

**INCUMBENTS VS. INNOVATIVE DISRUPTIVES: A CROSS-INDUSTRY
EXAMINATION of HOW INCUMBENTS' POLITICAL CONNECTIONS SHAPE THE
DISRUPTIVES' ENTRANCE PROCESS**

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Abstract

Recently considerable literature has grown around the theme of platform firms as innovative disruptors. How incumbents react to these firms' entrance plays a key role in the literature. Although the vast majority of studies focus on the market strategies of incumbents, it has been very well-known from the non-market literature that, incumbent firms' non-market strategies may also be vital for newcomers. Thus, this study aims to explore host country incumbent firms' non-market strategies against platform firms and, these strategies' shaping effect on their entrance process. The representative cases are chosen from different industries to examine the non-market strategies' effect deeply by considering the political importance of the industries. Applying a comparative case study, the UBER and NETFLIX's entrance processes in Türkiye will be investigated.

Recently, there has been growing interest in firms operating within platform-based business models. Depending on the advances in information and communication technologies, these firms have reshaped the way of doing business within varying industries. Furthermore, as international new ventures, they introduce unique ways of creating value within different contexts (Donbesuur et al., 2023). As disruptive innovators, platform firms (PFs) affect incumbents in their traditional markets (Chang & Sokol, 2022). One of the greatest challenges these firms encounter is well-established incumbent firms with market and non-market strategies mainly consisting of political connections and other lobbying blueprints.

The existing literature on PFs gives an idea about the nonmarket strategies of their entrance process (Curchod et al., 2020; Donbesuur et al., 2023; Uzunca et al., 2018; Yan & Chang, 2018). Non-market strategies implemented by PFs that influence their entrance process vis a vis governments and local incumbents are explored in these studies. Accordingly, CSR, self-categorization, and CPA are found to be effective strategies for PFs to both establish legitimacy in the eyes of users and the state and create a competitive advantage against established incumbents.

However, what is not yet clear is the extent to which incumbent firms' non-market strategies or connections work as a responsive strategy to platform firms' entrance. Studies on the incumbents' response strategies to disruptive innovators, in contrast to the literature on PF entrance, are mainly focused on market strategies. Accordingly, recent shreds of evidence suggest that incumbent firms respond to these disruptive innovators through market-based strategies which the vast majority of them embrace price responses, and few focus on nonprice mechanisms such as quality differentiation responses (Chang & Sokol, 2022; Li & Agarwal, 2017). The primary foci of the existing body of knowledge on incumbents' responses, thus, is about the market-related reactions that are designed for the related market operated in. However, there is a fact that today's firms are not only managing their market environment but also their nonmarket environment. As it is evident in the PFs' entrance process considering the non-market environment as a strategic tool and taking advantage of these strategies can be as effective as the market strategies. Therefore, investigating the incumbents' nonmarket strategies or connections' in the process of PFs' entrance would be instrumental in both theory building efforts and new empirical support for our understanding of platform firms' establishment processes within host countries.

The primary aim of this paper is to investigate, employing a comparative case study approach, how previous non-market connections of incumbent firms, either well-engaged or moderately-engaged, shape the entrance process of platform firms as international new ventures. Accordingly, the paper has two key sub-foci. First, since the local incumbents are both institutionally legitimate and well-established companies in the eyes of the state, they have an embedded relationship with the state (or governments) as a market actor through several means (i.e. taxation), and some of them have closer relations through political connections. This, on the other hand, enabled them to develop entrenched ties with both the government and the opposition parties of the related context. Although it has been seen that platform companies have superiority over incumbents in terms of legitimacy in the eyes of users to some extent due to the benefits they provide to the users, they are not yet legitimate in the eyes of political actors or more broad term, in the eye of state. This may create a disadvantage for platform firms against incumbents that are legitimate for both state and users, and have strong ties with political actors. Thus, one of the main focuses of this study providing an exploration of the interplay between platform firms (PFs) and established incumbents, particularly focusing on the role of incumbents' political connections in shaping the entrance process of PFs.

