, high-level mismanagement, the root of which could not be unearthed in the data-collection for this study as the responsible executives had left the company some time ago.

Two reasons for failure do stand out, though. First is that there was never sufficient top management support for this project. The project manager, during the prototype phase, was concerned that the project had been given the go-ahead without any effort on the part of the top management to understand the technological

issues involved. Consequently, they were presented with a working prototype without any understanding of the complexity of the system. Secondly, at this point, the project manager responsible for the prototype was denied a position of influence in the actual building of the systems (as far as can be ascertained from the data collected, for political reasons). From then on, the project, lacking both a "product champion" and top management support, foundered.

One issue does arise from an analysis of the *lack* of evaluation in this case. No real attempt was made to guage the need or demand for the system. In effect, it was assumed that, because it was better than what was currently available, the demand was there. This assumption seemed to be borne out by the enthusiasm that the end-users showed for the working prototype. Given that they already had systems which would do the job *sufficiently*, the enthusiasm just did not translate into a level of demand that actually exerted any pull on those responsible for providing the systems.

It is unfortunate that data was not available to provide a complete account of the reasons for the failure of this project. Whatever the other reasons though, it would seem that lack of evaluation counts as one. At any rate, there is a sufficiently clear picture of the project to allow us, at least, to draw an association between the lack of evaluation and the failure.

5.2.5 Chase Manhattan Bank: Success

This project is unique among those studied in that its manager deliberately avoided any formal internal evaluations until the business was an acknowledged success. The project was however based on a highly detailed and lengthy analysis of technical feasibility and evaluation of customer need, carried out individually by the project's manager.

The project was in fact typical of what has come to be known as "intrapreneuring" - Pinchot (1985) - in that the business was developed without the product having been through the internal approval system at Chase. The system that it should have gone through consisted of presenting the proposal to a "Risk Council" meeting, at which the inherent trading and credit risks have to be justified, and the legal position to be cleared. This whole process was in fact invoked after the business was developed.

The manager of the project avoided the formal system of evaluation because he believed it would stifle the product on the ground of legal uncertainties (indeed this very nearly happened on a number of occasions). He felt he was on a firm footing however because of the quality of the subjective evaluation he had carried out himself. This consisted of a lengthy development of an understanding of the customer's need, which took the form of developing a trial example of the product with one interested customer. Although this external evaluation was judgmental in character, it was in sufficient depth to give him the confidence that there was a great need for the product. In addition, he had been able, in conjunction with other financial engineering experts in the bank, to analyse in great depth the possible ways of constructing the product.

This is an example of a project where there has been no formalised or systematic evaluation, and further, the evaluation that did take place was limited to a few specific criteria. These criteria - principally customer needs, technical and legal feasibility - were evaluated in such great depth however, that the manager of the project risked his career trying to establish the business. This evaluation was clearly critical to his confidence in the new business, and consequently to the project's eventual success.

One other issue that this case raises is the difficulty of evaluating the potential market for such a new business. In this particular situation, there was potentially a very large market, but the vast majority of customers would not be attracted to such a new product until it had been proven effective. Thus the first deal was the hardest to transact, and only thereafter did it become clear what level of demand existed among other companies.

5.2.6 Chase Manhattan Bank: Failure

Very little evaluation activity is evident in this project. Concerning internal factors, synergy and feasibility were criteria which were considered, but not in any depth. External evaluation was limited to discussing the concept with customers, to gauge its acceptability. What little evaluation there was, was judgmental in nature.

There are a number of reasons for the lack of evaluation in this project. Most are rooted in the making of assumptions which proved eventually to be false. Concerning the product, the concept had already been defined by management in the US when it was passed

to the manager reponsible in the UK. Furthermore, it bore a close resemblance in principle to another product that had recently been developed successfully. Concerning the market for the new product, the benefit was easy to communicate, and no great effort was necessary to check whether customers would buy it.

Two key assumptions however, proved false, both of which concerned features of the product. Firstly, the quality (in terms of credit rating) of the deposits available for sale proved to be slightly below what had been expected. In testing the concept with customers, the benefit communicated had been: you get a better rate of return on an asset of equivalent quality. The slightly lower quality of the deposits available marginalised the value of the higher returns offered. Secondly, a complex contract document was prepared by lawyers acting on the assumption that the deal was essentially similar to the existing asset sales program. PARTS however involved considerably smaller amounts and timespans. The already marginal benefit of PARTS was certainly not worth the effort on the part of customers to unravel the complexities of the contract document.

There is a case for arguing that the lack of evaluation in this project is partly responsible for its failure. If the issues of the product features and the importance of the contract note had been picked up by internal evaluation then two possibilities would have been open. The project could either have been killed quickly without incurring the large legal expenses, or a suitable contract note could have been developed before launch. In the latter case, of course, it is possible that the product might eventually have failed anyway, due to the marginal benefit it offered.

5.2.7 Citicorp: Failure

A small amount of important evaluation was carried out in this project. Several key factors were identified as potential sources of problems with the project during its development. These evaluations were not acted on at the time the issues were raised though, and the project ran for some time before being closed down.

As with many of the other projects in this study, the managers of this project had had a great deal of contact with the potential customers, and established a detailed knowledge of their needs. In this case, they had also correctly evaluated the potential size of the market as very large. A combination of internal and external factors contributed to the failure to exploit this demand. These were identified in the limited and judgmental evaluation that did take place, but the project managers tried to overcome the problems, rather than close the project. Although the feasibility of providing the product had been established, the main internal problem was a lack of organizational support. The principal external problems were the attitudes towards Citicorp, given the lack of previous relationships, Citicorp's poor record in the sector, and the features of the product they were offering.

The features of the product were in fact constrained by the lack of support from the lending arm of the bank. Essentially, the customer need consisted of structured project finance; Citicorp could not offer the actual finance, but only the structure. Technically, they were extremely well-equipped to do this, but it became clear fairly early on that customers wanted the package complete, from one source.

At this point in the project, it might have been apt to act on this evaluation of the customer need by aiming to gain the internal support neccesary to provide the complete package, or to withdraw. The managers opted instead to attempt to combine their expertise in structuring with the actual finance of other banks, who would present the package as complete to the customer. With this approach they came close to success, but ultimately failed to make a deal. Eventually, under pressure to make money or cut losses, the project manager recommended closure *on the basis of the evaluations of internal and external problems already carried out.*

The limited amount of evaluation carried out in this project clearly revealed the problems that would lead to its failure. The impact of the evaluation was minimal, however, as the managers involved sought ways to get round the problems, rather than to face them squarely.

5.2.8 Lloyds Bank: Success

The importance attached to evaluation in this case was of a similar level to that in the other successful cases. This project is interesting however in that the evaluation was focused heavily on external factors, as was the evaluation in the Chase/success project. Whereas the criteria in the latter were all in the "customer need" category, there is a good spread across all three external categories in this case. The internal criteria evident were those concerned with synergy, feasibility and organizational support.

Although a relatively high number of external criteria were considered, this was not due to a systematic attempt to evaluate comprehensively. In fact

the evaluation in this project is similar to that in most of the others, being primarily judgmental and incidental. Rather, the use of a wide range of external criteria reflects a different approach to thinking about new business development (observed in an even more marked form in the Midland/success case). This approach consists of a deliberate attempt to view the new product or business in terms of the benefits as perceived by the customer. This explicit recognition that a customer's perception of the benefit may be different to the producer's perception is unique among these cases. The evaluation of external factors, as in most of the other projects, was based upon close customer contact over a long period of time, rather than a deliberate examination at any one point.

The focus on customer perceptions in this case was to some extent due to the effort to evaluate the customers' needs well. In practise, the true value of this approach was probably lost when the the concept was taken by the Commercial Banking Department and branded to fit in with existing products. The success of the branded product was largely due, though, to the nature of the evaluation of the customers' needs carried out by the treasury executives. This assertion is borne out by the fact that the product survived, while the branding did not. The treasury managers are happy to see it now as one of a portfolio of tools which may be applied to the task of providing solutions to customer needs.

5.2.9 Midland Bank: Success

This is a case where, although few criteria were actually taken into account, the external evaluation was in some depth, and the internal evaluation relatively systematic. The external evaluation, as in most of the other successful cases, consisted of developing a detailed understanding of the customer needs. The internal evaluation in this project is unique among those studied in that it actually followed a set process of approvals specifically for new products. In this process, the proposal was evaluated and approved by directors of the Tax, Legal and Trading Departments in the bank.

The manager of the project carried out the external evaluation, on the basis of frequent and extensive contacts with customers. His evaluation was judgmental in character, but extremely detailed in its analysis of customer needs. This reflects what is not a systematic approach, but a common approach to all business development efforts at Midland Treasury Sales. The principle, with which they attempt to drive all business development projects is to try to establish the needs of the customer in some depth. Indeed, the executives are reluctant to talk about selling or developing products, and prefer to see their business as providing solutions for the financial needs of their customers. This is similar to the views of the executives on the Lloyds/ Success project. At Midland, however, the view is more a matter of a common policy - almost an ethos - behind business development. This policy was definitely reflected in the external evaluation of this project.

The internal evaluation however, while similarly limited to a few key criteria, was systematic and analytical. The internal approval process, through

which all new products are supposed to pass, demands that the project manager checks all the regulatory, legal, trading risk and taxation issues relating to the product. These are then encapsulated in a proposal which must be signed off by the heads of the respective departments before the product can be introduced. Alongside the systematic approval process, however, the evaluation of the feasibility, technical structure and issues of strategy and synergy is judgmental and dependent on the indvidual managing the project.

The success of this project is largely attributable to the detail and depth of the examination of the needs of the potential customers. The first major trial deal did not go through, however, and the subsequent success reflects the confidence that such a deep knowledge of customer needs engenders. In this respect, the evaluation in this project is similar to that in the Chase/Success case. The systematic internal evaluation procedure, whilst it cannot be described as a direct success factor, undoubtedly contributed to the smooth running of the project. The importance of the internal procedure is best illustrated by a comparison with the Midland/Failure case, where it was significantly absent.

5.2.10 Midland Bank: Failure

This was a case where virtually no evaluation took place at all. There was a small amount of *ad hoc*, external evaluation insofar as the product was based on what was perceived as a customer need. Similarly, in the case of internal evaluation feasibility and synergy had been considered, but not in any great detail. The case is interesting as a contrast to the Midland/Success project. Neither the systematic internal, nor the in-depth external evaluations which were features of the

successful project are evident here. In fact, the executive in charge of this project recognised that the failure of the product was at least in part due to the lack of evaluation, and admits that with sufficient evaluation, it would not have been launched.

There are two issues of note relating to the external evaluation. First is that, as in most of the cases, the external evaluation that did take place was judgmental, and based upon active attempts to develop an understanding of customer needs. In this case, however, the manager was focusing on one corporation. Although he got close enough to understand the particular need, and develop a product to satisfy it, he did not get close enough to appreciate the risk that the need could disappear very quickly (which it did). Secondly, the potential demand for the product among retailers was **assumed**, and was not evaluated in any manner.

