



**BRITISH ACADEMY
OF MANAGEMENT**

BAM
CONFERENCE

3RD-5TH SEPTEMBER

ASTON UNIVERSITY BIRMINGHAM UNITED KINGDOM

This paper is from the BAM2019 Conference Proceedings

About BAM

The British Academy of Management (BAM) is the leading authority on the academic field of management in the UK, supporting and representing the community of scholars and engaging with international peers.

<http://www.bam.ac.uk/>

Developmental paper
for
British Academy of Management
2019

Track: Strategy

Authors: Sevda Seyidova, Thomas Lawton, Giacomo Carli

Contact: Sevda Seyidova

The Open University, Walton Hall, Milton Keynes, MK7 6AA Tel. 441908654882

Email sevda.seyidova@open.ac.uk

How can firms leverage corporate political activity to facilitate business model innovation?

How can firms leverage corporate political activity to facilitate business model innovation?

Summary:

This developmental paper outlines the literature review and intended data collection and research methodology of the study. It engages in a conversation on nonmarket environment of business models by exploring how do firms leverage corporate political activity to facilitate business model innovation.

Comment: Between March 2019 and the BAM conference in September 2019, the theoretical analysis on BMI and CPA, at the same time coding and data collection, will continue to take place, allowing the paper to draw on further results in time for the conference.

1. Introduction

Business and Politics are two theoretically and academically separate areas, but inseparably linked in practice as government policies and decisions affect firm performance and their competitive environment (Keim and Hillman 2008). Companies need to revise, if necessary renew or innovate their business models to continue compete and being operative in the market. Business model innovation (BMI) process not only reinforced by technological advancements, but also changes in international and national regulations, policies and needs are in fact requiring companies to rethink about how they may create and capture value in different manners. Thus, firms also engage in corporate political activities (CPA) to restrain political shifts which enables them to strengthen their position in the market and to maximize performance. Because of changes in political environment, existing business models can easily become ineffective or obsolete, and this means addressing political environment is important capability for every firm searching growth in the long term. In light of this, little is known about nonmarket aspect of business models and what role CPA plays in BMI process. Therefore, this research consequently aims to address the research problem mentioned above by investigating the following research question: to what extent corporate political activity affects business model innovation?

2. Literature Review

2.1 Business Model Concept

The business model concept was the focal point of both academics and practitioners, and it has emerged as a key research area in the fields of strategy, innovation and entrepreneurship (DaSilva and Trkman, 2014; Fjeldstad and Snow, 2017; Foss and Saebi, 2017; Morris et al., 2006; Shafer et al., 2005; Teece, 2010; Wirtz et al., 2016; Zott et al., 2011). Business models are growing in popularity because they represent a significant source of competitive advantage (Teece, 2010), and it can be objectively conceptualized as a firm's framework for making money or how business is done. It includes how a company creates value, how it delivers benefits to customers and how it generates revenue.

The current dynamic environment demands firms to have an ability to adapt, change or innovate their business models promptly to satisfy changing customer needs. To exploit the opportunities, companies need to creatively change the methods of providing and capturing value, meaning that they have to change their business model. It is also identified that novel and innovative business model is a critical factor for success in the current complex and dynamic environment (Hacklin, et al., 2018).

2.2 Business Model Innovation

Business model innovation is a form of innovation that involves fundamental changes in how firms create value and deliver value for customers (Trias de Bes and Kotler, 2011). Schneider and Spieth, (2013) identifies increasing globalization of the business environment and technological and behavioural developments as the main drivers why firms eager to innovate their business models. BMI occurs when the company adjusts or enhances at least one of the value dimensions (Abdelkafi et al., 2016; Fjeldstad and Snow, 2017; Markides, 2006) and it is positively associated with the need for discontinuous change. Foss and Saebi (2017) define BMI as “designed, novel, and non-trivial changes to the key elements of a firm's business model and/or the architecture linking these elements”.

Study by Taran et al (2015) discusses criteria for BMI through innovation content and the degree of innovation. The degree of innovativeness of BMI can be categorized from incremental to radical (Enkel and Mezger, 2013). Incremental innovation is a set of actions which cause continuous advancement of firm's intelligence. However, radical innovation is a set of actions that require techniques to gain new knowledge (Kodama, 2017). Radical innovation requires to change new set of core components and have completely new architecture. This type of innovation, in particular, will require many resources and building new capabilities (Ellonen et al. 2009; Kodama, 2017). On the other hand, incremental business innovation involves little modification or adjustments only for some components of the business model (Kindstrom and Kowalkowski, 2014).

