

The Business model innovation process of Incumbent SMEs from non-sharing BMs into sharing BMs: A comparative case study between developed and developing economies

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Abstract:

The Incumbent Small and Medium Enterprises (ISMEs) are at risk of losing their market shares or being out of the markets as they threaten by disrupting the traditional business models. Recently, an emerging type of BMI calls *Sharing Economy* (SE) has wiped out and overthrew some of the market leaders of ISMEs in several sectors around the world. ISMEs have to tackle newcomers' competition by innovating their Business Models (BM) to emerge in sharing economy activities. Yet, the process of how these companies are transforming their BMs to engage in Sharing Economy activities is still largely unexplored. This study has adopted a qualitative approach, specifically a multiple in-depth case study, to understand the complexity and contemporary nature of six DPSMEs' BMI from developed and developing economies. This study contributes to filling the theoretical gap between Sharing Economy (SE) and the ISMEs by extending Dynamic Capabilities (DCs) to develop the transformation process of ISMEs from non-sharing BMs to sharing BMs.

Keywords: Digital Platform, Incumbent SMEs, Business Model Innovation, Sharing Economy, Dynamic Capabilities, process.

Track: Innovation

1. Introduction

Over years, *Incumbent Firms* (so-called *Established Companies*), in particular, Incumbent Small and Medium Enterprises (ISMEs), have undergone major changes in the business environments as a result of advancing in technology, changing consumers' behaviours, and emerging new disruptive innovations including Circular Economy, Sustainable Business Model, and Sharing Economy. These changes threaten ISMEs by disrupting the traditional business models, changing the way of running businesses, and shifting the economy from linear to circular (Mihalache, Volberda, 2021). Despite ISMEs reap opportunities from these changes, they have to "tackle newcomers' competition" (Ciulli, Francesca, Kolk, 2019, p.995, Nielsen, Aagaard, 2021). Recently, an emerging type of BMI calls *Sharing Economy* (SE) has wiped out and overthrew some of the market leaders of ISMEs in several sectors around the world. As sharing economy built a solid ground in different life aspects by changing the way of consuming, producing, the supply and demand, and hitting the traditional theories (e.g. international theories), there is no way to ignore it (Heinrichs, 2013, Ferrell, Ferrell & Huggins, 2017). Accordingly, ISMEs are at the risk of losing their market shares or being out of the markets (Constantiou, Marton & Tuunainen, 2017). Indeed, ISMEs need to innovate their Business Models (BMs) by emerging (being a sharing company) or competing for sharing companies (Constantiou, Marton & Tuunainen, 2017). Scholars refer to ISMEs that engage in sharing economy as *transformer companies* (Monaghan, Tippmann & Coviello, 2020). To involve in sharing economy, ISMEs' resources play a significant role in their process of business model transformation and innovation. Despite ISMEs are more flexible to innovate and adapt to changes, they face difficulties and barriers in the innovation that make change "is not an easy journey" (Cunha, Sousa, 2021, p.440). To overcome transformation challenges, ISMEs need to "install the appropriated capabilities" (Cunha, Sousa, 2021, p.440). As sharing economy companies own no resources (e.g. Uber owns no vehicles, Airbnb owns no real estate), there is a need to explore how ISMEs (which already have resources) join the sharing economy activates.

In essence, Dynamic Capabilities (DCs) are required for the process of resource configurations to create and capture value (De Silva, Al-Tabbaa & Khan, 2019, Eisenhardt, Martin, 2000). ISMEs rely upon their DCs "to identify (sense), integrate and build (seize), and reconfigure (transform) internal and external resources and knowledge to design and implement business models for exploiting market opportunities" (De Silva, Al-Tabbaa & Khan, 2019, p.734). As DCs are critical to investigate the innovation process of ISMEs business model (Lin et al., 2020), researchers (e.g. Simsek et al., 2021) highlight the importance of adapting DCs to understand the transformation process of ISMEs.

Most of the studies in Incumbents have focused on the impact of sharing economy on the Incumbents' performance (Gerwe, Silva, 2020). For example, the impact on the taxi drivers (e.g. Chang, 2017, Wallsten, 2015) and hotel industry (e.g. Zervas, Proserpio & Byers, 2017). Limited studies have investigated the incumbents beyond Airbnb, Uber, and their industries (Geissinger, Andrea, Laurell & Sandström, 2020). For instance, the impacts of sharing economy on ISMEs and challenges that face these companies (Júnior et al., 2019). Yet, the innovation process of ISMEs BMs is still largely unexplored (Mihalache, Volberda, 2021).

