



Corporate Entrepreneurship, Disruptive Business Model Innovation Adoption, and Its Performance: The Case of the Newspaper Industry [☆]



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Recently, Internet and digitization, along with major news and information companies, have disrupted traditional newspaper companies' business models, and raised serious concerns about the future viability of the print newspaper industry. This study provides a theoretical viewpoint, supported by empirical evidence from the newspaper industry, on how prominent corporate entrepreneurship attributes impact disruptive business model innovation adoption, and how such adoption impacts business model performance. It finds that, while autonomy, risk-taking, and proactiveness do have positive associations with the extent of adoption of disruptive business model innovation, innovativeness does not. Further, disruptive business model innovation adoption has a nonlinear association with business model performance. We conclude the paper by discussing theoretical implications of the study and by providing strategies that entrepreneurs and technology managers can use to adjust their corporate entrepreneurship activities in their effort to successfully adopt disruptive business model innovation.

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Introduction

Recently, Internet and digitization along with major news and information companies have collectively disrupted traditional newspaper companies' business models. Subsequently, many have raised serious concerns about the future viability of the print newspaper industry (Clemons et al., 2002/3). Some industry analysts are predicting a complete eventual collapse of the century-old newspaper industry (Dumpala, 2009; Kiss, 2005)¹. After analyzing many industries facing disruption, Christensen (2006) has pointed to the fundamental challenge of disruptive technologies as "a business model problem, not a technology problem" (p. 48)². Since disruptive products and services typically promise lower profit margin than the existing ones, they create a conflict between the business model that is already established for existing technology and the one that may be required to exploit the emerging disruptive technology (Christensen and Raynor, 2003). Although the roles of business model innovation (BMI) adoption in opportunity-seeking behavior (Chesbrough, 2010; Dewald and Bowen, 2010; Doz and Kosonen, 2010; George and Bock, 2011), and in dealing with organizational challenges of the incumbent firms in response to disruptive innovations, have been emphasized in the past (Lucas, 2012), little work has been done to understand how disruptive BMI adoption³ is influenced by corporate entrepreneurship (CE) (Dewald and Bowen, 2010; George and Bock, 2011) or how such adoption can impact business model performance. Such understanding is important in developing a strategy for survival and in making and executing management decisions to respond to disruption (Lucas, 2012).

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¹ World Association of Newspapers and News Publishers (WAN) reported this in July 2010: "Since 2008, more than 166 newspapers in US have closed down and stopped publishing a print edition. More than 39 titles did so in 2008, and the number rose to 109 in 2009. So far in 2010, more than 18 papers have closed down or stopped publishing a print version. There have been nearly 35,000 job losses or buyouts in the U.S. newspaper industry since March 2007. From March to December 2007, more than 2,256 newspaper jobs have been reportedly eliminated or offered buyouts. The numbers increased to more than 15,992 in 2008 and were at more than 14,783 in 2009. As of May 2010, there have been more than 1,797 job losses or buyouts in newspaper companies in the country," (http://www.sfnblog.com/industry_trends/2010/07/sfn_report_more_than_166_us_newspapers_h.php).

² This is because, compared to commercializing sustaining technologies, commercializing disruptive products and services is an increasingly costly endeavor with greater uncertainty, longer time for significant commercial success, and the possibility of disrupting the markets of existing profitable products and services (Walsh et al., 2002).

³ In this context, *adopting disruptive BMI* or *disruptive BMI adoption* means developing and implementing new business models suitable for responding to disruptive innovations.

