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What Drives Business Model Adaptation? The Impact of Opportunities, Threats and Strategic Orientation

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Business models change as managers not only innovate business models, but also engage in more mundane adaptation in response to external changes, such as changes in the level or composition of demand. However, little is known about what causes such business model adaptation. We employ threat-rigidity as well as prospect theory to examine business model adaptation in response to external threats and opportunities. Additionally, drawing on the behavioural theory of the firm, we argue that the past strategic orientation of a firm creates path dependencies that influence the propensity of the firm to adapt its business model. We test our hypotheses on a sample of 1196 Norwegian companies, and find that firms are more likely to adapt their business model under conditions of perceived threats than opportunities, and that strategic orientation geared towards market development is more conducive to business model adaptation than an orientation geared towards defending an existing market position.

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Introduction

The business model has become a novel unit of analysis in management research (Zott et al., 2011). Although there is no generally agreed upon definition, many contributions to the literature define it in terms of the firm's value proposition and market segments, the structure of the value chain required for realizing the value proposition, the mechanisms of value capture that the firm deploys, and how these elements are linked together in an architecture (cf. Foss and Saebi, 2015; Linder and Cantrell, 2000; Magretta, 2002; Morris et al., 2005; Teece, 2010; Wirtz et al., 2015). We adopt this definition in the following. Additionally, Teece links the business model to top management cognition by suggesting that a business model reflects "management's hypothesis about what customers want, how they want it, and how the enterprise can organize to best meet those needs, get paid for doing so, and make a profit" (Teece, 2010, p. 172). Teece's notion of a hypothesis is an apt metaphor, because it draws attention to the dynamics of business models: As scientific hypotheses confront data, business models are subjected to the market test. Just as scientific hypotheses may need to be changed or even rejected after confronting data, business models need to be modified in face of external discontinuities and disruptions.

However, in spite of recent strides forward in the understanding of the drivers, processes, and facilitators of business model change (notably Achtenhagen et al., 2013; Andries and Debackere, 2006, 2007; Andries et al., 2013; Bohnsack et al., 2014; Mason and Leek, 2008; McNamara et al., 2013; Willemstein et al., 2007), there is still little knowledge of how firms adapt their business models in response to external threats and opportunities. This is problematic because a contingency perspective would suggest that the fit between the firm's business model and its environment may influence profitability (Galbraith, 1973, 1977; Lawrence and Lorsch, 1967), and that timely response may be important.

The failure to adapt business models on time can occur for two main reasons. First, managerial cognition, in particular the interpretation of changes in the environment, can play a critical role in shaping organizational responses (Barr, 1998; Barr et al., 1992; Ginsberg and Venkatraman, 1995; Tripsas and Gavetti, 2000). Still, research is divided on whether the negative (i.e., a perceived threat) or positive (i.e., a perceived opportunity) framing of events is more likely to motivate organizational response. Proponents of threat-rigidity theory contend that perceptions of threat encourage managers to rely on existing routines, while perceptions of opportunity induce more risk-taking behaviour (Dutton and Jackson, 1987; Staw et al., 1981). Interestingly, prospect theory makes exactly the opposite predictions: Under perceptions of threat, managers are more motivated to take risky action than under favourable conditions (Barberis, 2013; Kahneman and Tversky, 1979). Additionally, research also indicates that a firm's strategic orientation as it emerges from past experience, solutions and heuristics can result in path dependencies that influence organizational change and adaptability (Day, 1994; Gatignon and Xuereb, 1997; Lant and Mezias, 1992). In contrast, firms and managers that are oriented towards *continually* finding and exploiting new

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market opportunities might be more perceptive and better equipped to adapt their business model in face of emerging threats and opportunities than might firms with a more defensive posture (Teece, 2007).

