

Business model innovation vs replication: financial performance implications of strategic emphases

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The purpose of this article is to examine the financial performance implications of a firm's strategic emphases with respect to business model innovation vs replication. It is also examined how the financial performance implications differ between larger and smaller firms. Based on survey data including top managers' reports from approximately 500 firms, the authors analyze the differences in average profitable growth across firms that differ in their strategic orientations. It is found that firms that have a high strategic emphasis on business model innovation as well as a high emphasis on replication exhibit a higher average value of profitable growth than firms that do not strategically emphasize either dimension. Concerning a strategy that puts a high emphasis on business model innovation but low on replication, a difference is found between small and large firms. Large firms with a high emphasis on business model innovation but low on replication exhibit, on average, weaker profitable growth than large firms with low emphases on both business model innovation and replication. In contrast, small firms with high emphasis on business model innovation but low on replication exhibit, on average, stronger profitable growth than small firms with low emphases on both business model innovation and replication.

Keywords: business models; innovation; replication; financial performance; strategic orientation

1. Introduction

In recent years, there has been a growing academic interest in how firms innovate their business models. Originally emanating from the disciplines of strategic management (e.g. Amit & Zott, 2001; Hamel, 1998; Kim & Mauborgne, 1999a; Markides, 2006; Tucker, 2001) and industrial economics (e.g. Augier & Teece, 2007; Chesbrough & Rosenbloom, 2002; Christensen, Johnson, & Rigby, 2002), the interest in business model innovation has increasingly come to be shared by the marketing discipline, as well (e.g. Matthyssens, Vandenbempt, & Berghman, 2006; Michel, Brown, & Gallan, 2008; Schlegelmilch, Diamantopoulos, & Kreuz, 2003; Sharma, Krishnan, & Grewal, 2001). Consistent with the academic interest, also practitioners – strategic marketing managers and executives – now view that it is among their central tasks to make strategic decisions concerning not only the innovation of the products of the firm but also that of its entire business model (Tollin, 2008).

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When it comes to the wider areas of innovation management and strategic marketing, research has recently focused more and more on innovation as a continuous strategic orientation of a firm, rather than on one-off innovation projects (see Siguaw, Simpson, & Enz, 2006). From this stance, one way to consider business model innovation is to view it as a potential aspect of a firm's (innovative) corporate culture or capacity/capability (e.g. Conrad, 1999; Hult, Hurley, & Knight, 2004; Siguaw et al., 2006; Tellis, Prabhu, & Chandy, 2009; Vázquez, Santos, & Álvarez, 2001) – and optimistically assume that the more innovativeness a firm exhibits, the better (cf. Simpson, Siguaw, & Enz, 2006). Yet, an alternative way of viewing the issue is to consider that an emphasis on business model innovation is rather a (second-order) strategic *choice* for a firm, akin to the choice of how much to emphasize the preservation or exploitation of the firm's existing business resources and ways of doing things *versus* the exploration of new ones (cf. Tollin, 2008). While this alternative perspective also allows considering business model innovation as a potential continuous strategic orientation of a firm (rather than just an aim of a single innovation project), it requires attention to be paid to not only the benefits and advantages of business model innovation but also to the related costs, risks, and tradeoffs. Notably, this second perspective is the one which we adopt in the present research.

The particular research gaps that we address in this article are three-fold. First of all, there is a clear lack of empirical studies into the financial performance implications of a firm's strategic emphasis on business model innovation. While some much-cited conceptual work such as that on 'blue ocean strategy' (Kim & Mauborgne, 1999a, 2005b) has implied that adopting business model innovation as a strategy will yield superior performance, other conceptual work resists the idea that such innovation would have uniformly positive implications on performance (e.g. Simpson et al., 2006). In any case, conclusive (empirical) evidence about the issue is sparse.

Second, earlier research has – even in conceptual terms – fallen short of recognizing one important aspect of strategy which should be examined in conjunction with a firm's potential strategic emphasis on business model innovation. That is the firm's strategic emphasis on replication of (its own successful) business model(s). Indeed, a firm's approach to replication can be considered to be a highly important strategic decision related to that of business model innovation. Specifically, once having discovered and refined a new business model, replicators may create further value 'by choosing the necessary components to replicate that model in suitable geographical locations' (Winter & Szulanski, 2001, pp. 730–731). Considering that a firm's profitable growth may, thus, benefit not only from the firm's initial innovations but also their replication (Szulanski & Jensen, 2008), the lack of attention paid to replication in earlier research constitutes our second research gap.

A third research gap that we aim to address lies in the fact that earlier research has paid sparse attention to whether the implications of a strategic emphasis on business model innovation differ between large firms and small firms. Yet, it is an established notion that successful strategies and business models are often different for small firms than for larger ones (e.g. D'Amboise & Muldowney, 1988; Dandridge, 1979; Welsh & White, 1981). Notably: smaller firms may have more limited resources and power to modify their business environment to their advantage, on one hand, but be able to more effectively create small market niches, on the other (e.g. Dean, Brown, & Bamford, 1998; Gibb, 2000; Siu & Kirby, 1998).