Furthermore, much uncertainty still exists about whether the shaping effect of incumbents' political connections differs regarding the industry that platform firms enter. In other words, it is unclear whether the related industry's incumbents' previous nonmarket relations make the PF's entry harder or not, or have no difference. In the non-market literature, it has been stated that political connections

may provide more benefits and secure a more fertile environment for the connected firms that operate in politically salient industries (J.-P. Bonardi et al., 2006; J. Bonardi & Keim, 2005; Sun et al., 2012). Sectors with high public benefit and usage, such as transportation and electricity, are more important for politicians in comparison to less important ones such as the cinema sector in particular or the entertainment sector in general. Accordingly, companies or groups that have proven their legitimacy in these sectors and have close relations with the state, may pose a danger to new entrants with less legitimate business models, through their well-established position in the related context. Since the states may act more controlling in important sectors, this can be used against new entrants by incumbents. Thus, it can be expected that platform firms that enter in the politically salient industries may be affected more by the incumbents' political connections in comparison to firms that enter less salient industries.

The central question in this paper, thus, is how the entrance of platform firms is shaped by the existing non-market strategies of incumbents that operate in different politically salient sectors.

Methodology

In the paper, I will use a longitudinal comparative case study. As Fox-Wolfgramm (1997) stated previously, the comparative case study method considers the interaction of historical and contextual dynamics to explain complex processes and mechanisms that create similarities and differences in the same processes of different organizations either in the same or different industries. In a recent article, Aversa et al. (2021) argue that a longitudinal comparative case study offers thick empirical explanations of circumstances that create phenomena, which allow us to recognize how variance takes place. Thus, I think the method I chose will produce a comprehensive explanation for the questions I posed by providing explanations for the differences between the same processes of industrially different firms.

Consistent with the methodology I chose, I will use theoretical sampling instead of statistical sampling (Eisenhardt, 1989). For the sake of being more informative, I chose polar extreme cases, regarding being politically salient/unimportant industries and the firms within these industries, within the related context. The cases of the study are chosen from a context in which political connections and their influences can be observed easily and represent the platform firms' entrance process. Accordingly, I chose UBER's entrance process for the transportation industry and NETFLIX's entrance process for the filming industry within the Türkiye context. First, I think as a state-dependent business context Türkiye provides a fruitful framework to observe embedded and well-established political connections between politicians, both government and opposition, and firms that are especially operating in politically salient industries. Being a developmental state, it has been known that Turkish governments provide incentives for local firms to invest in important industries for the state (Buğra, 1998). Furthermore, local firms are inclined to establish close connections with the state to gain the benefits that connections provide them (Öniş, 2011; Öniş & Kutlay, 2016). Second, transportation is an important service for governments, especially in metropolises. Particularly in large metropolises such as Istanbul, transportation greatly affects citizens' opinions about government services. For this reason, governments more closely monitor and regulate sectors that have a direct impact on citizens' lives, in these sectors. Accordingly, it can be assumed that representatives of such sectors, i.e. local firms, have close relations with governments in a state-dependent business system, where interventions of the state in favour of these firms are almost a norm. Thus, it can be easily observed how the political ties of taxi drivers, who are established actors in the sector and have close and strong relations with the state, affect the entry process of the UBER, a platform company entering the transportation sector in Türkiye. On the other hand, since the state attaches less importance to the cinema sector compared to other primary sectors, this study offers the opportunity to observe how political ties of the existing representatives of the industry, namely filmmakers and cinemas, affected the entry process of the NETFLIX which is a platform firm entering the politically less important sector in Türkiye.

On the other hand, limiting the sampling only to firms of industries will limit our understanding by providing only one aspect of the interactions. To build a fully comprehensive explanation of the entrance process, it is a requirement to collect data from all representatives of the process such as UBER and NETFLIX agent of Türkiye, both industries' representatives such as the Taxi Drivers Chamber of Artisans, Film Producers Professional Association, Professional Association of Cinema and Television Work Owners etc. Besides, the data will be collected not only from collective actors but also from individual representatives of both industries.

The importance and originality of this study are that it explores the platform firms', as a disruptive innovation, entrance process by not only focusing on the PFs but also considering the incumbents who are the local actors of established industries. Besides, this study working on different industries will show how the importance of a specific industry to the state changes, or not change, the incumbents' non-market reactions' shaping effect. Thus it provides a more comprehensive understanding of the PFs entry process and incumbents' non-market reactions. In that sense, the study presented here is one of the first investigations to explore incumbent firms' nonmarket strategies function in general and political connections in specific, in the process of PFs internationalization.

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