2.3 Corporate Political Activity

The significance of the socio-political environment for companies have long realized by scholars. In order to understand and manage powerful nonmarket environmental factors, researchers from different fields have proposed that firms must involve in nonmarket environment. External environmental changes force companies to employ nonmarket strategies (NMS). While market strategies aim at shaping interactions with suppliers, customers and competitors in the market, NMS consist of actions developed to influence the institutional players that determine public policy (Holburn and Vanden Bergh, 2008, John and Lawton, 2017, Lawton et al., 2014). Broadly, CPA and Corporate Social Responsibility (CSR) are two concepts of the NMS that have frequently been addressed in academic studies over the last decade. CPA refers to corporate efforts that affect government policy in ways that are favourable to firm (Hillman et al., 2004; Baysinger 1984, Lawton et al. 2013a). Lobbying, political action committee contributions (PAC), and political directorships (Doh et al., 2012) are primary ways to engage in CPA.

Firm's engagement with host-country environment is known as one of the main characteristics of CPA. The number of scholars propose closely related classifications of these characteristics, mostly defining them as proactive and reactive strategies (Aragón-Correa and Sharma, 2003; Hillman et al., 2004; Oliver and Holzinger, 2008). Reactive approach to CPA enables firms not interact with host governments and comply with the requirements of its operational environment, adopt all the developments in the regulatory. De Villa, Rajwani, Lawton and Mellahi (2018) in their recent study define reactive strategies also as a non-engaged approach. They argue that when there is high host country political risk, MNE would choose non-engaged approach to CPA. On the other hand, proactive approach to CPA involves engagement with host country government policy and strong participation in activities, with the intention to shape or modify its contents in ways favourable to their corporate interests. De Villa et al. (2018) define this strategy as engaged approach. According to authors, majority of literature has centred on deployment of an engaged approach, enabling MNE to influence host country public policy by engaging with the host government, mostly citing the study by Hillman and Hitt (1999).

2.4 Business Model Innovation and Nonmarket environment

Schallmo and Brecht (2010) develop the so-called business model environment framework and separate it into two segments: macro environment and micro environment. The macro environment includes the following scopes: social, political, legal, economic, environmental and technological. Authors state that both, micro and macro environment impact customer needs, which form the basis for business model development. It is important to assess and manage political environment since nonmarket actors affect the strategic direction and

market objectives of business, and even it may reinforce the changes of existence business models.

Some stream of literature by adopting institutional level, discusses the importance of addressing political environment of BMI (Berti and Casprini, 2018; Dahan et al. 2010; Leisen et al., 2019; Ritcher et al, 2013). According to Dahan et al. (2010), besides traditional market structures, good business models need to address a description of its political environment. Similarly, Ritcher et al. (2013) state that as business model innovation is highly dependent on the regulatory framework, politics can create strong impact on business model development.

Extant research has focused on market environment of the BMI. On the contrary, nonmarket aspect of the business models received little attention from scholars. Considering limitations in literature and its importance, in my research study, I will focus on political environment in macro level.

3. Theoretical Framework

In a complex and fast-changing political environment possessing relevant capabilities might enable firms to gain comparative advantage and utilise political opportunities (Lawton and Rajwani, 2011; Lawton et al., 2013a; Oliver and Holzinger, 2008). This study adopts political capabilities as its theoretical foundation. Lawton et al. (2013b) describe political capabilities as “the organizational and strategic activities by which senior representatives or acting representatives reconfigure, leverage and release political resources to achieve new resource configurations that enable the company to adapt to, anticipate or even shape changes in the corporate political environment”.

The value the organisations create and sustain over time highly depend on how efficiently and effectively political capabilities and resources are managed (Oliver and Holzinger, 2008). Political environment impacts firm operations through different regulatory or institutional actors and firms need to address political environment in their business models (Dahan, 2010). It is also defined that, political capabilities are crucial to successful CPA (Oliver and Holzinger, 2008) and implementing CPA enables firms to develop their political resources and capabilities which in turn reinforce their cooperation with government and impact firm performance (Keim and Baysinger, 1988). Therefore, theoretical premise of this research is that successful firms will tend to manage changes in political environment with their political capabilities through leveraging CPA where they face choices about what objectives to pursue and how to pursue them in a way that best serves the business model of the firm.

4. Data and Methodology

4.1 Research Design

First part of the research design is to conduct systematic literature review. The systematic review will examine scholarly articles for evidence of the impact of CPA on BMI initiatives or how these two concepts are related. I will focus on publications over the most recent 18-year period, 2000-2018, due to the fact that BMI started to appear in literature and started to grab attention from academics from early 2000s.