In this article, we address the above research gaps by presenting an empirical study that examines the financial performance implications of strategic emphasis on business model innovation – as accompanied with vs lacking the simultaneous strategic emphasis

on replication. We also examine how the financial performance implications differ between smaller and larger firms. Based on survey data involving approximately 500 firms based in a Northern European country, we analyze the differences in average profitable growth across firms that differ on the relevant dimensions.

As to our results, we find that both small and larger firms with a high strategic emphasis on business model innovation as well as a high emphasis on replication have a higher average value of profitable growth than firms that do not strategically emphasize either dimension. Concerning a strategy that puts a high emphasis on business model innovation but low on replication, we find, however, an important difference between small and larger firms. We find that large firms with a high strategic emphasis on business model innovation but low on replication exhibit, in fact, a *lower* average value of profitable growth than large firms with low strategic emphasis on both business model innovation and replication. In contrast, small firms with high strategic emphasis on business model innovation but low on replication are found to exhibit a *higher* average value of profitable growth than small firms with low strategic emphasis on both business model innovation and replication. All in all, the contribution of our results is to help both researchers and practitioners of strategic marketing put the idea of business model innovation (and replication) into a realistic, critical perspective – and recognize the potential or likely financial performance implications of strategies emphasizing such innovation. This perspective contrasts to some recent, overly optimistic accounts of innovation and innovation orientation in the strategy and marketing contexts.

2. Theoretical background

2.1 Business model innovation as a strategic emphasis

Many popular pieces of strategic management and innovation literature have in recent years argued for the superiority of strategies that create novelty into markets and networks through business model innovation. For instance, Hamel's (1998, p. 8) definition of strategy innovation involves the 'capacity to reconceive the existing industry model in ways that create new value for customers, wrong-foot competitors, and produce new wealth for all stakeholders'. According to Hamel, such innovation may enable the firm to capture a disproportionate share of industry value creation. Kim and Mauborgne (1997, 1999a, 1999b, 2005a, 2005b), in turn, advocate 'blue ocean strategies' – aimed at creating entirely new markets (blue oceans) or, at least, at significantly reconstructing or extending current ones (red oceans), through the development of 'value innovations'. According to Kim and Mauborgne, such a strategy is superior as it allows the firm to create and tap into new economic end-demand and, hence, surpass some of the existing competition in existing markets.

Similarly, Markides (1997, 2006) calls for 'breaking the existing rules of the game' so as to introduce profitable business model innovations. This can be done, for example, by targeting customer niches (that are either over or underserved by the existing industry competition) through redefinition of customer segments, customer needs, or the ways of producing, delivering, or distributing existing or new products. Also Christensen et al. (2002) demonstrate how firm growth can be based on the creation of entirely new markets and business models, albeit noting also the challenges often faced by incumbent firms in doing that.

Beyond the applications of the popular strategy literature, also industry economists have theorized about business model innovation. Jacobides, Knudsen, and Augier (2006), for instance, suggest that an innovator firm's pursuit to reshape industry architectures

around it can allow the firm to capture a disproportionate amount of the benefits created by an innovation. Even small entrepreneurial ventures can achieve a comfortable position in the industry architecture by influencing the structure of their sector in ways that would eventually fit their own capabilities. Chesbrough and Rosenbloom (2002), in turn, demonstrate that firm success is more likely if it experiments with novel, alternative business models built around core technological innovations.

Following the growing interest by marketing discipline in general strategy and innovation issues, marketing researchers have largely come to share the above views of strategic management scholars and industrial economists. Most notably, Schlegelmilch et al. (2003) provide a review of the matter under the heading of 'strategic innovation', which they define as 'the fundamental reconceptualization of the business model and the reshaping of existing markets (by breaking the rules and changing the nature of competition) to achieve dramatic value improvements for customers and high growth for companies' (2003, p. 118). Also Matthyssens et al. (2006, p. 752) view business model innovation as a potent way to 'escape cut-throat competition and sustain competitive advantage', albeit reminding also that such a strategy may often be difficult to implement.

Furthermore, related streams of marketing research have brought up the possibility of a firm to have a *continuous or systematic strategic orientation* for business model innovation and the potential benefits of such an orientation. Specifically, marketing researchers have speculated on the advantages of taking a proactive, 'market-driving' stance toward (business model) innovation: reshaping existing market structures, addressing latent customer needs, producing discontinuous leaps in customer value, designing unique business systems, developing new channels, and/or fundamentally changing the rules of the competitive game (Bergman, Viljainen, Kässi, Partanen, & Laaksonen, 2006; Jaworski, Kohli, & Sahay, 2000; Kumar, Scheer, & Kotler, 2000; Narver, Slater, & MacLachlan, 2004; Schindehutte, Morris, & Kocak, 2008). These authors contrast this proactive market orientation to the traditional reactive market orientation, which is characterized by a firm's strategy to simply adapt to existing market structures and/or to merely respond to and be led by customers' existing, manifest needs. Similarly, proponents of 'innovation orientation' (e.g. Manu, 1992; Siguaw et al., 2006; Simpson et al., 2006) – especially a market-pioneering type of innovation orientation (Manu & Sriram, 1996) – have leaned toward thinking that continual innovations of wide scope in a firm's business (i.e. not only single product or process innovations) generate superior market and financial performance for the firm.