Concerning internal evaluation, the project's manager was fully aware that he had not complied with the system of approvals (as described in the Midland/ Success case). This was a risk he was willing to take though, under the circumstance of the time constraint imposed by the availability at short notice of an opportunity to publicise the product. In fact, the time constraint was also what prevented a fuller external evaluation.

In the event, after the "launch" (that is, the advertisement), it was quickly established that although there was interest in the product, there was no market for it. Thus it did not really matter that the internal approvals system had been by-passed, because no business resulted. It did matter, however, that the external evaluation had been totally inadequate, as the advertising space had been effectively wasted. Furthermore, much energy had to be devoted to fielding

enquiries from people who had misunderstood the nature of the product from the advertisement. This is a clear example of a project where a better external evaluation could have prevented the fruitless launch, or possibly allowed successful adaptation of the product to customers' actual needs.

Having discussed in this section the nature of the evaluation process which took place in each of the projects individually, the next section contains an examination of categories by which the types of evaluation may be linked to types of project.

5.3 CATEGORISATION

The objective of introducing a categorisation is to help to explain the observed differences in the cases. In this study, it represents a discrete aim, because the stated hypotheses concern only a specific set of relationships. In an exploratory study, where quasi-experimental controls are difficult to apply, there is always the possibility that the measured relationships reveal only a partial explanation of the circumstances. Thus, in this study, the hypotheses relating evaluative criteria and success do reveal certain associations (as shown in the next section), but may not be considered to describe the complete picture. The basic reason is that formal evaluation is shown to play a minor role in the development processes studied. It is sought here, therefore, to examine the cases in their entirety, in order to find a means of classifying them which will add to the understanding of the role of evaluative criteria gained from hypothesis testing.

A number of possible approaches to categorising the cases studied were considered. These included

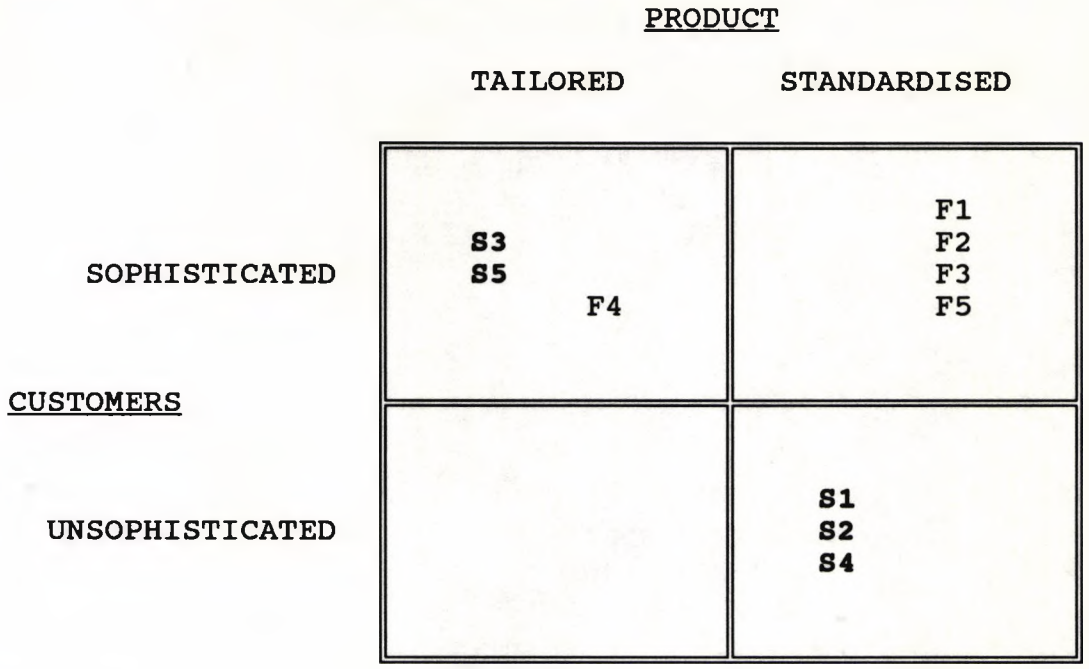
classifying by the degree of formality of the development process; the degree of systematisation, the completeness, the structure and the rigour of the evaluation process; the types of products being developed, the types of markets addressed, and the degree of success achieved.

In selecting a useful categorisation, the criterion applied is that any inductively discovered classification must add to knowledge of the phenomenon gained by description or by hypothesis testing. Thus, the constructs which were chosen were those which seemed to shed most light on the eventual outcomes of the projects.

The constructs which proved to offer the greatest elucidation of the case outcomes were the type of product, and the nature of the target market. More specifically, it was found that the products developed in the cases studied could generally be classified as "standardised" or "tailored" offerings. Furthermore, the customers at whom the products were targeted could be classified as "sophisticated" or "unsophisticated".

Thus, it is possible to create a matrix. In this matrix, the projects are denoted according to whether they are successes or failures, with the pattern shown in Figure 10. overleaf.

FIGURE 10. PROJECT CLASSIFICATION MATRIX



KEY:	**S = success;**	**F = failure.**
Natwest	S1 Base Rate Caps	F1 Participating Fwrd
Barclays	S2 BERO	F2 Dealer Workstations
Chase	S3 Oil Index Swaps	F3 PARTS
Citibank		F4 Project Risk Mgmnt
Lloyds	S4 Fixed Rate Loan	
Midland	S5 Oil Hedging	F5 7-Day Floors

Using the same axes, the matrix in Figure 11. shows the nature of the evaluation observed in the projects which fall into each quadrant. Here, the term in the quadrant refers to the type of evaluation found.

FIGURE 11. EVALUATION CLASSIFICATION MATRIX

CUSTOMERS	PRODUCT: TAILORED	PRODUCT: STANDARDISED
SOPHISTICATED	Selective	Ineffective
UNSOPHISTICATED	None	Selective

Inside boxes: evaluation types observed typically in projects falling in this quadrant.

The following basic propositions are derived from the classification introduced in Figure 11:

1. Projects involving tailored products for sophisticated customers, and

2. projects involving standardised products for unsophisticated customers are **successful**, whereas

3. projects involving standardised products for sophisticated customers are **unsuccessful.**

No projects in the study were found to fall in the quadrant for tailored products for unsophisticated customers.

The proposed explanation for this state of affairs is project success is linked with selective, but effective evaluation, while failure is linked with ineffective evaluation. The argument that standardised products targeted at sophisticated customers is a mismatch between offering and need is presented fully in Chapter 6.

5.4 ASSOCIATION

The results of testing for the hypothesised associations initially described in Chapter 3 are presented in this section.

To recap, the working hypothesis is:

NBD project success is associated with high relative importance of external to internal criteria in the project evaluation process.

The purpose of the experiment is to test for theoretical replication in each case. Thus, this working hypothesis gives rise to two supporting hypotheses, one stating the hypothesis for successful projects, the other stating the inverse of this hypothesis for unsuccessful cases. The supporting hypotheses are stated as follows:

H1. In **successful** projects, greater importance is attached to external criteria than internal criteria in the evaluation process.

H2. In **unsuccessful** projects, greater importance is attached to internal criteria than external criteria in the evaluation process.

For the purpose of testing, these supporting hypotheses have been restated (as explained in Chapter 3), defining the concept of "importance" in greater detail, as shown below.

H1.1 A wider range of external than internal criteria is used in the evaluation of successful projects.

H1.2 External criteria are evaluated in greater depth than internal criteria in successful projects.

H1.3 External criteria are evaluated earlier than internal criteria in the development of successful projects.

H1.4 Evaluation of external criteria has a greater impact than evaluation of internal criteria in successful projects.

H2.1 A wider range of internal than external criteria is used in the evaluation of unsuccessful projects.

H2.2 Internal criteria are evaluated in greater depth than external criteria in unsuccessful projects.

H2.3 Internal criteria are evaluated earlier than external criteria in the development of unsuccessful projects.

H2.4 Evaluation of internal criteria has a greater impact than evaluation of external criteria in unsuccessful projects.

To derive the basic data necessary to test these hypotheses, the content analysis schedule (Appendix 3) was applied to each of the cases, as described in Chapter 3. The resulting data consists of two scoring sheets - one for internal criteria, one for external criteria - for each of the ten cases. These scoring sheets (shown in Appendix 4) contain the data which is collected for comparative purposes into Table 5, which is shown overleaf.

TABLE 5. CONTENT ANALYSIS RESULTS

SUCCESSFUL PROJECTS

		USED	DEPTH	STAGE	IMPACT	SCORE
EXTERNAL	NATWEST	6	6	12	6	12
	BARCLAYS	13	14	23	14	25
	CHASE	6	10	12	9	32
	LLOYDS	10	11	19	11	25
	MIDLAND	3	5	6	5	18
AVERAGE		7.6	9.2	14.4	9.0	22.4
INTERNAL	NATWEST	5	5	8	5	8
	BARCLAYS	13	17	24	16	38
	CHASE	4	7	8	5	18
	LLOYDS	6	6	10	6	10
	MIDLAND	6	6	12	6	12
AVERAGE		6.8	8.2	12.4	7.6	17.2

FAILED PROJECTS

		USED	DEPTH	STAGE	IMPACT	SCORE
EXTERNAL	NATWEST	3	3	6	4	8
	BARCLAYS	1	1	2	1	2
	CHASE	2	2	3	2	3
	CITIBANK	2	3	3	3	6
	MIDLAND	2	2	4	2	4
AVERAGE		2.0	2.2	3.6	2.4	4.6
INTERNAL	NATWEST	3	4	6	3	8
	BARCLAYS	2	2	4	2	4
	CHASE	4	5	8	4	10
	CITIBANK	2	2	4	2	4
	MIDLAND	3	3	6	3	6
AVERAGE		2.8	3.2	5.6	2.8	6.4

Using the data in Table 5, the hypotheses can be tested in simple arithmetic fashion using the following formulae on a project by project basis:

Successful projects:

If External Score > Internal Score then accept H1

Unsuccessful projects:

If Internal Score > External Score then accept H2

For example, to take the Natwest projects, referring to Table 5. for the importance scores we have:

Successful: Ext. = 12 Int. = 8 therefore accept H1

Unsuccessful: Ext. = 8 Int. = 8 therefore reject H2

The results of the hypothesis tests are shown overleaf in Table 6.