In this study, we contribute to CE literature by investigating the effects of CE on disruptive BMI adoption and the effects of disruptive BMI adoption on business model performance. Although the need for further studies to find *conditions* under which CE is particularly beneficial or detrimental to performance has been recognized in the past, the vast majority of prior studies have investigated the direct effects of CE on firm performance (Miller, 2011; Rauch et al., 2009)⁴. However, prior research has suggested that firm performance is dependent upon its business model characteristics (Zott and Amit, 2010). Further, BMI mediates the link between technology innovation and firm performance (Baden-Fuller and Haefliger, 2013). Therefore, a richer understanding of how CE affects performance requires understanding the role of BMI adoption in this relationship, especially when firms are faced with digital disruption. We intend to provide this understanding by investigating whether and how a firm's being entrepreneurial – which is defined by prominent CE attributes – affects BMI adoption and how BMI adoption affects business model performance. Such an investigation is important because, from a theoretical perspective, the impact of prominent CE attributes on the extent of disruptive BMI adoption has never been empirically tested in the past. Further, from a managerial perspective, entrepreneurs or technology managers need to learn how to adjust their CE activities in order to succeed in adopting disruptive BMI. To develop a full understanding of how prominent CE attributes affect business model performance through BMI adoption in response to digital disruption, we integrate disruptive BMI concepts into CE theoretical framework. We focus on the newspaper industry as an information intensive industry to provide an empirical context for our research model. According to Miller (2011), there is a need for richer characterization of entrepreneurial research through context specific studies because these studies “may enhance application and generate more fine-grained and more empirically valid knowledge ... may be of great interest to practitioners and scholars alike.” (p. 881). In addition, focusing on one industry gives us the empirical context in which to develop measurements for disruptive BMI adoption and for business model performance. Two research questions are addressed: what are the prominent CE attributes that impact disruptive BMI adoption? And to what extent does disruptive BMI adoption influence business model performance? This study, therefore, makes two important contributions. First, it develops 1) measurement scales for those prominent CE attributes that facilitate disruptive BMI adoption; 2) measurement scale for the extent of disruptive BMI adoption; and 3) measurement scale for business model performance. Second, it conducts an empirical study to examine how prominent CE attributes impact disruptive BMI adoption and how disruptive BMI adoption influences business model performance.

Below we provide the theoretical framework for the study, followed by hypotheses development. In the Method section, we explain why disruptive innovations pose BMI adoption challenges for newspaper companies so as to provide the grounding for our empirical analysis. We then describe an empirical study designed to test the proposed research model using a sample data from the newspaper industry. We discuss new measurement scales for prominent CE attributes for disruptive BMI adoption, for extent of disruptive BMI adoption, and for business model performance. Finally, we present the results of data analyses and the study's implications, limitations and conclusions.

Theoretical framework

Prior research on disruptive innovations has suggested that firms facing disruptive innovations must be prepared to respond to their unpredicted threats and opportunities by adopting disruptive BMI, since disruption creates opportunities that are almost always associated with new products and services (Christensen and Raynor, 2003; Borrell Associates, 2007; Markides and Oyon, 2010; Lucas, 2012). Although business models are frequently mentioned, they are rarely analyzed and often poorly understood (Teece, 2010). From an entrepreneurial perspective, a business model is the design of organizational structures to enact commercial opportunities explicitly initiated by market imperfections (George and Bock, 2011; Downing, 2005; Franke et al., 2008; Cohen and Winn, 2007). BMI is the replacement of the old business model with a new one for offering products or services not previously available⁵ (Hwang and Christensen, 2008; Mitchell and Coles, 2004). It involves gradual transition from the old business model to the new one (Cavalcante et al., 2011)⁶. Even though BMI adoption is a critical determinant in realizing economic value, the right business model is rarely apparent (Achtenhagen et al., 2013). BMI requires companies to explore alternatives to current ways of doing business and to understand how they can meet customers' needs differently (Nidumolu et al., 2009). As such, it has become more important for the success of a business than product or service innovation (Johnson et al., 2008). BMI requires strong incentives to motivate entrepreneurial activities necessary

⁴ For example, prior research has shown that proactiveness has a linear impact on performance while risk-taking has a curvilinear impact on performance (Miller and Leiblein, 1996; Tang et al., 2008).

⁵ According to Zott and Amit (2010), from an activity system perspective, a business model is the template of how a firm conducts business, delivers value to stakeholders, and links factor and product markets. This perspective captures which activities should be performed, by whom, and how activities and actors are linked together. It suggests that firm performance is a function of not only financial but also social aspects of a business model. Therefore, BMI design needs to have 1) *novelty* to adopt innovative content, structure, or governance; 2) built-in elements to retain and *lock-in* business model stakeholders; 3) *complementarities* to bundle activities to generate more value; and 4) *efficiency* to reorganize activities to reduce transaction costs.

⁶ According to Cavalcante et al. (2011), BMI starts with new business model *creation*. This requires *abandoning or removing* some processes or closing a business area or unit associated with the old business model. This is usually followed by *extending* the new business model, through adding activities or expanding core processes to an existing business model. Expansion of a new business model is usually followed by *revision* to the new business model, through exploring alternative ways of doing business. It is then followed by gradually removing processes that are associated with existing business model, and replacing them with new processes for the new business model. Eventually firms *terminate* the old business by terminating the existing processes, and completely replacing the old business model with the new one.

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