All in all, the work outlined above has suggested that one generic strategic option for firm managers relates to the question of how much to emphasize business model innovation in firm strategy. Especially marketing researchers have further implied – with the notions of market-driving orientation and innovation orientation – that a firm can choose to adopt business model innovation as a *continuous, systematic strategic orientation*. When it comes to the performance implications of such a strategic emphasis or orientation, many of the researchers have assumed that strategic emphasis on business model innovation leads to superior profits and/or growth. However, this is not necessarily the case, as innovative orientations have also their downsides (see, for example, Simpson et al., 2006). We will discuss some of the obvious downsides below in section 2.3 when developing our hypotheses – but before that, we will briefly review the second strategic dimension of interest in this article, that is, a firm's strategic emphasis on replication.

2.2 Replication of new business models

While the research on business models has concentrated on the idea of novelty creation through business model innovation, rather little consideration has been given to the strategic dimension of replication. The work by Winter, Szulanski, and Jensen stands out as a notable exception. Szulanski and Jensen (2008) emphasize the point that significant growth often requires more from an innovative firm than just initial innovations – it requires exploitation in the form of replication in order to maximize value. Specifically, the replication strategy refers, according to Winter and Szulanski (2001), to the innovator firm's learning about and refining its (new) business model, by choosing the necessary components to replicate that model in suitable geographical locations, by developing capabilities to routinize knowledge transfer, and by maintaining the model in operation once it has been replicated.

In their original theoretization, Winter and Szulanski (2001) especially emphasize that replication is not merely repeated application of a simple new business model formula or recipe or exploitation of a good idea. Rather, the replication strategy involves effortful investments in discovering and learning about what those complex, interdependent, and partly tacit routines, productive processes, and customer-valued aspects of the new business model actually are that are replicable and worth replicating. The authors use the term 'Arrow core' to refer to a firm's to-be-developed knowledge of which (business model) attributes are replicable and worth replicating, together with to-be-developed knowledge of *how* those attributes are created.

Following Winter et al.'s work, some others have also come to consider replication, or self-imitation, as a major strategic dimension for contemporary firms (e.g. Fréry, 2006; Wirtz, Mathieu, & Schilke, 2007). In effect, these authors have seen effective replication strategy to have lain behind the growth of companies as diverse as Intel, McDonald's, Starbucks, Wal-Mart, and Sony from start-ups to global giants.

Thus, beyond the second-order strategic choice of whether to pursue business model innovation, the firm has the strategic choice of whether to pursue replication of the novel business model(s) created. Specifically, the present study aims to study the financial performance implications of a firm's strategic emphasis on business model innovation – as accompanied with vs lacking the simultaneous strategic emphasis on replication

2.3 Financial performance implications of the strategic emphases – hypotheses concerning large and small firms

The main focus of the present study is on the relationships between a firm's financial performance – especially profitable growth – and the firm's strategic orientation concerning business model innovation and replication. Extant research on these relationships is sparse but alternative hypotheses can be developed on the basis of existing theory.

2.3.1 High strategic emphasis on business model innovation, low on replication

First, for a baseline comparison, let us contrast firms that have a strategic orientation with a high emphasis on business model innovation and low on replication, with firms whose strategy that does not put high emphasis on either business model innovation or replication.

In general, besides the popular managerial literature on business model innovation strategies which claims that such strategies yield superior performance (e.g. Hamel, 1998; Kim & Mauborgne, 1999a, 2005b), there are some empirical studies which indeed report

high performance returns for firms that exhibit proactive innovation orientation in their strategies (Gatignon & Xuereb, 1997; Green, Barclay, & Ryans, 1995; Wirtz et al., 2007). Such proactiveness is often characterized by strategic orientation toward exploiting emerging opportunities, experimenting with change, and mobilizing first-mover actions (Dess, Lumpkin, & Covin, 1997; Lynn, Morone, & Paulson, 1996; Morgan & Strong, 2003). Also research on firms' orientation toward prospective, market-pioneering innovations has presented similar findings (e.g. Cefis & Ciccarelli, 2005; Manu & Sriram, 1996; Robinson & Fornell, 1985; Robinson, Kalyanaram, & Urban, 1994; Vázquez et al., 2001). Thus, it could be generally expected that firms that have high strategic emphasis on business model innovation (but low on replication) have higher average financial performance in terms of profitable growth than firms with no such emphasis. However, a contrary argument is that first-mover advantages will be difficult to realize, innovative projects are risky and often fail, and competitors will reap the profits of the firm's innovative efforts through second-mover and follower advantages (e.g. Lieberman & Montgomery, 1988; Markides & Geroski, 2005; Morgan & Strong, 2003; Simpson et al., 2006). This argument implies that firms that have a high strategic emphasis on business model innovation might in fact have lower average financial performance in terms of profitable growth than firms with no such emphasis.