TABLE 6. HYPOTHESIS TEST RESULTS

Successful Cases

	H1	H1.1	H1.2	H1.3	H1.4
Natwest	**1**	1	1	1	1
Barclays	**0**	0	0	0	0
Chase	**1**	1	1	1	1
Lloyds	**1**	1	1	1	1
Midland	**1**	0	0	0	0

Unsuccessful Cases

	H2	H2.1	H2.2	H2.3	H2.4
Natwest	**0**	0	1	0	0
Barclays	**1**	1	1	1	1
Chase	**1**	1	1	1	1
Citibank	**0**	0	0	1	0
Midland	**1**	1	1	1	1

Key: **1** = ACCEPT
0 = REJECT

To summarise the results shown in the table of hypothesis tests, the working hypothesis is accepted in four of the five successful cases, and in three of the five unsuccessful cases. As the experimental aim is theoretical replication, the hypotheses are tested *within* each case, and the results should not therefore be aggregated across the cases (ie. these results should not be interpreted as implying that the hypotheses would hold in 7 out of 10 cases in general).

The process of enumerating the scores, and of testing the hypothesis has been kept to the simplest arithmetical formula possible. This is because the level of evaluation activity observed was considered to be of such a low level that to attempt to introduce any more sophisticated mathematical model would be of no additional analytical value.

This argument is rooted in the derivation of the figures which constitute the basic data. Where few or no evaluative criteria are observed, and those few have been used in a haphazard, inexplicit manner, there is little to be gained from a mathematical analysis comparing the *type* of those criteria. For the same reason, only very limited significance may be attached to the confirmation or disconfirmation of the hypotheses which are based on these figures.

Ultimately, therefore, there is more to be learnt from a qualitative analysis focusing on the nature of the evaluation in the cases, than there is from a comparison of the specific nature of the few criteria actually observed. This is the theme of the discussion, in the next chapter, of the results that have been presented in this chapter.

CHAPTER 6. DISCUSSION OF RESULTS

In this chapter, the results presented in the last chapter will be discussed in the context of prior research. The organisation of the discussion follows the pattern used in Chapter 5: three sections are used, corresponding to i) the descriptive, ii) the classificatory, and iii) the hypothetical aims of the study.

6.1 DESCRIPTION

The most important descriptive finding of the study is the unstructured and unsystematic nature of the processes of development studied. This is very much in contradiction to the bulk of the extant literature on new product development, particularly that focusing on evaluation. There are two issues of substance arising from the results of this study. First is that the development processes in general do not conform to any of the systematic models offered in the NPD literature. Second is that, within the development processes, the use of evaluation is found to be equally *ad hoc* and unplanned; this contradicts the popular view of evaluation as a systematic, rational and comprehensive activity in the development process.

6.1.1 Development Processes

It is evident from the case material that the processes of development of the projects in this study do not follow a structured pattern or sequence of activities, either by accident or design. The one possible exception to this observation is the successful project at Midland Bank, the process of which incorporated a series of pre-specified sign-offs by senior executives. The step-by-step models of Donnelly, Berry & Thompson (1985), Johnson, Scheuing & Gaida (1986) and Scheuing & Johnson (1989) appear to have virtually no relevance to this particular context, except as normative recommendations.

The results of this study, in fact, strongly support the suggestion of a widespread lack of structure and formality in new product development by Scheuing & Johnson (1989):

> "Only slightly over half the respondent institutions use a formal, structured process for new product development and introduction. This finding suggests that new product development may occur by chance in many financial institutions."

Scheuing & Johnson (1989) are concerned with the broad context of financial services however. The results of this study are by contrast restricted to the context of the Treasury divisions of large commercial banks. The general lack of structure to the processes observed in the projects of this study should not be assumed to hold generally. The cases for the study were chosen to conform to an experimental design on an intra-case basis, and they have not been chosen to form a sample of a wider population; they are merely "typical".

Whilst agreeing with Scheuing & Johnson (1989) and

also with Davison et al (1989) that observed processes agree little with models advanced in previous literature, the results also show a positive agreement with the findings of Mintzberg et al (1976). That is to say that the processes of the projects studied conformed closely to the "unstructured decision processes" delineated by Mintzberg et al (1976) in their study.

As this finding was discovered at the preliminary stage of the fieldwork, and subsequently incorporated into the ultimate experimental design, its implications are more fully discussed in Chapters 2 and 3 which cover the theoretical basis for the study, and the methodology.

6.1.2 Evaluation Processes

Corresponding to the general lack of structure in the project development processes, no evidence of systematic evaluation was found in the cases. In fact, there was little evidence of explicit evaluation of any sort. What is referred to as evaluation in the literature - the process of information retrieval, processing and consequent decision making - was typically done in an *ad hoc* manner, as and when found necessary. Most of the evaluation carried out was not actually viewed as "evaluation" by the executives interviewed. This became evident in the course of administering the interviews, when questions concerning evaluation, or the evaluation of specicic criteria had to be explained or re-phrased in order to make them clear.

The first major point to make about the observed evaluation processes, therefore, is that there was generally no deliberate attempt to evaluate either

internal or external criteria. Evaluation of certain criteria was carried out in all cases, but was generally not thought of as "evaluation". This is a particularly vivid contrast to the literature on evaluation in new product development, which portrays logical enumeration of possibilities and scoring models of great complexity as the basis for making product and project development decisions - Baker & Freeland (1975), Souder (1978), Muncaster (1981), Cooper (1981), Cooper & de Brentani (1984), Cooper (1985), Ronkainen (1985), De Brentani (1986), Baker & Albaum (1986), Danila (1989). No evidence whatsoever was found of the use of such methods of evaluation.

There are three lines of reasoning as to why such complex screening and evaluation models are not used in this context. First is that the environment in which the NBD projects occur is unstructured and unsystematic. Second is that by its very nature, new business development involves the creation of a product, the market for which does not as yet exist, and by extension is difficult or impossible to evaluate (a familiar criticism of the value of market research for genuinely new products in the manufacturing context). Third is that the conducting of research to provide the data for a rigorous evaluation is costly and time-consuming.

The argument that complex evaluation models are not used due to the fact that the management environment of the NBD projects is unstructured is a powerful, but obvious one. The cases showed virtually no evidence of a systematic approach to either new business development or to project management when a project was undertaken. The justification behind the undertaking of most of the projects did not extend much beyond "it seemed like a good idea at the time" (although, as will be discussed in section 6.3, the reason it seemed like a good idea was often a deep knowledge of a strong customer need).

The argument is worth following however, as the usage of evaluation and screening models as advocated in the NPD literature goes hand in hand with a structured approach to product development, and usually, a planned product development program. The value of such models lies partly in that they help to distinguish between the relative merits of competing projects, and partly in that they help to gauge the absolute merits of individual projects. In the environment of NBD in the Treasury context the first of these benefits would seem to be worthless, as there was no evidence of a program of new products, or of the issue of competing projects for the same new business development.

The second line of reasoning for the lack of systematic evaluation is that the complexities and ambiguities inherent in researching a new market make it difficult or impossible. This was expressed most strongly by the executives responsible for the successful projects at Citibank and Midland. The following excerpt is representative:

DB Did you make an attempt to evaluate what the size of the market could be ?

Resp No.

DB On what basis did you go ahead then ?

Resp The feeling that the clients would need this... you know, really the market didn't exist, the market was created by persuading people that they had this risk and they should be hedging it.

DB So there wasn't any real way you could look and see what way the market would develop ?

Resp There was no market.

This and other similar arguments provide support for describing the predominant form of evaluation in the projects as "judgmental", according to the definition of Mintzberg et al (1976). That is, when it appears

impossible to rationalise the projected market in terms of size, quantity or turnover, executives have two choices. They may set out quantitative assumptions and assess probabilities, and thereby come to a rational expectation, or they may act intuitively, basing their decision on their feeling for the potential need. The latter appears to be the predominant mode of evaluation and decision making in this context.

The difficulty of forecasting the size and shape, or the rate of development of a new market appears to be equally problematic for executives who are required to do so as part of a product proposal or sign-off. In a number of cases in this study, the executives confessed to deliberately avoiding an internal appraisal because they could not convey the potential until they had actually done a deal. The following quote illustrates:

Resp Well I was basically doing everything illegally, which is the only way to do things, because I didn't have a Risk Council meeting, I didn't have the booking procedures established, I was out marketing the deal... because I didn't have time for that. If I couldn't prove the business worked by doing deals I would have been dead.

The third possible reason for the lack of systematic evaluation lies in the cost of conducting research, and the time it takes. A common reason given for the lack of market evaluation was that although it could have confirmed a hunch or provided useful detail, it was not worth the extra time and cost.

This reasoning is valid when the overall costs of the developments are taken into account. Although only one of the respondents could give any sort of detailed estimate of the project costs, typically the costs are very low compared to manufacturing product developments. This is because the principal costs to the firm of engaging in new product development are the salaries of

the executives working on the project. To engage in a detailed evaluation of alternatives, or of different features could easily double such time-related costs. Furthermore, in the development of a genuinely new product, time is at a premium in the race to introduce the new offering before competitors. Finally, as the development costs of NBD projects are generally very low, the cost of failure is low. These factors together mean that any complex or involved evaluation procedure is seen as essentially undesirable as it will i) add to the lead time, ii) add to the project cost and hence iii) increase the downside risk - the cost of failure, and iv) at best provide information which can just as easily be gained by launching the product quickly and waiting for customers' reactions.

These views are summed up by the following quotation from an unsuccessful case:

Resp It's very difficult to quantify what these things actually cost - it's basically use of management time. We never actually sat down and worked out how much it cost us to develop this... I have a rough idea of how much time I spent on it, and how much that may be worth to the bank... given that I've got that brief anyway, and if I'm not doing this, if I'm doing nothing, the time is being used and costs the same anyway. I would have thought, knowing the number of deals that we did initially, that the R&D costs were covered... but unlike, say the stock of a commercial company, it doesn't cost us anything to keep it - there's no cost of capital, or cost of carrying this thing - it's in one of the word processors, the guys on the options desk know how to price these things up, and if someone wants one, it can be done straight away.

Finally, the findings on the use of evaluation in the projects concur fully with those of Davison et al (1989) quoted in section 2.2.2. The findings of this study may also be compared with the ten propositions advanced by Scheuing & Johnson (1989) (also quoted in

full in section 2.2.2). The results of this study support the following of their propositions **within the context of Treasury NBD projects:**

3. Marketing research techniques find limited use in the new product development process.

4. The use of a formal new product development process is limited.

7. New product leaders or champions rarely reap personal rewards from their financial institutions.

The following propositions are contradicted by the results of this study **within the context of Treasury NBD projects:**

2. Marketing is largely responsible for new products in financial institutions.

5. Most institutions use new product evaluation committees to assess new product ideas.

6. Most institutions use new product project teams to implement new product ideas.

6.2 CLASSIFICATION SCHEME

According to the research aims, in addition to describing the context and testing for hypothesised associations it is sought to establish a useful classification of the cases. The basic reason is to provide a balanced set of results - a study offering only description and hypothesis testing would leave open the question of alternative interpretations available from an inductive analysis of the data. In this instance, the classification scheme established (shown in Figures 10 and 11) adds significantly to our understanding of the associations found between evaluative criteria and project success.

