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The Internet and the Strategies of Firms: Does Technological Orientation of the Firm Make a Difference?

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Abstract

Designed to track how growth of the Internet and the burst of the dot.com bubble might affect strategies of the firms, this study found that most respondents want to become more entrepreneurial and risk-taking when exploiting the opportunities afforded by the Internet. Based on the findings of the study, we note that firms that are more entrepreneurial will assimilate the Internet as a technology. The Internet is an enabling technology that provides a set of tools that could be used in any industry as part of a firm's strategy, and the brick and mortar firms must integrate the Internet so as to enhance the distinctiveness of the strategy of the firm.

1. Introduction

It is safe to suggest that despite the recent bust of dot com firms, the Internet has become a popular tool for not only individuals who want to stay in touch with friends and families, but for corporations to execute business transactions with other corporations and customers. Some believe the Internet's growing popularity in the corporate arena is due to its ability to reduce cost of internal coordination as well as executing transactions. A study by the Center for Research in Electronic Commerce at the University of Texas estimated that web-commerce or e-commerce in 1999 totaled US \$301 billion. This number includes the sales from industrial and consumer goods and services as well as the equipment and software that provide support to e-commerce and e-business.

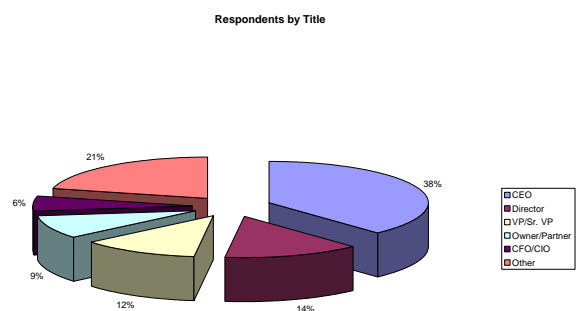
The growth of the Internet has not only spurred new entrepreneurial firms, such as Amazon.com and ebay.com, but the fact is that the existing brick and mortar firms are also significant players in the game. For example, successful use of the Internet technologies by firms, such as Cisco Systems, Inc., and FleetBoston Financial Corp., indicates that the "entrepreneurial" use of the Internet need not be limited to only a handful of startup firms. Cisco Systems adopted Internet technologies to gain efficiency in their customer and vendor management system. According to a special report in the Business Week, Cisco generates and fulfills 68% of its orders through the web and resolves 70% of its service calls online [1]. Business Week also reports that FleetBoston

Financial Corp. combined its online banking services with its online brokerage business, Quick & Reilly, to create a customer base of more than a million.

Introduction of a new technology can bring ambiguity about products, services and customers [2]. While new entrants (mostly entrepreneurial firms) can easily support a new technology because they don't have to abandon or modify any existing technology, the more successful and established firms tend to maintain the established technologies and to an extent avoid dealing with new and disruptive technologies [3]. The Internet – a new technology - has however, been successfully adopted by some established brick and mortar firms, such as Cisco and FleetBoston. The authors of this report examined the motivation of the existing brick and mortar firms in embracing the Internet and how these firms plan to exploit the opportunities afforded by the Internet.

2. Sample

The findings of this study are based on a survey conducted in collaboration with the Eastern Technology Council in Fall 2001, after the bust of the dot.com era.

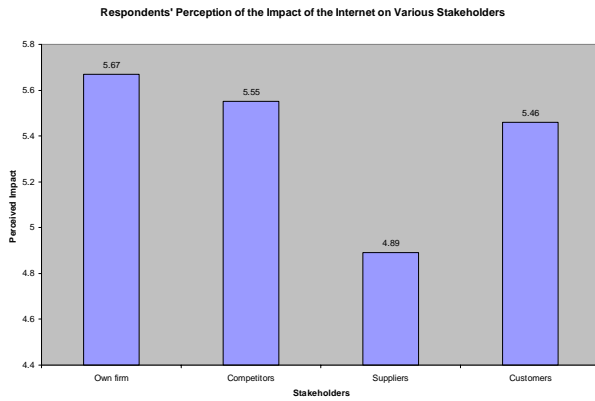


As shown in the figure above, a majority (38 percent) of the 180 survey respondents were CEOs. The average respondent for this survey was 42 years old with over 20 years of work experience. Twenty-seven percent of the respondents were females, and thirty-seven percent had a graduate degree. The average sale of participating firms in 2001 was \$1.35 billion.

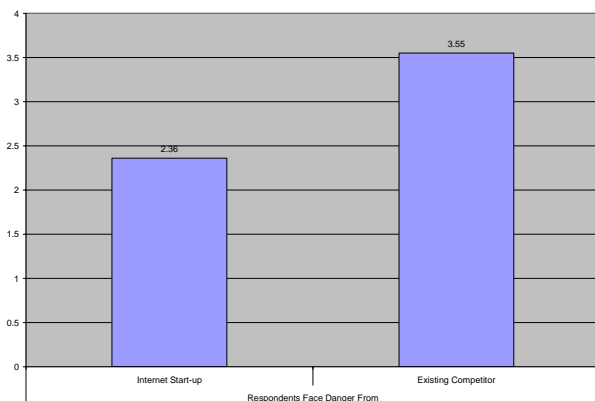
3. Findings

3.1. Perceived Impact of the Internet

The respondents seem to perceive the Internet to have the greatest impact on their own firms and the least on their suppliers (see Figure below).

