# ABSTRACT

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## *Governing Innovation*

### Internet and Renewal in Swedish Banks

The emergence of Internet technology during the mid 1990s constituted a turning-point for traditional Swedish banks. It brought them the challenging opportunity, as they were trying to recover from the banking crises at the beginning of the decade, for decreasing the transaction costs of banking activities as well as increasing the quality level of service offerings to customers. It induced the governing actors of Swedish banks to be engaged in transforming the Internet potential as a new technological platform into an entirely new banking format—the Internet Bank. This thesis explores and analyses the relationships between corporate governance systems and innovation activities of Swedish banks in order to understand how this transformation has been governed over time. While banks attempts at decreasing transaction costs settle the efficiency enhancement in their operational activities to generate higher productivity gains, those concerned with increasing customer service quality resolve effectiveness creation in their ability and flexibility to develop new products or services. This means that the banks were confronted with the complexities of committing to shareholders' demand for higher profitability in the short run and, concurrently, undertaking the need for investments in renewal activities in the long run. Hence, the governing actors of the banks encountered the tensions between their short term approach for generating productivity gains and their long term approach for creating innovation. These tensions brought about asymmetric strategies for the banks' governing approach to innovation. This thesis demonstrates how Swedish banks have been capable of creating a *dynamic balancing act* between these asymmetries. It shows that their governing capability was based on the structural and behavioral effectiveness of their governance systems in conducting continuous and parallel investments in innovation projects in order to firmly establish their foothold in the way in which they could achieve sustained competitiveness and increasing firm value.

Since the nature of innovation is featured as collective and cumulative effort, the ascendancy of the active role of the banks' governing actors, i.e. their attentive role, in place of the normative-independent role advocated by popular theories, reveals a shift in how the processes of innovation activities can actually be governed. The very core of popular theories indicates that the self-interests of executives and non-executives are in *inimical conflict* with owners and their relationships must be *independent*. The exploration of the structural properties of corporate governance systems, the governing actors' roles in conducting the boundary spanning activities of innovation, and the interplay of the structural and behavioral features of these systems, made it possible to transparently set the *actual* politics of governing innovation at the core of the analysis. Accordingly, this thesis contends that the actual governance of innovation activities hinges on *integrating* the governing tasks of executives and non-executives by being the *fellows* of the firm's *governance community* and acting in *peer* relationships that are *interdependently* elaborated and *mutually* trusted—the *heedful* governance of innovation. This mode of governance is characterised by the board members' nuanced knowledge in understanding the complexities and implications of economic, political and social constructions for innovation, and by a governing culture that takes into account the varying interests of different constituents in the shapeliness of a conscious strategy for innovation. The governing actors' roles in this system is to navigate the bank's strategic orientation by having the *engaging leadership style* in the heedful conduct of financial and human resources in the processes of innovation and value creation. These conducting roles are embedded in an *interactive* control system between the executives and non-executives based on intensive, dialectic, and constructive dialogues emanated from their *foresights* of technological, market, and other institutional changes and their *oversights* of adopting these innovations.

Keywords: Corporate governance, innovation, Internet, renewal, banks, strategic tension, boundary spanning, efficiency, effectiveness, control system, dynamic balancing act, competitiveness, increasing firm value

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