It is important to state, however, that the classification scheme has been arrived at by an inductive process of analysis after the event of data collection. The constructs should not therefore be treated as having the applicability of deductively proven findings. They should best be treated as propositions for the establishment of a general means of categorisation yet to be tested rigorously.

The search for a means of classifying the cases was initially focused on attempting to distinguish differences between the evaluation processes of the projects. This proved an impossible task, however, as there was so little evidence of deliberate, explicit evaluation in any of the projects. In effect, while evaluation could be identified as occurring in the projects, it can hardly be described as an evaluation process except insofar as it is part of an "unstructured decision process".

Having failed to find any sufficient distinctions between the cases in terms of the evaluation processes,

the search for classifying constructs was focused on the question: What is it that distinguishes the successful cases from the unsuccessful? The constructs which appeared to offer the clearest distinction were i) the degree of standardisation of the new product being developed, and ii) the level of financial sophistication of the target customers.

Although these constructs were not the most obvious means of classifying from the outset, in fact they reflect fairly closely the nature of business development that has been occurring in the market for Treasury products over the past several years. That is, since the development throughout the early 1980's of the fundamental tools of risk management - basically swaps, options, and forward contracts - there have been two major directions of development. The starting point for these developments was a market for risk management products that consisted mainly of large, financially sophisticated companies. The directions in which development has occurred have been: i) increasingly technically ingenious "financial engineering" solutions, tailored to the needs of the most sophisticated corporations, and ii) simplifications of basic risk management products into standardised offerings for smaller, less sophisticated companies.

Whilst it cannot be suggested that the classifications proposed in Figures 10 and 11 are universal, or exclusive, they do provide a useful view of the projects in terms of how successful the evaluation was. Concerning the project classifications, assigning categories is not entirely straightforward, as the target market was not explicitly clear in some of the cases. Furthermore, the dichotomy of standardised or tailored products is imperfect, as there are a multitude of possibilities in between these extremes.

What is clear from the project classification, however, is that using these categories appears to offer a considerable amount of distinction between successful and failed cases. The distinction (presented in section 5.3) appears to be as follows:

1. Projects involving tailored products for sophisticated customers, and

2. projects involving standardised products for unsophisticated customers are **successful**, whereas

3. projects involving standardised products for sophisticated customers are **unsuccessful.**

NB. No projects in the study were found to fall in the quadrant for tailored products for unsophisticated customers.

In fact, only one of the cases (F4, Project Risk Management) falls outside this *apparent* distinction. The distinction, however, is merely apparent, and not explained until we consider the second matrix of types of evaluation observed in the cases in each quadrant. In Figure 11, the quadrants occupied by the successful cases are labelled "selective"; the quadrant occupied by the failed cases is labelled "none or ineffective". The reasons for these labels are as follows.

None of the evaluation processes observed in the projects studied could be said to be "complete" in that all the possible evaluative criteria had been considered. At best, a limited number of criteria were considered in some depth (as will become clearer in the analysis in the next section). At worst, there had been no explicit evaluation, and analysis of the case revealed no more than two or three criteria, which had been considered in a manner more accidental than

deliberate. Once more, for the purposes of establishing a relatively simple classification, we are forced into the use of imperfect dichotomies; however, these two extremes represent the labels "selective" and "ineffective" in the matrix. In the cases where evaluation has been labelled as selective, it may also be considered to have been effective.

The explanation of the apparent distinction that Figure 10 offers between successful and unsuccessful projects is couched in terms of the effectiveness of the evaluation in the projects. It is this: in the successful projects, effective evaluation has led to a good match between the type of product offered, and the target market; in the unsuccessful projects, ineffective (or non-existent) evaluation has led to a mis-match between product and market which has resulted in failure.

Referring back to the actual recent directions of development in the market for Treasury products, this becomes clearer still. The type of product needed, or demanded by the most sophisticated corporations, is that which they are unable to design with their already considerable financial expertise. It is therefore likely to be large-scale, and tailored to their specific requirements. Most of the basic hedging and risk management strategies used by such firms are designed in-house, and effected by buying over-the-counter, freely traded instruments. Thus, they will generally not be interested in paying premiums for new, but nonetheless standardised derivatives of such pre-existing products. These latter, are the unsuccessful products in the matrix. Had these products been targetted at smaller, less sophisticated companies (as a number of successful standardised products in the study were), then they would, perhaps have stood a better chance of success. It is an indication of how distant

the concept of evaluating the market is from the developers of these products, that they have failed, for inherently, they were potentially good (ie value-creating) products.

The argument that the role of evaluation in new business development is essentially that of ensuring a good match between offering and need appears so obvious as to be banale. It is stressed here, however, as it has not been in previous literature on evaluation. The difference between this study and those quoted in the literature review is one of focus. The focus of previous research on evaluation - Baker & Freeland (1975), Souder (1978), Muncaster (1981), Cooper (1981), Cooper & de Brentani (1984), Cooper (1985), Ronkainen (1985), De Brentani (1986), Baker & Albaum (1986), Danila (1989), Easingwood & Percival (1991) - is that of **establishing the value to the firm of engaging in a particular project.** This is an internal focus which, to a large extent presumes the value to the customer of the new product, or demands the making of assumptions about it.

The focus of this study is on the role of evaluation in **establishing that the new product has sufficient value to the customer to be worthwhile proceeding with** for the firm. This is an external focus which is reflected in the grounding of the tenets and hypotheses of this study in marketing theory. In particular, the applicability of the classification scheme and supporting reasoning advanced here owes much to the marketing theories of Mathur (1986, 1988, 1990). It is, however, a simplification.

Mathur's argument is that offerings may be more or less differentiated by customers along the two constructs of merchandise and support. The corollary is that the offering that suits a customer is that which

matches the customer's level of sophistication in, or understanding of the usage context. The construct of "standardisation" used in this study is intentionally the inverse of what Mathur denotes by "differentiation". It is however simpler, presenting only the dichotomy of tailored and standardised products. The simplicity of the classification scheme, although presenting slight problems with the allocation of projects to categories, was a necessary feature, given the small number of projects concerned.

6.3 EVALUATIVE CRITERIA

This discussion of the findings relating to the evaluative criteria used in the projects is split into two sections. The first deals with the tests of the hypothesised associations between evaluative criteria and project success, and other conclusions that may be drawn from the content analysis of the cases. The second examines the evaluative criteria actually observed in the projects in greater detail.

6.3.1 Hypothesised Associations

The experimental aim of this study has been to test the working hypothesis which states that:

> NBD project success is associated with high relative importance of external to internal criteria in the project evaluation process.

To recap the results of the hypothesis tests (shown in Table 6. and presented in Section 5.4), the working hypothesis is supported in seven of the ten cases.

It may not be firmly concluded, however, that external evaluative criteria are more important than internal criteria to project success. The margins by which the hypotheses are accepted are narrow. In the **successful** cases, the average scores (see Table 5.) are:

External 22.4
Internal 17.2

While in the **unsuccessful** cases the average scores are:

External 4.6
Internal 6.4

Although it would have been possible to subject the figures resulting from the hypothesis tests to a significance analysis, this has not been considered worthwhile. The reason is that the figures themselves are not considered to be a highly accurate representation of the evaluation process they are intended to describe. This is due to the fact that the experimental design and the content analysis schedule were designed according to the analytical models of evaluation available from the previous literature. The major finding that has been discussed in the last two sections is that the actual evaluation processes conform little to the structured, analytic type upon which the experiment was based. This may be considered a weakness of the experiment, but not an avoidable fault, as the design was necessitated by the fact that the context was not described by previous research.

Few evaluative criteria are observed to be used in the projects, and these are not found to be used in an analytical manner. The content analysis schedule offers a measure of importance depending upon the numbers of criteria used. Although it also contains a measure of the depth into which each criterion is evaluated, the

distinction that this offers is not sufficient to describe the projects accurately. Rather than focussing this discussion on the results of the hypothesis tests, therefore, it is more profitable to examine the few criteria which have received a lot of attention, and the nature of their usage.

Having stated that the results of the hypothesis tests do not provide us with conclusive evidence of associations, it is worth making further points concerning the data generated by the content analysis, before moving to a discussion of the observed criteria. First is that, although the content analysis schedule is argued to be imperfect in its present application, this is a reflection of the context of the study. The experiment and the method of analysis were largely based on and designed around previous evaluation literature. It is likely that they would apply considerably better, therefore, in the context of new product development in manufacturing industries - the context in which most of the previous research has been conducted.

Second is that, given the figures reported in the hypothesis tests, another association may be drawn inductively. This is, of course, subject to the same caveat as the deductive hypotheses in that the figures provide an imperfect description of the actual processes. The margin of difference, in this instance, makes it worth reporting as a proposition that is worth testing in further studies. It is this: **success is achieved in projects in which a relatively high degree of importance is attached to evaluation.**

The figures upon which this observation is based are the same importance scores that have been used to test the hypotheses (shown in Table 5.) In stating this association, however, we are not concerned with differences between the importance attached to internal

and external criteria, but differences between the *general* level of importance attached to evaluation in successful and unsuccessful cases. The average importance scores, once again are :

Successful cases:	External criteria - 22.4
	Internal criteria - 17.2
Unsuccessful cases:	External criteria - 4.6
	Internal criteria - 6.4

Thus, the proposition to be drawn from the importance scores is simply that project success is associated with a more careful and comprehensive evaluation of both internal and external criteria. Technically, it would of course have been possible to have stated these associations as hypotheses to be tested in this research study. Indeed this was one option that was considered in the course of experimental design. It was not followed through for two reasons. Firstly, the notion that evaluation should be balanced between external and internal criteria is not a theoretical proposition that may be derived from the prior literature on evaluation, most of which stresses the primary importance of market criteria. Secondly, the case study methodology demands theoretical replication of results - that is, the testing of hypotheses within, rather than across cases. The proposition that success is related to the general level of evaluation is drawn from a cross-case analysis, and should properly be tested in a study comparing between successful and unsuccessful cases.

6.3.2 Specific Criteria

In this section, we shall examine the actual criteria observed to be used in greater detail. In the last section, the argument considered the relationships of groups of criteria (internal and external) with project success. It was not possible however to draw firm conclusions from the analysis. Therefore, in addition to the descriptive and categorical analyses discussed earlier, it is sought here to add to our understanding of evaluation in the projects by focusing on individual criteria. The approach taken is to examine in turn the internal and the external criteria used in firstly the unsuccessful and secondly the successful projects.

In this discussion, reference is made to the content analysis data on each of the projects, which is located in Appendix 4. The data on each project is stored in a table of identical structure to the content analysis schedule (shown in Appendix 3). To recap on this structure, each project has two data sheets, one for internal and one for external criteria. The internal criteria are organised in four categories:

1. Product,
2. Financial,
3. Resources,
4. Synergy.

The external criteria are organised in three categories:

1. Product,
2. Market,
3. Customer Need.

In the failed projects, an average of 2.8 internal and 2.0 external criteria was observed. In the successful projects an average of 6.8 internal and 7.6 external criteria was observed. The criteria used are summarised in Tables 7. and 8. below.

