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Firm responses to disruptive innovations

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Chapter 7: Summary

7.1 General overview

In a time of fast technological change, firms are increasingly confronted with (digital) innovations that challenge and disrupt their business as usual. By now, firms active in a wide variety of industries – i.e. the newspaper, book, retail, travel and financial industry- face the challenge to respond to such technological disruptions to ensure their long-term viability. While the challenges of coping with disruptiveness have inspired researchers to examine entrant-incumbent dynamics during disruption (i.e. Christensen, 1997; Markides, 2006; Nagy et al., 2016; King & Baartagtokh, 2015), numerous exemptions in research and in managerial practice indicate the need to explore firms' responses to disruptive innovations in greater depth and breadth. In this dissertation, I therefore focus on what firms actually *do* when it recognizes, or is confronted with, the inimical consequences of (the same) disruption. After all, even though firms often face the same situation of a rapidly changing business environment created by the introduction of such disruptive innovations, their responses widely *differ*. This dissertation thus provides an in-depth exploration of the different contingencies that stand at the origin and the evolution of different responses that help firms to cope with disruptiveness.

This dissertation uses a mixed method approach using both qualitative and quantitative techniques, and using primary and secondary data from a variety of sources, including those that have been collected in close connection and collaboration with businesses in the Dutch music industry. Together, they enable an unprecedented opportunity to conduct three vastly different empirical studies -a survey study, a multiple case study and an in-depth (group) case study- to address the overarching research problem of this dissertation. The music industry provides an excellent opportunity to investigate firm responses to the same disruption(s) in a recent time frame. The introduction in the music industry at the end of the 1990s of innovative

new platforms such as Napster, KaZaA and Limewire, that utilized disruptive new technologies in sound compression and file sharing, resulted in a dramatic reversal of fortune for most firms in the music industry: established competitiveness patterns and traditional competences like the production of physical albums or access to important traditional retailers and intermediaries (i.e. radio and TV stations) were challenged or no longer effective, and worldwide revenues were cut in half (Moreau, 2013).

7.2 Empirical studies

Three studies open up the ‘black box’ of firm responses to disruptive innovations by exploring the contingencies that stand at the origin and evolution of different firm responses to disruptiveness. The first study of this dissertation (Chapter 2) explores the origin of different organizational responses to disruptive innovations by addressing how the type of response to disruptiveness (Charitou & Markides, 2003) might be contingent upon organizational drivers, in terms of firm *awareness*, *capabilities* and *motivations* (Chen, 1996; Chen, Su & Tsai, 2007), and how these drivers interact. Testing the hypothesized relationships using a survey study among independent record companies in the Netherlands, we find how and why firms react *defensively* or *offensively* to the same disruption. The results illustrate that what leads firms to respond defensively, as opposed to offensively, to disruptions is not a divide between incumbents and new entrants. Rather, offensive and defensive responses originate from vastly different constellations of the impact of the disruption and the capability- and the motivation-to-respond. Our analysis indicates the added value of our proposed model of drivers of organizational responses to disruptive innovations.

The second study of this dissertation (Chapter 3) goes beyond the key drivers of firms’ responses to disruption by providing one of the first comparative views on the role of organizational identity in how firms transform their organization in response to identity-

challenging disruption. Drawing upon organizational identity theory (Albert & Whetten, 1985; Ashforth & Mael, 1989), we explore the concept of “organizational identity shift”, or the extent to which a firm adapts its enduring, central and distinctive aspects of its organizational identity after an identity-challenging shock like a disruption. Comparing multiple record companies and publishers in the Dutch music industry on these characteristics, our results reveal three different, yet highly distinct types of identity shift during disruptiveness: *organizational identity affirmation*, *organizational identity acculturation*, and *organizational identity accommodation*. In addition, our results provide evidence of how these shifted identities are reflected in a firm’s strategic decisions and actions during the disruption as firms seek to behave and act in ways consistent with the way their organizational identity *shifts* during disruptions. Therefore, our findings indicate that organizational identity plays an important role in shaping actual processes of organizational transformation during identity-challenging disruptions, which explain how and why similar firms respond differently to disruptiveness, while different firms respond similarly to disruptiveness.

Finally, the third study of this dissertation (Chapter 4) goes beyond addressing individual firm responses and organizational transformation processes by showing how firm responses are situated within a larger ecology of interdependent firms. Using an in-depth case study approach of 9 competitive firms collaborating over a one-year period to introduce a new platform service in the Dutch music market, we provide one of the first accounts of how cooperative forces (Bengtsson & Kock, 2000; 2014; Brandenburger & Nalebuff, 1996; Gnyawali & Park, 2009) influence firm responses to disruptiveness. Our findings indicate that cooperation is a viable and strategic firm response to disruption, which enables firms to develop their own collective “disruptive capacity” to start exploiting disruptive growth opportunities that lie beyond the reach of individual firms. This study also reveals an new

paradox of cooptation: cooperative moves spur competitive moves, while competitive moves enhance cooperative moves among cooptitors. Tensions among multiple cooptitors therefore not only arise because of inherent organizational differences, but also from cross-cooptitors interactions caused by this paradox of cooptation. In sum, this chapter shows that cooptitive firm responses should be considered alongside other firm responses to disruption, and that interesting competitor dynamics appear in the face of a threat for disruption.

7.3 Conclusion

The different theoretical and empirical explorations of this dissertation provide new insights into firms and their responses to disruptions. The studies indicate that prior research has largely neglected how disruption generates opportunities to respond, even for the firms most strongly affected by disruption. Recognizing this key role of opportunity recognition during disruption foregrounds that there is not a single “best” response to disruption. Rather, opportunities can be identified and pursued when firms, be it incumbent, new entrant or disruptor, see (disruptive) advantages. This active search for, and seizing of, opportunities by all explains why some firms, but not others, identify and act upon specific opportunities. As a result, the various different firm responses to disruptive innovations should not be treated as “anomalous cases”. Instead, such exemptions indicate that firms act upon the different opportunities presented when disrupted. The findings of this dissertation therefore show that even though disruption has far-reaching consequences for firms and industries, firms are able to purposefully pursue a certain, recognized opportunity by taking up agency in how they manage the challenges and/or conflicts created by disruption. Although our findings clearly have important theoretical and practical implications for firms dealing with disruptiveness, we hope that the insights yielded by this work offer interesting avenues for future research into the dynamics of firms’ responses to disruptive innovations.