At any rate, the relationship between a firm's (proactive) strategic orientation toward business model innovation and its financial performance are likely to be contingent on the firm's size, in particular. On one hand, small firms' often-cited characteristics are their limited resources and relatively modest ability to shape their environment (e.g. Cooper, Gimeno-Gascon, & Woo, 1994; Ebben & Johnson, 2005; Gibb, 2000; Lee, Lim, & Tan, 1999). Therefore, the strategic choice to innovate novel business models (as opposed to imitate ones existing in the market) might lead, on average, to inferior financial performance for small firms. Large firms, in contrast, have advantages such as economies of scale and the ability to bear risk and access financial resources which enable them to innovate (Ali, 1994; Galbraith, 1952), as well as complementary assets (e.g. sales and service forces and distribution facilities) which allow them to appropriate the returns from innovations in a relatively effective way (Levin, Klevorick, Nelson, & Winter, 1987; Tripsas, 1997). Hence, it might be expected that while among small firms, those firms that have high strategic emphasis on business model innovation have lower average financial performance than those that do not have such an emphasis, the relationship would be inverse among large firms. More formally:

- Hypothesis 1a: Large firms with a high strategic emphasis on business model innovation but low on replication have *higher* average profitable growth than large firms with a low strategic emphasis on both business model innovation and replication
- Hypothesis 1b: Small firms with a high strategic emphasis on business model innovation but low on replication have *lower* average profitable growth than large firms with a low strategic emphasis on both business model innovation and replication

Yet, on the other hand, due to small firms' greater ability to effectively and flexibly create and compete in new market niches (e.g. Chen & Hambrick, 1995; Dean et al., 1998; Porter, 1980), it might be alternatively expected that especially among small firms, those firms that have high strategic emphasis on business model innovation have *higher* average financial performance than those with no such emphasis. On the same grounds, it could be expected

that among larger firms (which in general may not have the needed flexibility), those firms that have high strategic emphasis on business model innovation have *lower* average financial performance than those with no such emphasis. This logic leads us to present the following hypotheses, as competing/alternative hypotheses to those posed above:

Hypothesis 2a: Large firms with a high strategic emphasis on business model innovation but low on replication have *lower* average profitable growth than large firms with a low strategic emphasis on both business model innovation and replication.

Hypothesis 2b: Small firms with a high strategic emphasis on business model innovation but low on replication have *higher* average profitable growth than large firms with a low strategic emphasis on both business model innovation and replication.

2.3.2 High strategic emphasis on business model innovation, high on replication

Importantly, having a strategic emphasis not only on business model innovation, but also on replication of successful (aspects of) one's (new) business model(s), may have different financial performance implications. In general, emphasizing business model replication besides innovation may lead, on average, to higher financial performance. This can be expected if replicator firms tend to be able to exploit the valuable aspects of their business model innovations more effectively and in larger scale than non-replicators – leading to higher returns to their initial investments in the innovative activities (Szulanski & Jensen, 2008). Nevertheless, as emphasized by Winter and Szulanski (2001), replication is not something that is effortless and easy-to-achieve but rather requires, in itself, considerable investments in explorative efforts. Thus, it might also be expected that firms with high strategic emphases on both business model innovation and replication have, on average, lower financial performance than firms with merely high emphasis on business model innovation.

In any case, this basic logic may again be contingent, especially, on firm size. Specifically, small firms may find it particularly difficult to divide their limited resources over business model innovation efforts and replication efforts. Indeed, Ebben and Johnson (2005) recently found evidence of the general difficulty that small firms face in following different strategies at the same time, leading to lowered performance for small firms pursuing such hybrid strategy combinations. Hughes, Hughes, and Morgan (2007), in turn, demonstrate that the performance of small firms that try to sustain the dual-dominant orientations of entrepreneurial orientation and exploitative learning is lowered. Thus, while it can be expected that among larger firms, those firms that have high strategic emphases on both business model innovation and replication have higher average financial performance than those that emphasize merely business model innovation, the relationship can be inverse among small firms. More formally:

Hypothesis 3a: Large firms with a high strategic emphasis on business model innovation and high on replication have *higher* average profitable growth than large firms with a high strategic emphasis on business model innovation but low on replication.

Hypothesis 3b: Small firms with a high strategic emphasis on business model innovation and high on replication have *lower* average profitable

growth than large firms with a high strategic emphasis on business model innovation but low on replication.

Yet, it is also possible that due to small firms' relatively high general flexibility, they will be able to relatively successfully combine the particular strategies of business model innovation and replication. This might be the case particularly because business model innovation activities and replication activities may partly overlap: an initial 'proto' business-model may be further developed in the course of replication efforts (Chesbrough & Rosenbloom, 2002; Winter & Szulanski, 2001). Hence, the following hypotheses can be presented, again, as competing/alternative hypotheses to those posed above:

Hypothesis 4a: Large firms with a high strategic emphasis on business model innovation and high on replication have *lower* average profitable growth than large firms with a high strategic emphasis on business model innovation but low on replication.

