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Investment project as an internal corporate venture

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Abstract

A capital investment project exhibits both deliberate and emergent strategic elements. The emergent strategic elements have been conceptualized as a project strategy, which is formed in a project to attain business-oriented results and to cope with organizational and market environments. We use corporate venturing literature to explain the formation of the strategy of an individual project. In the project studies that consider the deliberate strategic elements with projects, a project has been explained to solely implement the strategy of its parent organization: This paper addresses the relationship between a project and its parent and explains how the dimensions of the parent-project relationship affect the formation of a project's strategy which may diverge from the intended strategy of the parent. The empirical study is a case study on four investments projects in Neste Oil, a firm operating in the oil refining industry. The projects have a degree of autonomy in relation to the parent, depending on their relatedness to the existing capabilities of the parent.

Keywords: Investment project; Venture; Internal venturing; Project strategy; Corporate strategy

1. Introduction

Companies organize in projects in order to adapt to a dynamic environment. The dynamism is caused, among others things, by rapid technological development and changes in the market (Brown and Eisenhardt, 1997; Morris, 1994). Project form of organizing increases organizational flexibility, decentralization of management responsibility, provides opportunities for development and allows organizations to adapt to the environment in an evolutionary way (Lindkvist, 2008). Projects may be used to exploit established resources and capabilities to deliver certain business outcomes (Cova et al., 1994), to explore new ways of developing competitiveness or renewing business (Loch, 2000) by venturing into new markets or exploring new technologies (Frederiksen and Davies, 2008). Projects are undertaken to meet current customer needs as base projects, whereas base-moving projects are novel initiatives to search, discover and asses new market opportunities, consider new technologies (Brady and Davies, 2004; Frederiksen and Davies, 2008), or invest in identified market opportunities (Söderlund and Tell, 2011). Organizations carry out capital investment projects as internal development projects to assemble the facilities that allow them to meet and/or even renew their strategic objectives (Bower, 1986; Bower, 2005) and develop their products and processes (Hayes et al., 1988).

The inherent flexibility and adaptation in the project business suggest that projects are not only used for implementing deliberate strategic plans, but are also emergent strategies that arise from adaptation to the environment are present (Lampel, 2011; Schwab and Miner, 2011). However the project management literature has emphasized the rational aspects of strategy making considering projects as tools for implementing strategy of the parent, guided by parent organization's plans and operating within pre-established constraints of time, cost, and specification (Morris and Jamieson, 2005; Shenhar, 2004). Existing literature on project strategy typically assumes that the project is subordinate to a single parent firm (Morris and Jamieson, 2004; Shenhar et al., 2005). This perspective emphasizes

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project selection, and therefore the managerial focus of the organizations has shifted towards multiproject management and the effective linking of this set of projects to the ultimate business purpose (Artto and Dietrich, 2004). Accordingly, project strategy is then a part of a strategy of the parent without emergent elements. Increasingly, the role of project management in shaping the front end and in linking with the parents' strategies is being recognized (Morris, 1994, 2009).

Emergent elements of strategy in project the context have been discussed for example in the field of strategy process (Mintzberg and McHugh, 1985) and venturing (Burgelman, 1983, 1985). Mintzberg (1978) separates intended and realized strategies, where realized strategies contain both deliberate and emergent elements. Already Ansoff (1987) explains that the more complex and distributed the actions of a company are, the more the realized results will diverge from the planned outcome. In a complex environment with multiple stakeholders, the project strategy of an autonomous project may, to some extent, be established by the project itself, as a function of how the project defines its success criteria, and how the project perceives its context (Artto et al., 2008). In the field of product and process development (Wheelwright and Clark, 1992) projects are discussed as ventures (Abetti, 1997; Burgelman, 1983; Maine, 2008). In this paper we discuss capital investment projects and their relationship to the parent organization in a similar setting as new product and process development projects have been discussed, acknowledging both the top-down rational strategy implementation by parent and bottom-up emerging strategy in projects and the venture-like nature of an investment projects. We analyze the relationship between a capital investment project and its parent organization to find out the dimensions of that relationship that have an effect on the formation of an individual strategy of the investment project. The research questions are:

RQ 1: What are the dimensions of the relationship between a capital investment project and its parent?

RQ 2: What are the elements of the strategy of a capital investment project?

We use the literatures of project strategy and internal corporate venturing to address the venture-like content and strategy of an investment project, and the relationship between the project and its parent. In the empirical study, we examine a parent organization and four different capital investment projects of the parent, which each had different strategic emphases and therefore various effects on the parent, despite the fact that their strategic goals are aligned with the strategy of the parent organization.

2. Literature analysis

2.1. Relationship between a project and its parent

The relationship between a project and its parent organization(s) is described in terms of autonomy (Artto et al., 2008; Gemünden et al., 2005; Graham, 1988; Lampel and Jha, 2004; Martinsuo and Lehtonen, 2009). The degree of autonomy is defined as the extent to which the evolution of the project is tied to constant reporting and taking input from the parent organization (Lampel and Jha, 2004). Project autonomy consists of four components: Goal definition autonomy, structural autonomy, resource autonomy and social autonomy (Gemünden et al., 2005). The degree of autonomy that a project requires to be successful depends on the nature of the project: Innovative projects, complex projects or projects dealing with new technology require more autonomy than do commonplace projects (Gemünden et al., 2005; Hobday, 2000; Shenhar, 2001).

The requirement of autonomy of is reliant on the relatedness of the project. In order to escape corporate inertia and bureaucracy a project needs the more autonomy the less it is related to the existing capabilities of its parent company (Thornhill and Amit, 2000). The degree of relatedness of a project describes the extent to which a project is linked to the capabilities of a company (Dougherty, 1995), and is thus similar to the concept of economic fit (Thornhill and Amit, 2000). A project has a related strategy when it shares production facilities and exploits the capabilities of its parent (Sorrentino and Williams, 1995). The relationship between a project and the parent is dynamic, and evolves over time: projects go through a series of stages as they mature and their autonomy may increase over time (Parhankangas and Arenius, 2003; Thornhill and Amit, 2000).

Resource autonomy reflects the dependence on resources outside the project organization, the availability of these resources for the project, and the power the project has over resourcing (Martinsuo et al., 2009). The most important benefit for a project to have a related strategy is the synergies that are gained from sharing resources, and thus the project can capitalize on the capabilities and resources of the company (Sorrentino and Williams, 1995; Thornhill and Amit, 2000). For a company it is easier to put up and manage related projects than unrelated projects (Parhankangas and Arenius, 2003). For a corporation, an important strategic aspect is connecting projects to existing capabilities and capability development (Dougherty, 1995). Another challenge is managing personnel transfer between projects and corporations (Burgelman, 1985). The degree of relatedness varies from a new product extension, which is totally aligned with the company's other product lines, to an independent enterprise. It is not especially informative to study as ventures cases in which there is a total alignment between the new project and the parent company. (Thornhill and Amit, 2000).

Project teams are often not able to define their own goals (Gemünden et al., 2005). However autonomy can be taken or given (Martinsuo et al., 2009). A heavyweight project team may take more autonomy and become an autonomous 'tiger' team, defining its own goals and ways to achieve them if the project definition was vague in the beginning (Wheelwright and Clark, 1992). A project can be also shrouded from management, as skunkworks or boolegging, and they may be in areas where organizational sponsors see no promising venture possibilities (Abetti, 1997; Augsdorfer, 2005). New ventures in large, established firms may emerge in an unplanned way as operational-level managers search for new business concepts (Burgelman, 1988).