TABLE 7. CRITERIA USED IN UNSUCCESSFUL CASES

Internal criteria	(no. of projects)
(Product)	
Feasibility	5
Legality	1
Organisational support	1
Technological strength	1
(Synergy)	
Fits with present business	3
Aimed at current customers	3
External criteria	
(Product)	
Performance	2
(Market)	
Size	1
(Customer need)	
Attitude compatibility	3
Level of need	2
Dependence on other products	2

Source: content analysis data (Appendix 4).

NB. No criteria in either of the internal categories "Financial" and "Resources" were observed in any of the unsuccessful projects

TABLE 8. CRITERIA USED IN SUCCESSFUL CASES

Internal criteria	(no. of projects)
(Product)	
Feasibility	5
Ease of service	1
Legality	4
Organisational support	5
(Financial)	
Cash flows	1
Total investment	1
Payback period	1
Development costs	1
(Resources)	
R&D resources	1
Salesforce resources	1
(Synergy)	
Fits with present business	3
Aimed at current customers	3
Fits firm's organisation	2
Fits top management preferences	3
Fits corporate strategy	2
External criteria	
(Product)	
Exclusivity	1
Performance	2
Uniqueness	1
Lets customer reduce costs	2
First to market	1
(Market)	
Size	2
Distribution characteristics	2
Relation to present prod. lines	2
Distribution channels	2
(Customer need)	
Attitude compatibility	4
Level of need	5
Learning required	1
Dependence on other products	3
Communicating benefits	4
Promotion	2
Understanding of need	5

Source: content analysis data (Appendix 4).

Two things are evident from Tables 7 and 8. First is that a wider range of evaluative criteria has been used in the successful cases than in the unsuccessful cases. Second is that the criteria used most often in the successful cases fall into three groups. The first of these observations has been discussed in the previous section. The second is worth examining more closely. The evaluative criteria found to be used most often in the successful cases are the following:

Internal

Product	Feasibility
	Legality
	Organisational support
Synergy	Fits with present business
	Aimed at current customers
	Fits top management preferences

External

Customer need	Attitude compatibility
	Level of need
	Dependence on other products
	Difficulty of communicating benefits
	Understanding of need

Once again, as these observations are drawn from a cross-case analysis, they are to be treated as propositions, rather than as firm conclusions. What we may propose, given the above list, is that it represents a basic minimum set of evaluative criteria necessary to ensure a project's success. This is not to suggest by any means that such a minimal list of criteria is to be seen as a success factor. Rather, the successful projects in this study may best be viewed as successful **despite** the selective evaluation observed in them. It

is argued here that the successful projects owe their success to the great attention paid to evaluating criteria in the "Customer need" category. Separate propositions can be derived however from each of the three categories.

6.3.3 Internal Criteria

Turning firstly to internal criteria in the "Product" category. Some evaluation of the **feasibility** of the project was found in all of the cases - this is evidently such a basic component of project management that it is not ignored even in such a generally unstructured and unsystematic environment.

Evaluation of the **legality** of the proposed product, or of the precise legal requirements for its projected usage was common in the successful cases. This reflects what amounts to a prevailing concern in the environment of Treasury products. There are two factors behind the concern. First is that the market is heavily legally regulated, and that regulations are complex, and differ across national boundaries. Second is that the legal documentation is frequently a fundamental part of the product - particularly, for example, in the case of a tailored financial engineering deal in which delivery is achieved by signing of the contract. Allied to both of these factors is the level of the financial risk inherent in transactions involving such large capital sums. The recent interest rate swap transactions between banks and local authorities have lost the banks large sums due to insufficient evaluation of their legality.

Organisational support for the product is the third common criterion in the "Product" category. The reason

is that it is most important for the developers of the new product to ensure that it gains the support of other functions within the organisation. In particular, it appears from the successful cases that the support of sales personnel is one of the most important factors in the success of a new product. The Citibank unsuccessful case is an excellent example of a project that, although extremely carefully evaluated otherwise, failed due to a lack of organisational support. The lack of support was in fact revealed in the evaluation process, but the problem was not acted upon at the time, and eventually contributed to the failure of the project.

The second category of internal criteria to be found commonly in the cases is that of "Synergy". In addition to indicating the importance of synergy, The particular criteria evident here reveal information about the nature of the aims of NBD projects in this context. The first common criterion is the degree of **fit with the present business**. Thus, in all the cases, although the stated aim was to satisfy a previously un-met customer need, there was a pre-occupation with the idea that the new product should fit logically with the existing offerings of the firm. The projects could all therefore be described as attempts to extend the existing business by developing a new product to satisfy a new need. None of the cases consisted of an attempt to set up an entire new business as a departure from the existing business (the type of development referred to as a venture or a new business venture in the NPD literature). This is not to suggest that such developments do not occur in the Treasury context. None were encountered, however, in this study, or in the preliminary research discussions which were used to ascertain the types of project available for the study.

The second common "Synergy" criterion was that the projects were typically deliberately targeted at **current**

customers. This ties closely with the objective to ensure a good fit with the current business. It also reflects the generally held (but more or less explicit according to the organisation) objective to be able to satisfy all the Treasury needs of customers. Although the possibility of attracting new customers with a new product was raised in a number of the cases, this was always viewed as a useful bonus, or a secondary objective rather than as a primary goal.

Finally among the common internal criteria is whether the new product **fits with top management preferences**. This was one of the most explicit features of the evaluation process in the successful cases at Midland, Barclays and Lloyds. It is to be distinguished though from the aim to evaluate the degree of fit with corporate strategy (observed in two of the cases). The fit with top management preferences was in practice evaluated informally at an early stage, and later, formally through a proposal sign-off in the above three cases. The difference between this and the evaluation of strategic fit is important because it reflects the theoretical distinction made by Burgelman (1983, 1984, 1986) between *autonomous* and *induced* strategic behaviour (see Section 2.3.6 and Figure 7).

Autonomous initiatives are those taken by executives acting at the business level of the firm. They are subsequently incorporated into the "strategic context" of the firm when approved by higher levels of management. By contrast, induced initiatives occur as the direct result of strategic directions issuing from top management, or from a central corporate strategy unit. The projects in this study were not the results of corporate strategic plans, but of initiatives made by executives acting principally on perceived customer needs, within the strategic context of their firm's business. Thus they conform well to the behaviour

described by Burgelman (19983, 1984, 1986) as "autonomous". It may not be concluded that all NBD activity in the Treasury context is of the autonomous type. What we observe is a close correlation *in those projects studied* with Burgelman's "autonomous" type of behaviour.

6.3.4 External Criteria

Having discussed the internal criteria, let us now examine the external criteria observed commonly in the cases. Of the three categories of external criteria in the analysis schedule, only those in the "Customer need" category were used commonly. A total of sixteen different external criteria were observed in the successful cases, compared to six in the unsuccessful cases. Even in the successful cases, however, the criteria used most commonly, and evaluated in the greatest depth were those in the "Customer need" category. Indeed, in the absence of detailed evaluation of market-related criteria, the in-depth evaluation of the customer need appears to have been the foundation of the success in the successful cases.

First of the individual criteria in the category is **Attitude compatibility.** This is an important criterion because the new products were being developed for quite new needs, and therefore often require some change in attitude on the part of the customer in order to succeed. For example, in the Chase and Midland successful cases, an instrument was developed to hedge a risk which was previously not considered by customers as part of their risk management structure. In these cases, the executives were careful to ascertain that the clients were willing to change their attitude towards the risk. The change in attitude required was basically

away from bearing it, and toward hedging it using the new offering. An example of the problems associated with ineffective evaluation of attitude compatibility is the Citibank unsuccessful case. In that case, although the unbundling of the transaction was not a technically flawed idea, the customers were not ready to change their preference to deal in this way.

Similarly, the **Difficulty of communicating the benefits** inherent in the new offering was a common criterion. The problem of communicating a new and different set of benefits is a part of the general problem of attitude compatibility. It is a more specific problem, however, in the cases of standardised products developed for less sophisticated customers, as in the successful cases at Barclays and Lloyds. In both these instances, the executives had not only to evaluate the difficulty and the means of communicating the new benefits to customers, but also to the sales personnel. The importance of this applies generally to cases of NBD where the product is distributed to existing customers through an existing sales channel.

The evaluation of customers' **Dependence on other products** was also a common feature in successful cases. In particular, the stimulus for many of the cases was the discovery that customers were using existing products to achieve a desired effect imperfectly. Such was the state of affairs in the successful cases at Barclays, Chase and Natwest.

Finally, and most significantly, the **level of the need** for the new product was found to be an important criterion in all the successful cases. In these cases, the fundamental reason for going ahead with the development was the conviction, based on a close evaluation, that there was a major need for the product. However, this did not arise in general out of any

preconception that it was necessary to evaluate the level of the customer's need in depth. Rather, it was taken for granted, in effect assumed to be the *sine qua non* of the development. It appears from the successful case material that the executives would not have set out to evaluate the customer need. At the same time, however they would not have undertaken a project to develop a product unless they were firmly convinced **on the basis of close contact with customers** that the need was there.

At this point it is worth noting the general lack of evaluation of "market" criteria, even in the successful cases. It has already been suggested that this is due to the difficulty of conceptualising a market for an offering which is not yet proven to have an application. To explain the proposition established in this study, that market evaluation plays a small part in NBD, there are two major lines of reasoning. The first is that executives in this context do not evaluate new markets because they do not have the marketing expertise to hand that is available to product developers in the industrial context. The second is that the evaluation of the market for a NBD is possible only to a limited extent, and in any case not absolutely necessary in this context.

Insofar as the results of this thesis support either of these lines of reasoning, they tend to support the second. Whilst it obviously not true from the theoretical standpoint to suggest that market evaluation is impossible, this *has* been the view of a number of executives in the field. Similarly, it is a view widely expressed in the marketing literature discussed in Chapter 2 of this thesis that market evaluation is both desirable and necessary in new product development. What we see in the cases in this study, however, is that evaluation of the customer need is used as the basis for

proceeding with projects in the absence of market evaluation.

The proposition that evaluation of the customer need for a new offering can be used successfully as a proxy for evaluation of the new market is important. In the final analysis, it is a logical concomitant of the theoretical distinction between new **product** development and new **business** development presented in Chapter 2. The distinction is this: NPD consists of the development of a new product to satisfy an existing customer need; NBD consists of the development of a new product to satisfy a new customer need. It is observed in the case of NPD that the evaluation and analysis of the changing size and nature of the existing market is extremely important. In the case of NBD, however, the customer need to be satisfied is new, and thus there is no extant market from which to draw information. In the process of NPD, the nature and level of the customer need are largely evident from the ongoing business. With NBD, the nature and level of the need are speculative, but <u>can</u> be gauged with some accuracy by close contact with a small number of the customers in question. The most important finding of this thesis is this: successful NBD is founded on a deep understanding of customer needs, rather than on market evaluation.