Hypothesis 4b: Small firms with a high strategic emphasis on business model innovation and high on replication have *higher* average profitable growth than large firms with a high strategic emphasis on business model innovation but low on replication.

3. Method

3.1 Data and sample

This research examines how two dimensions of strategic orientation, as emphasized by firm managers in subjective terms, are related to possible performance differences across the firms. To this end, we collected survey data about firms' strategic emphases as well as performance from a sample of firms based in a European country (Finland). The data were self-reported by the firms' CEOs or marketing directors. Specifically, a request to respond to the survey, implemented online, was sent by email to 5000 potential respondents; specifically, to all persons with the title 'CEO' or 'marketing director' and with an available email address in a list procured from a commercial list broker. A re-request to respond was sent to those who had not responded within 10 days. In total, 545 responses were received back. Thus, the response rate was approximately 10%, which is quite normal for an online survey. According to an often-used practice, we controlled for non-response bias by comparing the responses received after the first email request with those received after the second one. We found no statistically significant differences in this comparison, which suggests that non-response bias is not a serious concern.

The firms included in the final sample represented the firm population of the target country fairly well. With regard to the size of the firms in the sample, the number of personnel ranged from a couple of persons to over 5000 persons, while the firms' sales ranged from below 200,000 euros to 10 billion euros. The main industries of the firms involved both consumer products and services and business-to-business products and services.

3.2 Measures and study design

The overall approach in our study was to categorize the firms in the sample into different groups, based on the extent that the firms emphasized, in their strategy, the dimensions of (1) business model innovation and (2) replication. Groups of firms characterized by similar

strategic emphases were formed, corresponding to the different combinations obtained by characterizing a firm's strategic emphasis on each dimension as either 'low' or 'high'. Consequently, the financial performance differentials across these groups were analyzed.

3.2.1 *Strategic emphasis on business model innovation*

The firm's strategic emphasis on business model innovation was measured by asking the respondent-manager to rate the following statements on a Likert scale (0 = strongly disagree, 6 = strongly agree):

- 'In our strategy, it is central to make initiatives to create novel value by challenging existing industry-specific business models, roles, and relations in certain geographic market areas.'
- 'In our strategy, it is central to make initiatives to provide entirely new value to certain people and/or organizations (customers).'

The reliability of the scale was good, achieving Cronbach's alpha of .81. Given the sum of a manager's responses on the two items, the firm's strategic emphasis on business model innovation was characterized as 'low' or 'high' based on a median split among the whole sample. The median value (=6) and values below it were characterized as low, and the values above the median value were characterized as high. In effect, the median split resulted in the following recoding of the index value: 0–6 = 'low' and 7–12 = 'high'.

3.2.2 *Strategic emphasis on replication*

The firm's strategic emphasis on replication was measured by asking the respondents to rate the following statements on a Likert scale (0 = strongly disagree, 6 = strongly agree):

- 'It is central in our strategy to replicate such a business model of ours that is successful in a certain market area, and take it into use in other geographic market areas as well.'
- 'It is central in our strategy to replicate such an offering of ours that provides novel customer value in a certain market area, and take it into use in other geographic market areas as well.'

The reliability of this scale was good, as well, achieving Cronbach's alpha of .90. Again, a median split was performed. This resulted in the similar recoding of the index value as above: 0–6 = 'low' and 7–12 = 'high'.

3.2.3 *Financial performance*

As the financial performance measure, we used a measure of profitable growth of the firm during the past year. The used measure was a product of responses on two items. First, we asked the respondent to report the sales growth of his/her firm in the last year, with the question: 'How, approximately, did your company's sales develop last year from the previous year?'

- decreased more than 50%
- decreased 50–31%
- decreased 30–16%
- decreased 15–6%

- decreased 5–0%
- increased 0–5%
- increased 6–15%
- increased 16–30%
- increased 31–50%
- increased more than 50%.’

Second, we asked the respondent to subjectively assess the development of the operating income percentage of his/her firm last year, relative to the previous year, with the question: ‘Compared to the previous year, how did your business unit succeed last year with regard to operating income %?’

- much worse
- worse
- somewhat worse
- equally
- somewhat better
- better
- much better.’

The responses to the first question were recoded to obtain a value corresponding to the mean of the indicated percentage range, a value which was then transformed to logarithm scale and standardized by dividing it with (double) the standard deviation of all the values. The distribution of values obtained this way was consequently shifted to the right so that all the values would be positive. Responses to the second question were coded on an interval scale from 1–7, and values obtained this way were standardized by dividing them with (double) the standard deviation of the values. The two standardized values per respondent-manager were then multiplied with each other to obtain a product value for profitable growth of the firm.