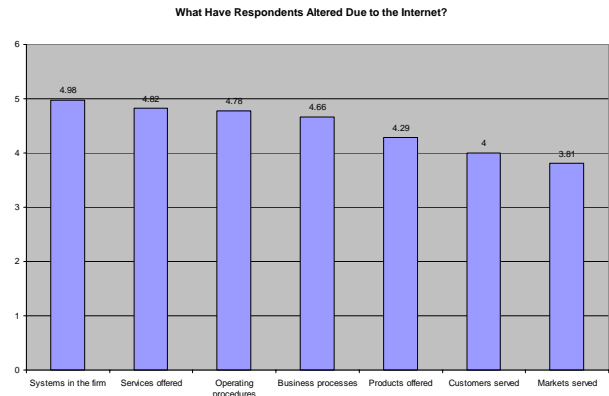


When prompted further, the respondents seemed to admit that they face a greater threat from their existing competitor that has adopted the Internet rather than an Internet start-up (see Figure below).



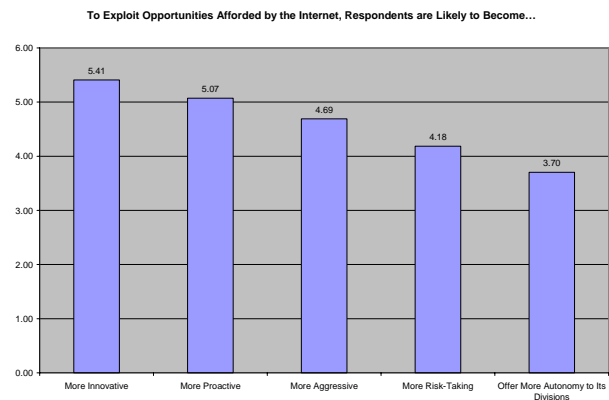
3.2. What have they Changed (or Will Change) in Response to the Internet?

In response to the changes in environment due to the Internet, the respondents seem to have altered their systems and procedures more so than the products or markets served (see Figure below). When asked about their plans and strategies to exploit the opportunities afforded by the Internet, the respondents are likely to become more innovative and proactive rather than offer more autonomy to its divisions.



3.3. Alliance with an Internet Firm or Takeover?

When asked about their plans to exploit the opportunities afforded by the Internet, respondents favored to create an alliance with an Internet firm rather than create a completely new start-up.



When new innovations (such as growth of the Internet) are very different from a firm's usual brick and mortar business, it is likely that the firm will not have sufficient internal resources to create a completely new corporate venture, external to the bounds and constraints of the existing company.

3.4. Does Technological Orientation Make a Difference?

Among many interesting revelations, high-tech survey respondents stated that their firms would most likely exploit the opportunities afforded by the Internet by creating (top three in order of preference):

1. an alliance with an Internet firm
2. a complete in-house start-up
3. an acquisition of a competitor actively using the Internet (close third).

Low-tech firms had the same first choice for the same question — an alliance with an Internet firm, while the acquisition of a competitor actively using the Internet was the second top choice. Creating an equity-based joint venture with an Internet firm was a close third for low-tech firms.

4. Conclusion

Many inferences can be obtained from the findings of this study. First, the growth in the Internet seems to concern the existing brick and mortar firms that perceive a threat from their competitors that have adopted the Internet. At the time of the survey, participating firms had changed their systems and operating processes in response to changes in the business environment due to the Internet rather than the geographic markets served. They also seem to consider being more innovative and proactive, i.e., being more entrepreneurial, to exploit the opportunities created by the development and growth of the Internet. Further, firms are more inclined to seek out external partners rather than focus on Internal Start-ups to exploit the opportunities afforded by the Internet. Finally, there are differences in perceptions of the firms depending upon their technological orientation.

In conclusion, we contend that firms that are more entrepreneurial will assimilate the Internet as a technology. The Internet is an enabling technology that provides a set of tools that could be used in any industry as part of a firm's strategy, and the brick and mortar firms must integrate the Internet so as to enhance the distinctiveness of the strategy of the firm [4]. The same sentiment is reflected in the following quote [5]:

Today it is easy to believe e-business is not all that impactful. The reality is that e-business is a tremendous tool for cost reduction. It's a tremendous tool to help you get closer to your customer. It's a tremendous tool for what used to be called Old Economy companies to apply to our current processes. The winners will be those that view the Internet as a complement to, and not a cannibal of, their traditional way of competing.

References

- [1] (Mandel & Hof, 2001) in a special report of Business Week (March 26, 2001 Issue).
- [2] Christensen, C. M. in his book *The Innovator's Dilemma*. Boston, Massachusetts: Harvard Business School Press (1997) argues that ambiguity is more difficult to deal with for established firms.
- [3] Evans, P., & Wurster, T. S. in their book *Blown to Bits*. Boston, MA: Harvard Business School Press (2000).
- [4] Porter, M. E. 2001. Strategy and the Internet. *Harvard Business Review*, March: 63:78.
- [5] Brian P. Kelly, Vice-President, Global consumer services and Chief of e-biz initiative at the Ford Motor company, in an interview with the Business Week, March 26, 2001 issue (p. 121).