CHAPTER 7. CONCLUSIONS

This concluding chapter is organised into three sections. The first and second present the theoretical and practical implications of the findings of the study. The third offers suggestions for further research.

7.1 THEORETICAL IMPLICATIONS

The main descriptive finding of this study is that Treasury NBD project processes are unsystematic, and unstructured, and do not incorporate analytical methods of evaluation. The theoretical implications of this are threefold.

Firstly, evaluation theories drawn from NPD literature - Baker & Freeland (1975), Souder (1978), Muncaster (1981), Cooper (1981), Cooper & de Brentani (1984), Cooper (1985), Ronkainen (1985), De Brentani (1986), Baker & Albaum (1986), Danila (1989) - may not be used in this context.

Secondly, structured, step-by-step process models of the development process found in the NPD literature: Booz, Allen & Hamilton (1982), Crawford (1983), Cooper (1983), Cooper & Kleinschmidt (1986), Johne & Snelson (1988) - and the NSD literature: Donnelly, Berry & Thompson (1985), Johnson, Scheuing & Gaida (1986) and Scheuing & Johnson (1989) are equally inapplicable.

Thirdly, two models of the business development process have been identified which do describe the Treasury context well. These are Burgelman's (1983a) model of strategic behaviour derived from research into

internal corporate venturing, and the theory of the "unstructured strategic decision process" of Mintzberg et al (1976). The latter, besides reflecting the *ad hoc* and unplanned nature of the NBD process in this context, also incorporates an equally applicable theory of evaluation. This is the notion of "judgmental" evaluation (as opposed to analytical), which is an intuitive, rather than a rational process.

The starting point in planning the experiment of this study was the working assumption that the evaluation context conformed to that reported in the NPD literature. As this assumption has proven false, future studies of business development in this context must instead work from the theoretical basis of the two models quoted above.

There are further theoretical implications to the inapplicability of NPD and NSD process and evaluation models in this context. Two propositions are established to explain this, either or both of which may be true. One is the theorem that the difference lies in the phenomenon of study: **NBD is fundamentally different from both NPD and NSD.** The second is the theorem that the difference lies in the context of the study: **"services" differ fundamentally from "products"**, and their respective development processes differ equally. These two propositions, however, depend on conflicting theoretical distinctions, neither of which is firmly established yet.

The first theorem is rooted in a theoretical distinction made in this thesis in order to define "new business development". The basic argument is that if a firm is to develop its business it may do so either by offering new products to satisfy existing needs, or by seeking to satisfy new customer needs with existing or new products. New <u>product</u> development may therefore be

defined as the development of a new product to satisfy an existing or recognised customer need. New business development may be defined as the development of a new product to satisfy a new or previously un-met customer need. The essential distinction is this. In NPD the customer need is already defined, and a market exists for products to satisfy that need. In NBD the customer need is new, and no market exists as yet for products to satisfy it.

The distinction turns on the "newness" of the customer need, and consequently, on whether a market exists or is yet to develop. For the purpose of *this* argument, the precise nature of the offering being developed is irrelevant. That is, it does not matter whether the new offering is a tangible product or a service, some combination of both, or a commodity.

The second theorem (that services differ fundamentally from products), by contrast, is rooted in the theoretical distinctions between different types of offering. Two competing theories are available to explain the distinction between "products" and "services".

First, and most widely quoted in the literature is the notion that products differ from services in *degree* along a set of five dimensions: tangibility, simultaneity, perishability, ownership and heterogeneity - Berry (1980), Levitt (1981), Cowell (1984), Shostack (1984), Zeithaml et al (1985), Easingwood (1986), Cowell (1988), de Brentani (1988, 1989, 1989a, 1990).

Second is the theory of Mathur (1986, 1988) that all offerings may be distinguished according to the degree to which they are perceived to be differentiated by customers. Differentiation may occur in two dimensions: "merchandise" and "support". Products are defined as

offerings with differentiated merchandise and undifferentiated support. Services are defined as offerings with undifferentiated merchandise and differentiated support.

Ultimately, all the above quoted propositions must be considered important hypotheses for testing in future research. Besides raising the question and defining the theoretical state of affairs, this study can not offer any firm conclusions on the matter. Support is implicit, however, for Mathur's (1986, 1988) theory in the design of the classification scheme used in this thesis.

Finally, the hypothesis that external criteria are more important than internal criteria to successful project development has not been proven in this study. In fact, a case has been made for the propositions that external and internal evaluation are of equal importance, and that the level of overall evaluation is associated with project success. The first of these, whilst not directly contradictory, runs counter to the argument that business development should be *led* by market evaluation - Day (1981), Anderson (1982), Walker & Ruekert (1987), Cooper (1988), Shiner (1988), Johne & Snelson (1988a, 1990). Furthermore, the proposition that it is particularly important to conduct market evaluation thoroughly at an early stage of the development process - Cooper & de Brentani (1984), Ronkainen (1985), Cooper & Kleinschmidt (1986) - is not supported. Rather, the results support a proposition that has not been advanced specifically before: in NBD projects it is particularly important to evaluate the **customer need** at an early stage in the process.

7.2 PRACTICAL IMPLICATIONS FOR MANAGEMENT

On the basis of the findings of the study, three conclusions may be presented as recommendations for managers of NBD. Firstly, the greater attention that is paid to evaluation, the greater the likelihood of project success. Secondly, evaluation should be balanced: external and internal criteria should be accorded equal importance. Thirdly, the most important result of the evaluation process in an NBD project is a detailed understanding of the customer need.

The recommendation that greater attention be paid to evaluation is drawn from the observation of clear differences between successful and unsuccessful projects. More evaluative criteria were observed to be used in successful projects, and these were accorded a greater level of importance than in failed projects. This is not to suggest that evaluation should be treated in a more structured or analytical manner. Rather, it should not be treated as an *ad hoc* adjunct to the development process, but an important integral feature.

It would not be appropriate to recommend any of the analytical scoring models of evaluation from the NPD literature, given that these have been derived in a different context. It is possible however to recommend a more systematic approach that incorporates a requirement for certain criteria to be evaluated in the course of any project. This was not observed generally in the projects studied, the reason being that projects were treated as individual developments, rather than as components of a programme.

The recommendation that evaluation should incorporate both internal and external criteria in a balanced fashion is derived from the content analysis data. This shows that in the successful cases approximately equal importance was attached to internal and external criteria, with a slight bias towards external criteria. What is more important than achieving a good balance, however, is to ensure that no significant criterion is ignored. Even when the external criteria have been extremely carefully evaluated, case data demonstrates that failure to evaluate internal organisational support can lead to project failure. Similarly, the most careful evaluation of internal criteria can not compensate for failure to evaluate the customer need fully.

The need to gain a detailed understanding of the customer need for the new offering is a strong recommendation. It is based on the observation that the criteria which were universally used and accorded the greatest importance in the successful projects were those in the "customer need" category. In particular, the requirements of a good evaluation of the customer need are:

1. Assessing the absolute level of the need;

2. Ensuring that the understanding of the need is sufficiently detailed;

3. Checking to establish whether and to what extent the need is currently imperfectly satisfied by other products;

4. Evaluating the potential for problems in communicating the nature and value of the benefits of the new product;

5. Evaluating the target customers' attitude compatibility with the idea of using the new offering to satisfy a previously un-met need.

The level of understanding of the customer need is critical to the development process due to the importance of establishing the correct match between the features of the offering and the benefits required by the customer. This is the reasoning behind the classification scheme established in this thesis (see Figures 10 and 11). This classification basically demonstrates that when evaluation has failed to reveal a mis-match between offering and need, failure has resulted. The constructs of the scheme are the degree of standardisation of the product and the level of sophistication of the customers.

Most of the banks in the study already used the level of sophistication of customers (or a proxy, such as the size of the firm) as a means of segmenting. The introduction of an analysis which includes the degree of standardisation of the product would improve this means of segmentation. The most powerful analysis would be achieved, however, by the introduction of an analytical schema such as Mathur's (1986, 1988). This would allow for analysis and matching of both the product and type of transaction to the needs of customers in each of the identified segments. This remains a normative recommendation, however, as it is based on theoretical analysis rather than on the empirical findings of this study.

7.2.1 Practical Recommendations

In addition to the implications of the findings of this study discussed in the previous section, three concrete, practical recommendations may be made to improve marketing management in the treasury context.

First is that banks should recognise the potential for a systematic approach to product development. Projects should not be treated as one-offs and managed in an *ad hoc* manner, but as components of an ongoing programme of business development. This is not to imply an identical process for all projects, but to ensure that systematic evaluation of the key factors is common to the development process of all projects.

Secondly, where the functions of salespeople and product development executives are separate (as with all but the most sophisticated financial engineering cases), there should be a system to ensure quality communication between the two. This is to ensure that the understanding of customer needs by the development executive is not left to chance. Regular communication covering the key issues of current customer needs and requests, and likely future changes should be a standard feature of this relationship.

Finally, given the general lack of evidence of marketing specialists, and the concomitant lack of application of marketing principles, the introduction of a *marketing approach* must be seen as a priority. This should be achieved (as it was at Midland Bank) by introducing a programme to educate all concerned with the development, production and sale of treasury products that their objective should be the satisfaction of customers' needs, rather than the provision of a certain set of products.

7.3 SUGGESTIONS FOR FURTHER RESEARCH

The need for further research is identified in three areas. First is the phenomenon of new business development, both in concept and in practice. Second is differences between "products" and "services" and the processes of developing them. Third is the nature of the evaluation process in NBD and other unstructured contexts.

It was stressed in the literature review in Chapter 2. that this study treats NBD in novel manner, compared to previous research. Research from several disciplines was used to introduce a conceptual framework and a new definition of NBD. The conceptual framework has been utilised in conducting the empirical field study of this thesis. The objective of introducing the definition and framework was to unify the various theories contributing to knowledge of the phenomenon of business development.

Further theoretical work is now required to establish whether the distinctions proposed between new product, new market and new business development have a wider applicability than this particular experiment. The constructs of newness of "product" and "customer need" used to produce the distinctions also require examination in comparison with competing frameworks in strategy and marketing literature. Further empirical work is required to test whether the theoretical distinctions apply more widely in practice. In this study, we have examined only NBD projects, and discussed potential differences between NPD and NBD. These must be tested in controlled studies, in the contexts both of services and manufactured products.

This study has demonstrated the problems inherent in using working assumptions from research conducted in a different context. Such problems are due both to the lack of previous research in the commercial financial services context, and the disagreements in the literature concerning conceptual distinctions between products and services. This study has been designed to make a step towards redressing the first of these matters. Much empirical work is still required however, to describe and explain the process of developing new financial services before the general context is as well understood as the manufacturing sector.