3.2.4 Firm size

Since the purpose of the empirical study was to examine, from a theoretical standpoint, whether the financial performance implications of the strategic emphases differed on average according to firm size, the question where to draw the exact line – in absolute terms – between large vs small firms was not considered an issue. Thus, with a similar logic as in identifying firm groups with different strategic emphases, we identified large vs small firms on the basis of a median split, as well. Specifically, the median split here was realized on the variable of sales/turnover, so that those firms with the median sales of two million or less were identified as small firms and those firms with sales above that median as large firms.¹

4. Findings

4.1 Frequencies of different strategic orientations

The numbers and proportions of the firms in the sample, characterized by different strategic emphases on the business model innovation and replication, are presented in Table 1. As seen in the table, as many as two-fifths (39.5%) of the firms in the sample do not have high emphasis on either business model innovation or replication. Approximately one-fifth (19.8%) of the firms have high emphasis on business model innovation but low on replication. A little more than one-fourth (28.4%) have high emphasis on both business

Table 1. Frequencies of firms with different strategic orientations.

		Strategic emphasis on business model innovation	
		Low	High
Strategic emphasis on business model replication	Low	'Strategic group 0' 192 (39.5%)	'Strategic group 1' 96 (19.8%)
	High	Not included in analysis 60 (12.4%)	'Strategic group 2' 138 (28.4%)

model innovation and replication. The rest of the firms, approximately one-eighth (12.4%), claim to have low emphasis on business model innovation and high on replication. However, this group is not included our analysis, due to its falling outside our theoretical examination.

4.2 Tests of hypotheses

To address hypotheses 1a–1b and 2a–2b, we examined the differences in profitable growth values across firms characterized by a high strategic emphasis on business model innovation but low on replication ('strategic group 1'), on one hand, and firms characterized by low strategic emphases on both business model innovation and replication ('strategic group 0'), on the other. Specifically, we performed a nonparametric alternative to the ANOVA, that is, pairwise median tests on the profitable growth measure across the strategic groups. The tests were performed on both small firms and large firms, respectively.

Figure 1 shows the median values of profitable growth for strategic groups 0 and 1, for large and small firms. With respect to large firms, the median profitable growth value of strategic group 0 (median = 2.43) is higher than that of strategic group 1

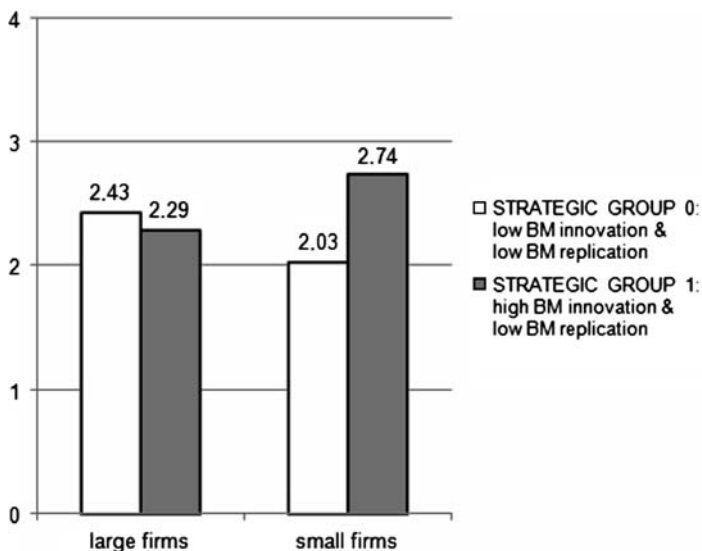


Figure 1. Median value of profitable growth: comparison of strategic groups 0 and 1.

(median = 2.29). The median test indicates that the difference between the strategic groups is marginally significant (test statistic = 14.5; $Z = -1.26$; $p = .10$). Thus, hypothesis H2a receives support – suggesting that large firms with a high strategic emphasis on business model innovation but low on replication have lower average profitable growth than large firms with low strategic emphases on both business model innovation and replication. Correspondingly, hypothesis H1a is rejected (as it predicted average performance difference in the opposite direction).

In contrast to the large firms, among small firms median profitable growth value of strategic group 0 (median = 2.03) is *lower* than that of strategic group 1 (median = 2.74). The median test indicates that the difference between the groups is also marginally significant (test statistic = 33.8; $Z = 1.31$; $p = .10$). Thus, hypothesis H2b is supported – suggesting that small firms with a high strategic emphasis on business model innovation but low on replication have higher average profitable growth than small firms with low strategic emphases on both business model innovation and replication. Hypothesis H1b is, correspondingly, rejected (as it predicted average performance difference in the opposite direction).

When it comes to hypotheses 3a–3b and 4a–4b, similar analytical procedures were used as above, now only to examine the differences between firms characterized by high strategic emphases on both business model innovation and replication ('strategic group 2') and firms characterized by a high strategic emphasis on business model innovation but low on replication ('strategic group 1'). The tests were, again, performed on both small firms and large firms, respectively.