We offer the following contributions in this study. First, reviewing extant literature on business model dynamics, we identify important drivers, processes, and facilitators of business model adaptation. Second, we examine to what extent established theories of organizational and strategic adaptation described by the threat-rigidity hypothesis (Staw et al., 1981) and prospect theory (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992) are able to predict business model adaptation. This is an important exercise, as we currently lack a strong theoretical foundation for understanding business model dynamics. Third, we test our hypotheses by examining the effects of the recent financial recession on the propensity of firms to adapt their business models in the face of perceived threats and opportunities. We use the financial crisis as a natural experiment, which warrants a causal interpretation of our results, albeit a very cautious one. As Kitching et al. (2009, p. 12) point out, "there is no single 'recession effect' for businesses, nor consequently any particular 'best way' to adapt applicable to all businesses". Hence, business model adaptation may not be a viable option for all firms. In this regard, we offer empirical evidence on the contingent role that a firm's strategic orientation plays in influencing whether or not a firm is likely to adapt its business model. Fourth, this study is one of the very few large-N empirical studies of business model dynamics. Specifically, we test our hypotheses on a sample of 1196 Norwegian companies surveyed in 2010.

Theoretical background

Business models and business model adaptation

Business models have become an influential new unit of analysis in management research. However, the literature has, like many other emerging fields, been characterized by conceptual proliferation. Thus, Shafer et al. (2005) surveyed up to twelve different definitions of business models in established publications during 1998–2002, which together produced a list of forty-two different business model components. Recent reviews indicate that as interest has kept growing, the discrepancies in the use of constructs, definitions and operationalizations continue to plague the field (cf., Foss and Saebi, 2015; George and Bock, 2011; Zott et al., 2011). However, it is also the case that many contributions converge on a definition that stresses the following elements as necessary parts of the definition of a business model: (1) the firm's value proposition, (2) the market segments it addresses, (3) the structure of the value chain, which is required for realizing the value proposition, (4) the mechanisms of value capture that the firm deploys, and (5) the often firm-specific ways in which these elements are linked in an architecture (cf. DaSilva and Trkman, 2014; Casadesus-Masanell and Ricart, 2010; Linder and Cantrell, 2000; Magretta, 2002; Morris et al., 2005; Teece, 2010; Wirtz et al., 2015).

Increasingly, the literature has been moving from conceptualizing, characterizing and explaining a business model at a given point in time, towards a more dynamic view that examines phenomena like business model innovation and adaptation. Table 1 lists a number of concepts that are often used to refer to a change in an existing business model.

Based on the research summarized in Table 1, two main types of business model dynamics can be identified. One group of studies seems to refer to the changes occurring in existing business models over time, often in response to an external trigger. This includes work on business model "evolution", "learning," "erosion" and "lifecycles" (cf., Demil and Lecocq, 2010; McGrath, 2010; Morris et al., 2005; Teece, 2010). We define these changes as business model *adaptation*, that is, the process

Table 1
Concepts of business model dynamics

Concept	Definition	Author(s)
Business model evolution	"a fine tuning process involving voluntary and emergent changes in and between permanently linked core components"	Demil and Lecocq (2010, p. 239)
Business model renewal	*(No definition provided)*	Doz and Kosonen (2010)
Business model replication	*(No definition provided)*	Dunford et al. (2010)
Business model learning	An established firm modifies its business model in face of competition from a new business model	Teece (2010)
Business model erosion	The declining competitiveness of established business models	McGrath (2010)
Business model lifecycle	"A business model lifecycle involving periods of specification, refinement, adaptation, revision and reformulation. An initial period during which the model is fairly informal or implicit is followed by a process of trial-and-error, and a number of core decisions are made that delimit the directions in which the firm can evolve"	Morris et al. (2005, p. 732)
Business model transformation	"…a change in the perceived logic of how value is created by the corporation, when it comes to the value-creating links among the corporation's portfolio of businesses, from one point of time to another."	Aspara et al. (2013, p. 460)
Business model innovation	"Business model innovation is the discovery of a fundamentally different business model in an existing business"	Markides (2006, p. 20)
	"…initiatives to create novel value by challenging existing industry-specific business models, roles and relations in certain geographical market areas"	Aspara et al. (2010, p. 47)
	"At root, business model innovation refers to the search for new logics of the firm and new ways to create and capture value for its stakeholders"	Casadesus-Masanell and Zhu (2013, p. 464)

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