Further empirical research is urgently required in order to establish the validity of currently competing theoretical distinctions between "products" and services". Firstly, the proposition that services differ from products in degree along the dimensions of tangibility, simultaneity, perishability, ownership and heterogeneity must be tested against the proposition derived from Mathur's (1986, 1988) theory that products and services are both types of offering which may be distinguished by the level of differentiation of merchandise and support. Secondly, the proposition that the *process* of NPD differs from the process of NSD must be tested empirically. Ideally, such a test should be followed by an examination of whether there are significant differences in the processes of development of the four types of offering proposed by Mathur (1986, 1988) - commodity, product, service and system.

Further research into the nature and importance of evaluation is needed. The finding of this study that little deliberate, systematic evaluation is carried out in Treasury NBD projects yields several potential research questions: Is evaluation equally unsystematic in NBD in other contexts - both services and products? Is the evaluation of the customer need an equally

important feature in NBD in other contexts? Are the analytical models of evaluation from the NPD literature relevant in any other new service development context? Is the judgmental/intuitive model of evaluation of Mintzberg et al (1976) applicable in other contexts? Is the same model capable of theoretical development in order to describe more exactly the process of evaluation in unstructured contexts?

Finally, a number of propositions derived from the results of this study need to be tested in future research into the role of evaluation in NBD.

1. Successful NBD is associated with a balance of internal and external criteria in the evaluation process.

2. Success in NBD is associated with the level of importance attached to the evaluation process.

3. The most important criteria in the evaluation process are those related to the customer need.

4. Market evaluation is not an essential feature of NBD, whereas it is an essential feature of NPD.

5. Market evaluation is typically not carried out in NBD projects because of the problems of conceptualising markets which do not yet exist.

6. Market evaluation is not carried out in NBD projects because it would add significantly to development lead times and costs.

It has been with some difficulty that the research aims of this study have been fulfilled, spanning the research continuum from description to association as they do. Future studies, even given the level of description established here, should focus as a priority on achieving a detailed descriptive knowledge of the context of commercial financial services. Only when this is done may the propositions above be tested deductively with sufficient confidence to establish or refute them as general principles.

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APPENDIX 1. LETTERS

APPROACH LETTER

Name,
Chairman,
Bank Name,
Address,
Address.

Dear

Re: New business development projects in the UK market for treasury products and services.

New business development is a topic of great importance in commercial banking. That is why I have chosen it as the subject for my PhD, to be completed in 1991. To be relevant and useful to both managers and academics, research relies on the participation of businesses such as yours.

The benefits of participating to you and your bank are: i) a rigorous analysis of project development processes and success factors; ii) a report on the general findings which carefully safeguards the confidentiality of all participants.

My purpose in writing is to seek your agreement to include your bank in my study (details of which are shown in the attached appendix).

I shall contact your office in a few days to take the matter further. You may wish to pass this letter on to a senior manager with whom I can discuss my request in detail.

Yours sincerely,

Damian Brown [Enclosure: appendix with details]

NEW BUSINESS DEVELOPMENT

This academic investigation of management practice in commercial banking aims to identify success factors in new business development projects.

Research Method

* Eight major commercial banks are being asked to participate.
* The study focusses on the **UK corporate market for treasury products and services**, and will be conducted within the division or unit responsible for this market.
* New business development **projects** will be studied. That is, projects involving both a new product and a new customer need.

Benefits to Participating Banks

Each participating bank will receive

1. Commentary on success factors in individual cases and in general.
2. A summary of the findings which will show it (but no one else) how its project development processes compare with general practice.

Confidentiality

The results of this study will form the basis of a PhD thesis to be submitted at The City University Business School. All data collected will be treated as entirely confidential. No statement of results will reveal any commercially sensitive information.

NEW BUSINESS DEVELOPMENT

Projects Nominated Should:

1. Fall in the general area of **treasury products and services**, for example financial engineering products or new types and applications of options and swaps.

2. Be recent - no more than three years should have elapsed since the project was started.

3. Be similar in scope. Two projects are required for comparison, one a commercial success, meeting or exceeding objectives in its first year after launch. The second, one that was eventually shelved or abandoned.

4. Ideally, be examples of initiatives designed to lead rather than to follow the competition.

Involvement

* Short, focussed, structured interviews with the key executives involved with each project. These will be arranged at mutually convenient times during the period November 1989 to January 1990.

* Questions asked will focus on the principles of the project development process, not on commercially sensitive details.

* Access to documentation relating to the project such as proposals, reviews and evaluations where available.

CONFIDENTIALITY LETTER

Name,
Position,
Bank Name,
Address,
Address.

Dear

Re: New business development projects in the UK market for treasury products and services.

All data collected by Mr Damian Brown for the purpose of this research study will be treated with complete confidentiality. No commercially sensitive details relating to ^F3^ will be revealed to any other participating company. Any generalised statement of results will be prepared in abstract terms and will not refer to participating firms by name. Company specific data in such a statement will be checked with that company prior to circulation.

Yours sincerely,

Dr. Axel Johne (project supervisor)

APPENDIX 2. INTERVIEW SCHEDULE

DATE _____

COMPANY _____

DIVISION _____

GROUP _____

RESPONDENT _____

POSITION _____

PROJECT _____

CATEGORY SUCC / FAIL

AIDE MEMOIRE ONLY

WORKING HYPOTHESIS

NBD project success is associated with high relative importance of external to internal criteria in the evaluation process.

Hypothesised relationships:

	Successful	Unsuccessful
External Criteria	HIGH	LOW
Internal Criteria	LOW	HIGH

(Importance of criteria)

Principal Supporting Hypotheses

1. In **successful** projects, greater importance is attached to external criteria than internal criteria in the evaluation process.

2. In **unsuccessful** projects, greater importance is attached to internal criteria than external criteria in the evaluation process.

Importance defined as

1. Range
2. Depth
3. Stage
4. Impact

STATEMENT TO RESPONDENT

I am now going to ask you a number of questions relating to the ..... project. I would like you to answer in as much detail as possible, so please don't feel limited by the specific focus of the questions.

In general terms, I am more interested in how and why things happened than exactly what happened. In particular, I am concerned with finding out how the project was assessed or evaluated at the outset, and during its development. The key points I am looking for are firstly, how the market and competitive issues were evaluated - those factors external to the bank. Secondly, how the strategic and technical issues were evaluated - factors internal to the bank. Basically I am trying to find out when these things were considered, in what depth, and what effect they had on the project.

1. Firstly, could you briefly describe the product/service that has been developed in this project ?

1.1 Was it aimed at a particular set of customers or market segment ? (Which ?)

1.2 Was it designed to relate to the current business of this group ? (How ?)

2. Could we now look at the project's development - can you tell me when and how it initially came about ?

2.2 Who made the initial running ?

2.3 What was the source of the idea ?

3. Could you describe the project's progression against a timescale, with rough dates of particularly important points ?

3.1 Idea

3.2 Concept development

3.3 First proposal

3.4 Evaluation points (discrete/continuous ?)

3.4 Screening ?

3.5 Formal commitment/ go-ahead

3.6 Technical development

3.7 Marketing research/development

3.8 Launch/ first sale

4. What sort of evaluation was carried during the project's development [relate to timescale]

4.1 Systematic/formal, or ad hoc ?

4.2 Throughout, or at certain points ?

4.3 At different stages ?

Initial idea

Proposals

Screening

Implementation

4.4 What factors or criteria were used in evaluation ?

potential market

customer need

potential competitive reaction

financial return

internal resource requirements/capabilities

potential strategic impact

5. How important was evaluation to the development of the project ?

6. Do you believe the project's success (failure) depended at all on any of the evaluation carried out ? (Which ?)

7. What was your role in the development of the project ?

8. What was your time commitment to the project ?

9. What in your opinion were the factors contributing to the success (failure) of this project ?

APPENDIX 3. CONTENT ANALYSIS SCHEDULE

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility					
- ease of service					
- legality					
- organizational support					
- safety					
- technological strength					
- patentable					
- long expected life					
- future development pattern clear					
1.2 Financial					
- RoI potential					
- Cash flows					
- Total investment requirement					
- Payback period					
- Development costs					
- Outside funding required					
- Complex financing required					
- Major customer investment required					
- Business risk					
1.3 Resources					
- Financial (capital) resources					
- R + D resources					
- Engineering skills					
- MR skills					
- Production resources compatible?					
- Salesforce resources					
- Advertising/promotion skills					
1.4 Synergy					
- Fits with present business					
- Aimed at current customers					
- Fits firms organization					
- Fits top management preferences					
- Fits corporate strategy					
Column Totals					
Index					

USED: if the criterion is used, it scores 1; if not, 0.
DEPTH: great detail scores 2; superficial scores 1.
STAGE: concept stage scores 2; implementation stage, 1.
IMPACT: criteria having great impact score 2; others 1.
SCORE = [used] x [depth] x [stage] x [impact].

CONTENT ANALYSIS SCHEDULE

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					
- performance					
- newness/innovativeness					
- uniqueness (features)					
- superiority					
- lets customer reduce costs					
- does unique task					
- quality					
- first to market					
- price higher than competitors					
- opportunity window					
- differentiation					
2.2 Market					
- Size					
- Growth rate					
- Distribution characteristics					
- Relation to present product lines					
- Distribution channels					
- Political/social factors					
- Expected sales growth					
- Expected market growth					
- Demand fluctuation					
- Product lifecycle length					
2.3 Customer need					
- Attitude compatibility					
- Level of need					
- Learning required ?					
- Dependence on other products					
- Difficulty of communicating benefits					
- Promotion					
- Service back-up					
- Understanding of need					
- Buyer behaviour					
Column Totals					
Index					

USED: if the criterion is used, it scores 1; if not, 0.
DEPTH: great detail scores 2; superficial scores 1.
STAGE: concept stage scores 2; implementation stage, 1.
IMPACT: criteria having great impact score 2; others 1.
SCORE = [used] x [depth] x [stage] x [impact].