Figure 2 shows the median values of profitable growth for strategic groups 1 and 2, for large and small firms. With respect to large firms, the median profitable growth value of strategic group 1 (median = 2.29) is lower than that of strategic group 2 (median = 2.74). The median test indicates that the difference between the strategic groups is significant (test statistic = 12.7; $Z = -1.99$; $p = .02$). Thus, hypothesis H3a is supported – suggesting that large firms with high strategic emphases on both business model innovation and replication have higher average profitable growth than large firms with

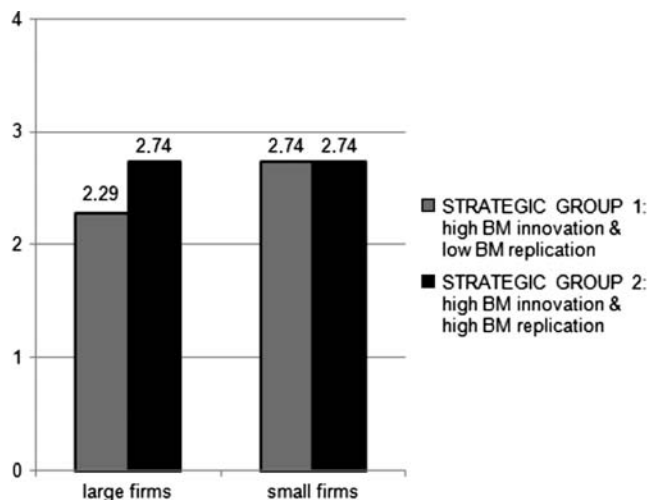


Figure 2. Median value of profitable growth: comparison of strategic groups 1 and 2.

high strategic emphasis on business model innovation but low on replication. Correspondingly, hypothesis H4a is rejected (as it predicted, again, average performance difference in the opposite direction). Among small firms, median profitable growth value of strategic group 1 (median = 2.74) is, in contrast, the same as that of strategic group 2 (median = 2.74). Consistently, the median test indicates that the difference is non-significant (test statistic = 28.3; $Z = -0.54$; $p = .30$). Thus, neither hypotheses H3b nor H4b is supported.

As additional analyses, we compared the profitable growth values of firms in strategy group 2 to those of firms in strategy group 0. With respect to large firms, the median profitable growth value of strategic group 2 (median = 2.74) is higher than that of strategic group 0 (median = 2.43). The median test indicates that the difference between the strategic groups is marginally significant (test statistic = 42.4; $Z = 1.60$; $p = .05$). With respect to small firms, the median profitable growth value of strategic group 2 (median = 2.74) is also higher than that of strategic group 0 (median = 2.03). The median test indicates that the difference between the strategic groups is significant, as well (test statistic = 35.4; $Z = 1.61$; $p = .05$). These findings confirm that firms with high strategic emphases on both business model innovation and replication have, on average, higher performance than firms that emphasize neither business model innovation nor replication – be the firm large or small.

5. Discussion and conclusion

5.1 Contributions to research

While strategic management and marketing scholars have been increasingly interested in firm strategies destined to innovate new business models, there has been a lack of empirical studies into the financial performance implications of firms' strategic emphases on business model innovation. Moreover, extant research has paid little attention to a related, important aspect of strategy: the replication of (new) business model(s) that a firm creates. The contribution of our study is, especially, to examine the financial performance implications of strategies that emphasize the innovation of business models – by paying particular attention to differences between firms that simultaneously emphasize business model replication vs those that do not. Also, our contribution is to take into account the differences between small and larger firms – an issue that has also received little attention in earlier research on business model innovation.

When it comes to large firms, we found, first of all, that firms which have a high strategic emphasis on business model innovation but low on replication have lower average financial performance in terms of profitable growth than firms which have low strategic emphasis on business model innovation (and replication). This finding runs contrary to certain popular notions which imply that business model innovation – on its own – would lead to superior performance outcomes. Such notions have been manifest in, for example, the rather optimistic accounts on the virtues of 'strategy innovation' and 'blue ocean strategy' (Hamel, 1998; Kim & Mauborgne, 2005b; Markides, 1997) as well as in some accounts of market-driving market orientation (e.g. Narver et al., 2004; Schindehutte et al., 2008), and innovation orientation (e.g. Siguaw et al., 2006; cf. Simpson et al., 2006) in the strategic marketing literature.

On the other hand, we found that those large firms that combine a high strategic emphasis on business model innovation with a high strategic emphasis on replication have superior average performance – both compared to firms that have high strategic emphasis on business model innovation but low on replication and compared to firms that do not put

particular emphasis on either. In sum, the findings are thus consistent with the speculative suggestion found in earlier research that profitable growth may be generated not by initial business model innovations but the replication of those innovations (Szulanski & Jensen, 2008). In fact, our findings even go even further in suggesting that for large firms, mere business model innovation – without replication – is related to lower average financial performance than refraining from business model innovation altogether.

We also found that the implications of the studied strategies were contingent on firm size. Whereas our findings suggest that for large firms, business model innovation without replication is related to lowered average performance, the results suggest the contrary for small firms. Specifically, those small firms that have high emphasis on business model innovation but low on replication were found to have higher average growth than small firms that have low emphasis on business model innovation (and low on replication). Why the result was contrary among small firms compared to large firms might be explained by the fact that it is relatively more important for large firms – for their profitable growth – to put effort into replicating the valuable and well-functioning aspects of their already-installed business models. After all, small firms may not have much from which to replicate, yet. It may also be more important for large firms to put conscious strategic emphasis on replication – at top management level, which we addressed – so that various novel business model ideas and initiatives would not get shadowed and hindered by the inertia of the existing organizational structure (cf. Christensen, 1997). In contrast, small firms may be flexible enough to shift to a replication mode if necessary and opportune, without a pre-determined strategic emphasis on replication.

