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Strategic context for bank units: Comparing resource flows for Internet ventures and traditional branches

Stephen K. Callaway *

University of Southern Indiana, Department of Management and Marketing, School of Business, 8600 University Blvd., Evansville, IN 47712, United States

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Abstract

Theories about strategic context [Gupta, A.K., & Govindarajan, V. (1991). Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review*, *16*(4), 768–792] provide an ideal venue for explaining internal corporate venturing (ICVs) [Burgelman, R. (1983). A process model of internal corporate venturing in a major diversified firm. *Administrative Science Quarterly*, *28*, 223–244. Burgelman, R., & Sayles, L. (1986). *Inside corporate innovation: Strategy, structure, and managerial skills*. New York: Free Press] of established corporations, by measuring resource flows between the parent and the ICV, as compared to traditional units. The four strategic roles of units include: Contributor unit, Independent unit, Implementer unit, and Integrated unit. Specifically, this paper examines Internet Banking ventures compared with traditional branches of traditional banks, and their role, resource flows, and corresponding strategic controls. Intraorganizational resource flows and strategic controls are critical for understanding product innovation in banks. The study revealed that staffing and norms and values seem to be the most critical resources for affecting the strategic controls corporate orientation programs, input control systems, and behavioral controls.
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1. Introduction

Much literature has examined the various strategic roles of foreign subsidiaries to the MNC (Bartlett & Ghoshal, 1986; Jarillo & Martinez, 1990; Roth & Morrison, 1992). Further, some literature has addressed the impact of the subsidiary role on strategy and structure (Birkinshaw & Morrison, 1995). Research has also investigated the relationships between resource sharing, environmental conditions, and control systems (Govindarajan & Fisher, 1990). Clearly the strategic context of subsidiaries impacts the nature of resource flows, strategic control systems, and other administrative mechanisms.

Overall, the focus of the role or context of the subsidiary is based upon what linkages exist between the subsidiary and the rest of the corporation. Specifically, much literature has addressed the resource flows within corporations. For example, Williamson (1985) stated that the corporation is a network of transactions, and that transactions comprise three key dimensions: capital flows, product flows, and knowledge flows.

* Tel.: +1 812 461 5347; fax: +1 812 465 1044.
E-mail address: scallaway@usi.edu.

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However, the seminal work may well be by Gupta and Govindarajan (1991) who presented a thorough depiction of the variations of subsidiary strategic context by focusing specifically on knowledge flows. The authors posed two directions of knowledge flows: outflow from and inflow to the focal subsidiary. Based upon whether the extent of the knowledge flows were high or low, a matrix presenting four strategic roles was created, including Global Innovator (high outflow, low inflow), Local Innovator (low outflow, low inflow), Implementer (low outflow, high inflow), and Integrated Player (high outflow, high inflow) (p. 774).

Gupta and Govindarajan (1991) argued that MNCs would provide a richer context for the study of transactions between corporate subunits, because value chains may be less complete (requiring more intraorganizational transactions), and because geographical distance, cultural diversity, and conflicting demands would profoundly impact potential synergistic payoffs. However, assessing intraorganizational resource flows is also critical to understanding product innovation within established organizations, particularly when such firms utilize Internal Corporate Ventures (Burgelman, 1983; Burgelman & Sayles, 1986) for innovation. In this case, the seemingly unrelated resources and markets between the parent and the ICV may also present incomplete value chains and uncertain synergies. Managing the value chains and developing synergies are critical to the success of product innovation and corporate venturing.

Therefore, the current study uses strategic context theory to explain the management of internal corporate ventures as compared to traditional units. The contribution of this study is twofold. First, the management of intraorganizational resource flow is critical for corporate innovation, balancing controlling and applying old corporate resources vs. developing new resources, for all the units within the organization. Striking that balance is essential to the success of corporate innovation (Brown & Eisenhardt, 1998). That is, current studies of internal corporate ventures have examined how integrated or independent the ventures should be; balancing control vs. flexibility (Bower & Christensen, 1995; Christensen & Bower, 1996). This study applies this strategic context theory to explain specifically why and how independence vs. integration is essential, as well as its implications.

Secondly, examining strategic control is also necessary to understand the success or failure of internal corporate venturing. The inability of large, established organizations to develop innovative products is rarely the problem (Bower & Christensen, 1995; Chandler, 1992; Christensen & Bower, 1996); rather the challenge more often has been taking an innovative idea and successfully creating and managing a new business line. Effective strategic controls are critical for managing any organizations (Ouchi, 1978), and may be key as to whether these ventures eventually survive and prosper.

Ultimately, the model proposed and tested in this study addresses two indispensable variables for explaining the eventual success or failure of internal corporate venturing; intraorganizational resource flow (the antecedent), and strategic controls (the outcome). This paper further identifies, measures, and tests which specific resources do in fact affect strategic controls, indicating where specifically the management of uncertain potential synergies (positive or negative) may be most crucial. The specific resources chosen for this study include customers, capital, staffing, technology, and norms/values. As such, the current study makes both theoretical and empirical contributions to the study of internal corporate venturing.

2. Strategic context and ICVs

ICVs are special units, separate from traditional parts of the corporation, which are formed in order to develop new products or enter new industries (Burgelman, 1983; Burgelman & Sayles, 1986). Generally speaking, these units face a substantially different environment from the rest of the corporation, and often have their own unique cultures and business practices. These units are designed largely to be independent from and therefore unconstrained by the rest of the corporation and traditional management practices. Furthermore, they likely require, and must create, resources and competencies that the corporation may not possess.

Sometimes ICVs may even be formed to create new industries. The formation of linkages, gaining access to critical resources, and obtaining legitimacy, then are even more critical to the survival and success (Aldrich & Fiol, 1994) of these ICVs. Therefore, resource flows between the corporate parent sponsor and the new venture become particularly important, and provide a rich context for study of intraorganizational resource flows. Whether the venture is simply launching a new product or technology to complement the corporation's traditional lines of business, or is aiming to create an entirely new industry, corporate entrepreneurship potentially offers the best of both worlds: the stability and resources of the corporation along with the innovation and flexibility of entrepreneurial ventures.

Brown and Eisenhardt (1998) argued that to be successful, firms need to blend the past and the present, to use the old (an established, legitimated framework) and the new (some novel contribution). Even firms marketing innovative new technologies may get into trouble by ignoring the past, such as an accepted standard, demonstrating too much disconnect

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