Businesses in developed and developing economies run in different “political, social, and legal issues, and business-related factors” (e.g. trust issues) (Gerwe, Silva, 2020, p.81, Mihalache, Volberda, 2021). As each economy has its opportunities and obstacles, the incumbent size is critical to exploit these opportunities. For instance, the environments, opportunities, and resource limitations encountered by ISMEs (e.g. lack resources and capabilities) and large incumbents are different (Mihalache, Volberda, 2021, Cenamor, Parida & Wincent, 2019). Hence, the contextual factors play a significant role to determine how ISMEs innovate their BMs.

Based on the above discussion, this study sets the research question as:

RQ: How do Incumbent SMEs innovate their business model to emerge the sharing economy activities in developed and developing economies, in respect of dynamic capabilities?

To address this question, this study responds to researcher’s calls (Nielsen, Aagaard, 2021, Monaghan, Tippmann & Coviello, 2020, Ciulli, F., Kolk, 2019) and the special issue of the Strategic Management Journal (Simsek et al., 2021) to explore the transformation process ‘innovation process’ of ISMEs in the sharing economy context by extending the dynamic capabilities to investigate the business model innovation of ISMEs to transform to the sharing economy in the developed and developing economic context. This study also contributes to the studies (Mihalache, Volberda, 2021, Davidson, Habibi & Laroche, 2018, Dreyer et al., 2017, Pankov, Velamuri & Schneckenberg, 2019) that highlight the differences between the developed and developing economies but provide limited understanding how the innovation process varies in these economies.

2. Literature Review

Literature review will apply in two steps. First, general literature review will conduct to provide an overview of Incumbents Small and Medium Enterprises (ISMEs), Business Model Innovation (BMI), Sharing Economy, Dynamic capabilities (DCs). Then, a systematic review will employ to explore BMI of ISMEs in the sharing economy context. By doing so, this study builds a solid background to answer the research question. The next sections provide a breife on the literature.

2.1 General Literature Review

ISMEs

In order to understand ISMEs, there is a need to define SMEs. In fact, there is no standard definition for Small and Medium Enterprises (SMEs). According to the World Bank, each country has its definition. For example, according to the UK government SMEs “encompasses micro (less than 10 employees and an annual turnover under €2 million), small (less than 50 employees and an annual turnover under €10 million) and medium-sized (less than 250 employees and an annual turnover under €50 million) businesses” (DIT, 2021).

However, Incumbent Small and Medium Enterprises (ISMEs) defines as transformer companies that are “internalizing digital capabilities into the organization” and “engaging in digital transformation or augmenting their digital capabilities” (Monaghan, Tippmann & Coviello, 2020, p.13). The employees in ISMEs are less than 250 employees. These companies engage in the Sharing Economy activities through adapting a unique BMI process (Leung, Xue & Wen, 2019). Despite ISMEs innovate to exploit opportunities, they encounter some challenges (e.g. lack of resources and capabilities) that hamper these opportunities (Cenamor, Parida & Wincent, 2019). Not limited to these challenges, the contextual factors play a significant role to escalate these difficulties. In essence, “the characteristics of transforming economies require firms to use different business models to those found in established economies” (Mihalache, Volberda, 2021, p.17). How ISMEs cope with these universal limitations through BMI is still unexplored (Nielsen, Aagaard, 2021).

2.2 Systematic Literature Review

As Systematic Literature Review (SLR) is a more replicable, scientific, and transparent process than the traditional review (Cook et al., 1997), this study aims to systematically review the existing studies on business model innovation of ISMEs in the context of sharing economy. By doing so, the researcher will adapt Denyer & Tranfield (2009) multi-step review approach. First, defining the review question. Second, establishing the scope and boundaries of the review. Third, study identification, screening, and selection process. Finally, analysis and synthesis.

3. Research Methodology

3.1 Qualitative approach

The research effort will be guided by the **Critical realism paradigm**. A **qualitative approach** will adapt due to the process of transforming and innovating of ISMEs to sharing economy business model is a newly emerging field of study and limited studies have investigated ISMEs BMs (Monaghan, Tippmann & Coviello, 2020). The researcher will develop a theoretical framework to guide the data collection and analysis process. Accordingly, **a deductive-inductive logic** will adapt to generate and enrich the existing theories by building on the existing literature.