The second part of the research design is exploratory research, to conduct a cluster analysis based on the characteristics of CPA and BMI. Cluster analysis is a multivariate method which groups objects on the basis of their characteristics. The simplified structure from cluster analysis often identifies relationships or similarities and differences not previously revealed (Morris et al., 2013). Characteristics of BMI will be adapted from different scholars, focusing mainly on the study conducted by Taran et al. (2015). Characteristics of CPA will be congregated from different scholars, especially using De Villa et al. (2018) recent study. To

reveal any pattern in aforementioned relationship such as strength and direction, correlation matrix will be performed.

The third part of this study will be confirmatory research, to empirically examine the relationship between BMI and CPA by employing quantitative research strategy through Panel regression analysis. Regression techniques have long been central to the field of econometrics and increasingly, they have become important in the social sciences and management research. I will also add several moderators to further investigate relationship between CPA and BMI.

4.2 Empirical setting and sample procedure

The empirical setting of this study is the United Kingdom (UK), a developed and quite transparent economy. The legislative environment of the UK provides rich and convenient setting for investigating the connection between our variables. There are 2,112 companies listed in London Stock Exchange as of 30 April 2019. I aim to randomly select 500 companies from that list. Data on control variables (firm size, sector, firm age and leverage) will be obtained from FAME database. Data on firm actions (BMI & CPA) will be drawn from news database of LexisNexis. Panel data will be employed in this study. The data will cover relevant information over last ten years about 500 randomly selected companies.

4.3 Data Collection

I will use “Quantitative Content Analysis” as my data collection method. Quantitative content analysis is used to review and assess texts based on the phrases defined in advance and to make conclusions through statistical analysis (Boettger and Palmer, 2010). There are three ways to create coding systems for content analysis: deductive approach which uses existing literature and theory to create codebook, prior to the start of coding. Inductive approach which uses the data itself as a basis for creating the codebook. In addition, what is known a hybrid approach begins with several prior concepts and then adds to them through reading materials. In my study, I aim to use a hybrid approach and count existence of concept. Based on the characteristics identified through literature review relevant framework for each variable (R-BMI, I-BMI and P/R-CPA) will be formulated. These frameworks will be the basis to recognize BMI and CPA actions while analysing news articles from LexisNexis and it will be advanced through data collection proses.

5. Conclusion

This developmental paper focuses on the relationship between BMI and CPA by taking political capabilities as its theoretical foundation. By employing quantitative method and choosing the UK as its empirical setting, the study will investigate how firms can use CPA to maintain better political environment for BMI.

References

- Abdelkafi, N. and Täuscher, K. (2016) 'Business Models for Sustainability from a System Dynamics Perspective', *Organization & Environment*, 29(1), pp. 74–96.
- Aragón-Correa, A. and Sharma, S. (2003) 'A Contingent Resource-Based View of Proactive Corporate Environmental Strategy', *The Academy of Management Review*, 28(1), pp. 71–88.
- Baysinger, B. D. (1984) 'Domain Maintenance as an Objective of Business Political Activity: An Expanded Typology', *The Academy of Management Review*, 9(2), pp. 248–258.
- Dahan, N. M., Doh J. P., Oetzel, J. and Yaziji, M. (2010) 'Corporate-NGO collaboration: Co-creating new business models for developing markets', *Long Range Planning*, 43(2–3), pp. 326–342.
- DaSilva, C. M. and Trkman, P. (2014) 'Business model: What it is and what it is not', *Long Range Planning*, 47(6), pp. 379–389.
- De Villa, M., Rajwani, T., Lawton, T., and Mellahi, K. (2018) 'To engage or not to engage with host governments: Corporate political activity and host country political risk', *Global Strategy Journal*, pp. 1–35.
- Doh, J. P., Lawton, T. C. and Rajwani, T. (2012) 'Advancing Nonmarket Strategy Research: Institutional Perspectives in a Changing World', *Academy of Management Perspectives*, 26(3), pp. 22–39.
- Enkel, E. and Mezger, F. (2013) 'Imitation Processes and Their Application for Business Model Innovation: an explorative study', *International Journal of Innovation Management*, 17(01), pp. 1–34.
- Ellonen H-K., Wikström, P. and Jantunen, A. (2009) 'Linking dynamic-capability portfolios and innovation outcomes', *Tecnovation*, (29), pp. 753–762.
- Fjeldstad, Ø. D. and Snow, C. C. (2017) 'Business models and organization design', *Long Range Planning*, 51(1), pp. 32–39.
- Foss, N. J. and Saebi, T. (2017) 'Fifteen Years of Research on Business Model Innovation: How Far Have We Come, and Where Should We Go?', *Journal of Management*, 43(1), pp. 200–227.
- Hacklin, F., Björkdahl, J. and Wallin, M. W. (2018) 'Strategies for business model innovation: How firms reel in migrating value', *Long Range Planning*, 51(1), pp. 82–110.
- Holburn, G., and Vanden B. R. (2008) 'Making Friends in Hostile Environments: Political Strategy in Regulated Industries', *Academy of Management Review*, 33(2), pp. 521–540.
- Hillman, A. J. and Hitt, M. A. (1999) 'Corporate Political Strategy Formulation: A Model of Approach, Participation, and Strategy Decisions', *The Academy of Management Review*, 24(4), pp. 825–842.