Moreover, we found that among small firms especially, the average profitable growth of firms that had high strategic emphases on both business model innovation and replication did not significantly differ from the average profitable growth of firms that had a high emphasis on business model innovation but low emphasis on replication. The finding that the former strategy – or strategy combination – was not related to poorer financial performance than the latter suggests that small firms will not have insurmountable problems in dividing their resources between the strategies of business model innovation vs replication. Thus, the finding departs from certain findings in earlier research that stress the difficulties that small firms may face in combining competing strategies (cf. Ebben & Johnson, 2005; Hughes et al., 2007). On the other hand, the finding may also reflect the fact that business model innovation activities and replication activities may partly overlap, particularly in small firms: an initial ‘proto’ business-model may be further developed in the course of its replication efforts (Chesbrough & Rosenbloom, 2002; Winter & Szulanski, 2001). This would mean that business model innovation and replication are not fundamentally competing strategies in small firms, but to a large extent complementary.

5.2 Implications for managers

To large firms interested in pursuing novel business models – that is, new business models compared to the ones existing in one’s industry – the results of the present research stress the importance of replication strategies. The results highlight that merely concentrating on business model innovation may lead to inferior financial performance in terms of profitable growth, if careful and determinate efforts are not made to replicate the valuable and well-functioning aspects of the firm’s (emerging) business models. Thus, large firms pursuing business model innovation should constantly pay attention to how to replicate their successful business models – across geographical market areas, for example.

Yet, the results also remind managers of the fact that pursuing business model innovation should not be taken as a terminal value per se. For larger firms, our results indicate that a strategy that puts a high emphasis on business model innovation but low or no emphasis on replication is associated with lower average financial performance than a strategy that does not pursue business model innovation at all. Even a strategy with high emphases on both business model innovation and replication had only marginally higher average financial performance than a strategy that does not pursue business model innovation at all. In other words, not all firms will be better off pursuing business model innovation – traditional means of competing and doing business may yield equally good results for many firms.

For small firm management, our results do, nevertheless, suggest that business model innovation strategies may be quite feasible overall. Strong emphasis on replication efforts may not be necessary, as business model innovation strategy seems to generate similar profitable growth outcomes irrespectively of whether replication is initially emphasized. However, the small firm management should still remain sensitive to detecting opportunities provided by a potential, temporary shift to a replication mode, once a functioning new business model has been developed and initiated. In any case, it might well be wise to cherish the notion that a small firm is in a good position to develop novel business models particularly to create new market niches (e.g. Chen & Hambrick, 1995; Dean et al., 1998; Porter, 1980).

5.3 Limitations and future directions

Methodologically, the main limitation of the present study relates to our approach of asking a firm's manager about the firm's strategic emphases and linking these reports to the manager's report about the firm's performance during the past year. Based on our data, we cannot know how long and how consistently the firm had exhibited the reported emphases in its strategy (e.g. a month, a year, two years, or 10 years). Thus, the potentially important influence of temporal perseverance or consistency of a chosen strategy on the financial outcomes was not taken into account – nor the potential delay between adopting/maintaining a certain strategy and its financial performance outcomes. Also, lacking longitudinal data, we cannot be exactly certain about the causal directions: whether the reported strategic emphases had led to certain financial performance outcomes in the firms or whether certain financial performances had led to certain strategic emphases. Due to our use of managers' reports as data, our results are not immune to reporting bias, either.

Another limitation of the study is our data's reliance on firms based in a single country, Finland. On one hand, Finland is a rather small country with a small population and somewhat small domestic markets. On the other hand, Finland's economy and, thereby, a large proportion of Finnish firms are highly open to global product and financial markets, exhibit top-tier competitiveness according to international standards, and manifest orientation toward free market philosophy, high technology, and R&D intensiveness (e.g. *The Economist*, 2006; Ryan, 2008; Ylä-Anttila & Palmberg, 2007). These country characteristics are likely to make our results best generalizable to firms based in other similar countries, that is, developed, Western (European) countries that have open market economies and rely on international trade and exports. At the same time, the results might have less generalizability to developed countries that have large domestic markets and low reliance on exports. The possible generalizability of the results is likely to be least applicable to developing markets in, for example, Asia, South America, and Africa.

Future research could make several extensions to the present work. The above limitations of the present study could be overcome by gathering longitudinal data about firms' strategies as well as performance and complementing the manager-reported data with more objective indicator data. Also, the present research could be extended by incorporating firms based in other countries into the sample, that is, by conducting a cross-country study. Also, future research should include additional control variables in the analyses. It should be studied whether the higher average financial performance implications of the strategies hold regardless of environmental context (e.g. environmental turbulence) and industry- and firm-specific factors.

Note

1. Note that by coincidence (and due to prevalence of small/micro firms in the firm population), this median-split resulted in the small firms likening – empirically – to the definition of micro firms by the Commission of the European Union (see European Commission, 2009).

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