APPENDIX 4. CONTENT ANALYSIS DATA

EVALUATIVE CRITERIA ANALYSIS SCHEDULE BARCLAYS - FAILURE

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	1	2	1	2
- ease of service					0
- legality					0
- organizational support					0
- safety					0
- technological strength	1	1	2	1	2
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources					0
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business					0
- Aimed at current customers					0
- Fits firms organization					0
- Fits top management preferences					0
- Fits corporate strategy					0
Column Totals	2	2	4	2	4

EVALUATIVE CRITERIA ANALYSIS SCHEDULE BARCLAYS - FAILURE

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance	1	1	2	1	2
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs					0
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size					0
- Growth rate					0
- Distribution characteristics					0
- Relation to present product lines					0
- Distribution channels					0
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility					0
- Level of need					0
- Learning required ?					0
- Dependence on other products					0
- Difficulty of communicating benefits					0
- Promotion					0
- Service back-up					0
- Understanding of need					0
- Buyer behaviour					0
Column Totals	1	1	2	1	2

EVALUATIVE CRITERIA ANALYSIS SCHEDULE BARCLAYS - SUCCESS

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	2	2	2	8
- ease of service					0
- legality	1	2	1	2	4
- organizational support	1	1	1	2	2
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows	1	1	2	1	2
- Total investment requirement	1	2	2	1	4
- Payback period	1	1	2	1	2
- Development costs	1	2	2	1	4
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources	1	1	2	1	2
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources	1	1	2	1	2
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business	1	1	2	1	2
- Aimed at current customers					0
- Fits firms organization	1	1	2	1	2
- Fits top management preferences	1	1	2	1	2
- Fits corporate strategy	1	1	2	1	2
Column Totals	13	17	24	16	38

EVALUATIVE CRITERIA ANALYSIS SCHEDULE BARCLAYS - SUCCESS

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity	1	1	2	1	2
- performance					0
- newness/innovativeness					0
- uniqueness (features)	1	1	2	1	2
- superiority					0
- lets customer reduce costs	1	1	2	1	2
- does unique task					0
- quality					0
- first to market	1	1	1	2	2
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size	1	1	2	1	2
- Growth rate					0
- Distribution characteristics	1	1	2	1	2
- Relation to present product lines	1	1	2	1	2
- Distribution channels	1	1	2	1	2
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility					0
- Level of need	1	1	2	1	2
- Learning required ?					0
- Dependence on other products	1	1	2	1	2
- Difficulty of communicating benefits	1	2	1	1	2
- Promotion	1	1	1	1	1
- Service back-up					0
- Understanding of need	1	1	2	1	2
- Buyer behaviour					0
Column Totals	13	14	23	14	25

EVALUATIVE CRITERIA ANALYSIS SCHEDULE CHASE - FAILURE

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	1	2	1	2
- ease of service					0
- legality	1	2	2	1	4
- organizational support					0
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources					0
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business	1	1	2	1	2
- Aimed at current customers	1	1	2	1	2
- Fits firms organization					0
- Fits top management preferences					0
- Fits corporate strategy					0
Column Totals	4	5	8	4	10

EVALUATIVE CRITERIA ANALYSIS SCHEDULE CHASE - FAILURE

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance	1	1	2	1	2
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs					0
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size					0
- Growth rate					0
- Distribution characteristics					0
- Relation to present product lines					0
- Distribution channels					0
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility	1	1	1	1	1
- Level of need					0
- Learning required ?					0
- Dependence on other products					0
- Difficulty of communicating benefits					0
- Promotion					0
- Service back-up					0
- Understanding of need					0
- Buyer behaviour					0
Column Totals	2	2	3	2	3

EVALUATIVE CRITERIA ANALYSIS SCHEDULE CHASE - SUCCESS

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	2	2	2	8
- ease of service					0
- legality	1	2	2	1	4
- organizational support	1	1	2	1	2
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources					0
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business					0
- Aimed at current customers	1	2	2	1	4
- Fits firms organization					0
- Fits top management preferences					0
- Fits corporate strategy					0
Column Totals	4	7	8	5	18

EVALUATIVE CRITERIA ANALYSIS SCHEDULE CHASE - SUCCESS

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance					0
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs					0
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size					0
- Growth rate					0
- Distribution characteristics					0
- Relation to present product lines					0
- Distribution channels					0
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility	1	2	2	2	8
- Level of need	1	2	2	2	8
- Learning required ?	1	2	2	1	4
- Dependence on other products	1	1	2	1	2
- Difficulty of communicating benefits	1	1	2	1	2
- Promotion					0
- Service back-up					0
- Understanding of need	1	2	2	2	8
- Buyer behaviour					0
Column Totals	6	10	12	9	32

EVALUATIVE CRITERIA ANALYSIS SCHEDULE CITICORP - FAILURE

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	1	2	1	2
- ease of service					0
- legality					0
- organizational support	1	1	2	1	2
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources					0
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business					0
- Aimed at current customers					0
- Fits firms organization					0
- Fits top management preferences					0
- Fits corporate strategy					0
Column Totals	2	2	4	2	4

EVALUATIVE CRITERIA ANALYSIS SCHEDULE CITICORP - FAILURE

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance					0
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs					0
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size	1	1	2	2	4
- Growth rate					0
- Distribution characteristics					0
- Relation to present product lines					0
- Distribution channels					0
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility	1	2	1	1	2
- Level of need					0
- Learning required ?					0
- Dependence on other products					0
- Difficulty of communicating benefits					0
- Promotion					0
- Service back-up					0
- Understanding of need					0
- Buyer behaviour					0
Column Totals	2	3	3	3	6

EVALUATIVE CRITERIA ANALYSIS SCHEDULE LLOYDS - SUCCESS

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	1	2	1	2
- ease of service					0
- legality					0
- organizational support	1	1	1	1	1
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources	1	1	1	1	1
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business	1	1	2	1	2
- Aimed at current customers	1	1	2	1	2
- Fits firms organization					0
- Fits top management preferences	1	1	2	1	2
- Fits corporate strategy					0
Column Totals	6	6	10	6	10

EVALUATIVE CRITERIA ANALYSIS SCHEDULE LLOYDS - SUCCESS

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance	1	1	2	1	2
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs	1	1	2	1	2
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size					0
- Growth rate					0
- Distribution characteristics	1	1	2	1	2
- Relation to present product lines	1	1	2	1	2
- Distribution channels	1	1	2	1	2
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility	1	2	2	2	8
- Level of need	1	1	2	1	2
- Learning required ?					0
- Dependence on other products					0
- Difficulty of communicating benefits	1	1	1	1	1
- Promotion	1	1	2	1	2
- Service back-up					0
- Understanding of need	1	1	2	1	2
- Buyer behaviour					0
Column Totals	10	11	19	11	25

EVALUATIVE CRITERIA ANALYSIS SCHEDULE MIDLAND - FAILURE

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	1	2	1	2
- ease of service					0
- legality					0
- organizational support					0
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources					0
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business	1	1	2	1	2
- Aimed at current customers	1	1	2	1	2
- Fits firms organization					0
- Fits top management preferences					0
- Fits corporate strategy					0
Column Totals	3	3	6	3	6

EVALUATIVE CRITERIA ANALYSIS SCHEDULE MIDLAND - FAILURE

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance					0
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs					0
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size					0
- Growth rate					0
- Distribution characteristics					0
- Relation to present product lines					0
- Distribution channels					0
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility					0
- Level of need	1	1	2	1	2
- Learning required ?					0
- Dependence on other products	1	1	2	1	2
- Difficulty of communicating benefits					0
- Promotion					0
- Service back-up					0
- Understanding of need					0
- Buyer behaviour					0
Column Totals	2	2	4	2	4

EVALUATIVE CRITERIA ANALYSIS SCHEDULE MIDLAND - SUCCESS

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	1	2	1	2
- ease of service					0
- legality	1	1	2	1	2
- organizational support	1	1	2	1	2
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources					0
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business	1	1	2	1	2
- Aimed at current customers					0
- Fits firms organization					0
- Fits top management preferences	1	1	2	1	2
- Fits corporate strategy	1	1	2	1	2
Column Totals	6	6	12	6	12

EVALUATIVE CRITERIA ANALYSIS SCHEDULE MIDLAND - SUCCESS

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance					0
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs					0
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size					0
- Growth rate					0
- Distribution characteristics					0
- Relation to present product lines					0
- Distribution channels					0
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility	1	1	2	1	2
- Level of need	1	2	2	2	8
- Learning required ?					0
- Dependence on other products					0
- Difficulty of communicating benefits					0
- Promotion					0
- Service back-up					0
- Understanding of need	1	2	2	2	8
- Buyer behaviour					0
Column Totals	3	5	6	5	18

EVALUATIVE CRITERIA ANALYSIS SCHEDULE NATWEST - FAILURE

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	2	2	1	4
- ease of service					0
- legality					0
- organizational support					0
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources					0
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business	1	1	2	1	2
- Aimed at current customers	1	1	2	1	2
- Fits firms organization					0
- Fits top management preferences					0
- Fits corporate strategy					0
Column Totals	3	4	6	3	8

EVALUATIVE CRITERIA ANALYSIS SCHEDULE NATWEST - FAILURE

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance					0
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs					0
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size					0
- Growth rate					0
- Distribution characteristics					0
- Relation to present product lines					0
- Distribution channels					0
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility	1	1	2	2	4
- Level of need	1	1	2	1	2
- Learning required ?					0
- Dependence on other products	1	1	2	1	2
- Difficulty of communicating benefits					0
- Promotion					0
- Service back-up					0
- Understanding of need					0
- Buyer behaviour					0
Column Totals	3	3	6	4	8

EVALUATIVE CRITERIA ANALYSIS SCHEDULE NATWEST - SUCCESS

1. Internal	USED	DEPTH	STAGE	IMPACT	SCORE
1.1 Product					
- feasibility	1	1	2	1	2
- ease of service					0
- legality	1	1	1	1	1
- organizational support	1	1	1	1	1
- safety					0
- technological strength					0
- patentable					0
- long expected life					0
- future development pattern clear					0
1.2 Financial					
- RoI potential					0
- Cash flows					0
- Total investment requirement					0
- Payback period					0
- Development costs					0
- Outside funding required					0
- Complex financing required					0
- Major customer investment required					0
- Business risk					0
1.3 Resources					
- Financial (capital) resources					0
- R + D resources					0
- Engineering skills					0
- MR skills					0
- Production resources compatible?					0
- Salesforce resources					0
- Advertising/promotion skills					0
1.4 Synergy					
- Fits with present business					0
- Aimed at current customers	1	1	2	1	2
- Fits firms organization	1	1	2	1	2
- Fits top management preferences					0
- Fits corporate strategy					0
Column Totals	5	5	8	5	8

EVALUATIVE CRITERIA ANALYSIS SCHEDULE NATWEST - SUCCESS

2. External	USED	DEPTH	STAGE	IMPACT	SCORE
2.1 Product					
- exclusivity					0
- performance					0
- newness/innovativeness					0
- uniqueness (features)					0
- superiority					0
- lets customer reduce costs					0
- does unique task					0
- quality					0
- first to market					0
- price higher than competitors					0
- opportunity window					0
- differentiation					0
2.2 Market					
- Size	1	1	2	1	2
- Growth rate					0
- Distribution characteristics					0
- Relation to present product lines					0
- Distribution channels					0
- Political/social factors					0
- Expected sales growth					0
- Expected market growth					0
- Demand fluctuation					0
- Product lifecycle length					0
2.3 Customer need					
- Attitude compatibility	1	1	2	1	2
- Level of need	1	1	2	1	2
- Learning required ?					0
- Dependence on other products	1	1	2	1	2
- Difficulty of communicating benefits	1	1	2	1	2
- Promotion					0
- Service back-up					0
- Understanding of need	1	1	2	1	2
- Buyer behaviour					0
Column Totals	6	6	12	6	12