3.2 Research design

An **exploratory multiple-case study** will adapt as it enables to extend the existing theory and provide a more robust, triangulate, replication logic, and more accurate and generalizable than a single case study (Yin, 2018, Eisenhardt, 1991). This study will investigate the emerging of six cases; three ISMEs from developing countries (e.g. UAE, Saudi Arabia) and three ISMEs from developed countries (e.g. UK). This enables us to gain in-depth information to compare and understand the contextual differences of innovating ISMEs BMs between these two economies and answering the research question.

3.2.1 Case Selection

Four criteria will use to select the cases. First, the six cases have to be from two different economies. Three companies from UK and United State (developed economies) and three from GCC, for example, UAE and KSA (developing economies). This enables us to compare between two economies as the innovation process differs in different economic situation. Second, the company has to be an incumbent or established company before emerging in the sharing economy. This study does not cover the companies that born as a sharing economy as they emerge differently (Ciulli, Francesca, Kolk, 2019). Third, the selected companies have innovated their BMs to engage in the sharing economy activities. Finally, the cases have to be SMEs, not large enterprises. The selected cases have to follow the SMEs definition (mentioned in the literature review).

3.2.2 Data collection and analysis

Regards the data collection, the researcher will employ several sources of data, both **primary** (semi-structured interviews up to 36 interviews/ open-ended questions) **and secondary data** (e.g. internal report and company's website) to triangulate (Yin, 2018). In addition, the researcher will follow Eisenhardt (1989) and analyze two phases; **within-case** and **cross-case analysis**. During the analysis, **a thematic analysis** will adapt as a technique to deal with coding data. To facilitate the data analysis, the researcher will use NVivo 12 as a qualitative data analysis software.

4. Research implication for theory and practice

This study will adapt a multiple-case study to investigate the business model innovation of ISMEs to transform to the sharing economy in the developed and developing economic context. However, it is expected to provide three contributes to the literature. First of all, it will contribute to the BMI literature (as a process) (Foss, Saebi, 2017) by extending dynamic capabilities (Teece, 2007) to understand the transformation process (innovation process) of ISMEs BMs to emerge sharing economy activities.

Furthermore, it will also contribute to the sharing economy literature by responding to the special issue of the Strategic Entrepreneurship Journal (SEJ) 'LEADING THE DIGITAL TRANSFORMATION OF INCUMBENT FIRMS: A STRATEGIC ENTREPRENEURSHIP PERSPECTIVE' (Simsek et al., 2021) and researcher's calls (e.g. Monaghan, Tippmann & Coviello, 2020, Ciulli, F., Kolk, 2019, Nielsen, Aagaard, 2021) to study ISMEs BMI in the sharing economy context. While sharing companies 'start-ups' are a new BMI, ISMEs are a second type of BMI within sharing economy. Therefore, prior studies call to explore the different BMI with sharing economy BMs (Monaghan, Tippmann & Coviello, 2020). Lastly, this study will provide a complex understanding of ISMEs BMs in developed and developing countries by responding to scholars calls (Mihalache, Volberda, 2021, Davidson, Habibi & Laroche, 2018, Dreyer et al., 2017, Pankov, Velamuri & Schneckenberg, 2019) to compare between ISMEs from two different economic situations.

This study also will provide some important implications for practice. For example, but not limited the findings will provide new strategical insights for ISMEs managers to understand the transformation and innovation process of being sharing companies and guide the decisions of involving in sharing activities. This will guide the manager's decisions on innovating. In addition, it will provide a roadmap for policymakers to understand the new type of sharing economy 'transformer companies' ISMEs BMs. This will give the decision-makers more insights into regulating the sharing economy.

5. Limitations and future research

The main concern in this study is that the data collection will not be easy for two reasons; it will collect from different cities within four different countries, and from a unique kind of companies that should be ISMEs that have certain patterns of innovation by transforming to sharing economy. Future studies can be focused on four areas. First, the key success factors in the transformation process of ISMEs BMs. Second, how ISMEs performance affected by the innovation process. Third, compare between BMI of the transformer (ISMEs) and the start-ups (born as sharing economy) in the sharing economy context. Finally, the sources of competitive advantage in ISMEs.

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