- Hillman, A. J., Keim, G. D. and Schuler, D. (2004) 'Corporate political activity: A review and research agenda', *Journal of Management*, 30(6), pp. 837–857.
- John, A. and Lawton, T (2017) 'International Political Risk Management: Perspectives, Approaches and Emerging Agendas', *International Journal of Management Reviews*, Vol. 00, pp. 1–33.
- Keim, G., and Baysinger, B. (1988) 'The efficacy of business political activity: Competitive considerations in a principle-agent context', *Journal of Management*, 14, pp. 163-180.
- Keim, G. D. and Hillman, A. J. (2008) 'Political environments and business strategy: Implications for managers', *Business Horizons*, 51(1), pp. 47–53.
- Kindstrom, D. and Kowalkowski, C. (2014) 'Service innovation in product-centric firms: a multidimensional business model perspective', *The Journal of Business and Industrial Marketing*, 29(2), pp. 96–111.
- Kodama, M. (2017) 'Developing strategic innovation in large corporations—The dynamic capability view of the firm', *Knowledge and Process Management*, 24(4), pp. 221–246.
- Lawton, T. and Rajwani, T. (2011) Designing lobbying capabilities: managerial choices in unpredictable environments. *European Business Review*, 23, pp. 167–189.
- Lawton, T., Mcguire, S. and Rajwani, T. (2013a) 'Corporate Political Activity: A Literature Review and Research Agenda', *International Journal of Management Reviews*, 15(1), pp. 86–105.
- Lawton, T., Rajwani, T. and Doh, J. (2013b) 'The antecedents of political capabilities: A study of ownership, cross-border activity and organization at legacy airlines in a deregulatory context', *International Business Review*, 22(1), pp. 228–242.
- Lawton, T., Doh, J. and Rajwani, T. (2014) *Aligning for Advantage: Competitive Strategies for the Political and Social Arenas*. Oxford: Oxford University Press.
- Morris, M. H., Schindehutte, M., Richardson, J. and Allen, J. (2006) 'Is the business model a useful strategic concept? Conceptual, theoretical, and empirical insights', *Journal of Small Business Strategy*, 17(1), pp. 27–50.
- Oliver, C. and Holzinger, I. (2008) 'The Effectiveness of Strategic Political Management: A Dynamic Capabilities Framework', *Academy of Management Review*, 33(2), pp. 496–520.
- Schallmo, D. and Brecht, L. (2010) 'Business Model Innovation in Business-to-Business Markets - Procedure and Examples', in Proceedings of the 3rd ISPIM Innovation Symposium: 'Managing the Art of Innovation: Turning Concepts into Reality', pp. 1–24.
- Schneider, S. and Spieth, P. (2013) 'Business Model Innovation: Towards an Integrated Future Research Agenda', *International Journal of Innovation Management*, 17(01), pp. 1–34.
- Shafer, S. M., Smith, H. J. and Linder, J. C. (2005) 'The power of business models', *Business Horizons*, 48(3), pp. 199–207.

Tallman, S., Luo, Y. and Buckley, P. J. (2017) 'Business models in global competition', *Global Strategy Journal*, pp. 1–19.

Taran, Y., Boer, H. and Lindgren, P. (2015) 'A business model innovation typology', *Decision Sciences*, 46(2), pp. 301–331.

Teece, D. J. (2010) 'Business Models, Business Strategy and Innovation', *Long Range Planning*, 43, pp. 172–194.

Trias B, F., and Kotler, P. (2011) *Winning at innovation-The A-to-F model*. Great Britain: Palgrave Macmillan.

Wirtz, B. W., Pistoia, A., Ullrich, S. and Göttel, V. (2016) 'Business Models: Origin, Development and Future Research Perspectives', *Long Range Planning*, 49(1), pp. 36–54.

Zott, C., Amit, R. and Massa, L. (2011) 'The business model: Recent developments and future research', *Journal of Management*, 37(4), pp. 1019–1042.