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Digital Options Generators – The Case of Corporate Venture Builders

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To survive and succeed in the digital age, incumbents must continuously innovate with digital technologies and develop new, value-adding digital business concepts. To achieve this, they are increasingly launching entrepreneurial initiatives (EI). Given that value creation in digital contexts usually occurs through the interplay of multiple actors and is often realized through new ventures, incumbents are starting to realize their innovation projects outside existing corporate structures. This shift from internal to external EI is further reinforced by the trend toward open innovation and platformization and by the increasing failure rates of internally oriented digital innovation units. Yet, research on how established organizations can develop digital innovations through external means is scarce. Since options theory is known as a suitable tool for understanding the governance logic behind digital innovation we apply *digital option thinking* to explore how digital innovation is generated by an external agency. Initially developed in finance, options theory has been applied to reduce uncertainty in innovation projects (Svahn et al. 2015). Several IS scholars have also adopted this lens to explore technology management and IT investments. In this context, Sandberg et al. (2014, p. 426) define digital options as “potential investments—enabled by existing IT capabilities and addressing relevant business opportunities—which lay dormant awaiting recognition by an organization”. By applying this lens in the context of digital innovation, we seek to understand how an external innovation vehicle identifies, develops, and realizes digital innovation options, i.e., opportunities for incumbents to invest in new digital venture ideas. In particular, we qualitatively analyze *corporate venture builders* for three reasons. First, corporate venture building is a new phenomenon that has established itself as a promising strategic tool for incumbents to meet the challenges of digitization and drive organizational transformation. As the name implies, the core idea is to actively build new digital ventures from scratch outside the corporate structures making it an external corporate venturing instrument. Second, previous literature recognizes that external corporate venturing is an exciting area for applying option theory. This is because it depicts a risky but valuable activity in open innovation. It can be used as a first but reversible step in a series of investments in digital ventures. Third, digital capabilities are developed in the form of formalized routines that effectively use digital resources to secure competitive advantage. Since venture builders create new ventures factory-like, it can be assumed that they formalize and replicate their venture-building routine.

References

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