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Incumbent heterogeneity in creative destruction: a study of three Dutch newspaper organisations

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With a study of three Dutch newspaper organisations, we identify four dimensions along which incumbent response to discontinuous change may differ: response timing (early or late), size of commitment to the new business (big or small), progression of commitment to the new business (continuous or intermittent), and approaches to bridging the capability gap (internal development, strategic alliance, or acquisition). These response strategies are neither mutually exclusive nor static, and their relative focus differs over time as well as across incumbents. Such inter-temporal and cross-sectional variations in response strategies are influenced by various incumbent-specific characteristics and shaped by interrelated contingencies internal or external to incumbents.

Keywords: disruptive innovation; incumbent heterogeneity; path dependence; adaptation

1. Introduction

A recurring topic in industry evolution and corporate change is that incumbent organisations have great difficulties responding to discontinuous change in their external environment, such as radical innovation (Henderson 1993), architectural innovation (Henderson and Clark 1990), competence-destroying innovation (Tushman and Anderson 1986), or disruptive innovation (Christensen and Bower 1996). This phenomenon is so persistent and intriguing that it has been termed the ‘incumbent’s curse’ in the literature (Chandy and Tellis 2000).

In a large body of research, scholars from different fields have theorised and documented the inability of incumbent organisations to adapt. In neoclassical economics, the focus is on incumbent organisations’ lack of incentive to invest in radical innovation for fear of self-cannibalisation (Reinganum 1983). In the much more diverse literature of organisation theory, scholars have studied various forces of inertia that constrain incumbent organisations’ flexibility or capability to cope with environmental discontinuity, such as structural inertia (Hannan and Freeman 1984), myopic learning (Levinthal and March 1993), organisational politics (March 1988), resource dependence (Pfeffer and Salancik 1978), and managerial cognition (Tripsas and Gavetti 2000).

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As insightful and interesting as they are, however, it seems that the role of incumbent heterogeneity has not been carefully investigated in the literature. This is no surprise given the tendency of most studies to construct the story of incumbent failure as technologically or environmentally determined. A common logic in these studies is that it is the nature of technological change that determines its impact on incumbent organisations (Chesbrough 2001). In other words, when the business environment is shaken by a discontinuous innovation, be it radical, architectural, competence-destroying or disruptive, incumbents respond in certain rigid manners, go into decline and fail. In contrast, they prosper when they meet with changes that are incremental, modular, competence-enhancing or sustaining. There is, of course, a great merit in identifying and conceptualising a pattern of environmental change and its impact on incumbents with high regularity and uniformity. However, the cost of such a focus is that incumbent heterogeneity, in terms of different resources, histories, values, strategic positions, etc., is put into the background.

One basic conclusion in organisation studies is that each organisation is unique and different, and 'heterogeneity can crop up at any stage of the organizational life cycle' (Carroll 1993, 237). Although organisations are said to imitate other organisations that are perceived to be more successful or legitimate (DiMaggio and Powell 1983), heterogeneity among organisations, including incumbent organisations, may be sustained owing to various imitation barriers such as unique historical conditions, causal ambiguity and social complexity (Dierickx and Cool 1989), or even amplified over time as numerous contingencies shape organisations in different directions after founding. According to Winter (1988, 175), 'a particular firm at a particular time is a repository for a quite specific range of productive knowledge, a range that often involves idiosyncratic features that distinguish it even from superficially similar firms in the same line(s) of business'. It is thus reasonable to suspect that many incumbent-specific characteristics have influences on how incumbent organisations respond to discontinuous change, which, in turn, would predict their performance and survivability.

Furthermore, while research on incumbent response to discontinuous change has primarily concerned itself with inability or failure of incumbent organisations' responses to discontinuous change or differences between incumbents and entrants in terms of incentive or performance, 'some incumbent organizations can and do adapt, survive, and regain historic performance levels' (Hill and Rothaermel 2003, 257). For example, when electronics transformed the office equipment industry, Burroughs prospered, Addressograph was destroyed, and another leading incumbent NCR struggled, but eventually survived and restored robust profitability because the company's new leadership 'provided the impetus to actualize latent dynamic capabilities' (Rosenbloom 2000, 1083). Following a discontinuous change in the environment, there are substantial variations among incumbent organisations in terms of their response strategies and performance levels. There are multiple strategic options open to incumbent organisations (Ho and Chen 2009), and the suitability of each will be contingent on specific characteristics of different incumbents.

Another related limitation in the literature is that most prior studies focused on one mechanism or another to explain why incumbents survive or succumb to discontinuous change. For example, Tushman and Anderson (1986) highlighted the brutal damage of competence-destroying innovation, Dyerson and Pilkington (2005) the critical role of complementary assets in transition to radically new technology, Tripsas and Gavetti (2000) the importance of managerial cognition in guiding incumbent adaptation to radical technological change, etc. However, in his study of a single company, NCR Corporation, Rosenbloom (2000, 1083) found that 'while established academic theories can help to explain aspects of the story, no single theoretical perspective is

sufficient to explain the path of NCR's behavior'. Indeed, as we show in the next section, these different causal mechanisms are inherently interrelated with each other to explain incumbent response to discontinuous change. The purpose of this paper, however, is not to assess the relative explanatory power of these different theories, nor to find empirical support for a particular causal mechanism. Instead, we place incumbent heterogeneity in the spotlight and examine how it triggers and accentuates particular reactions to discontinuous change over time by different incumbent organisations. We assume that destruction caused by discontinuous change is not completely binding and that incumbent success or failure is not deterministic outcomes of inanimate technology. This approach also takes reflexivity into account, whereby organisations immersed in specific trajectories observe the results of their actions and try to alter the conditions in which they find themselves (Araujo and Harrison 2002).

Against this background, this paper will complement the existing literature by investigating whether, how, and why incumbent heterogeneity is an important determinant of response strategies through a study of three Dutch newspaper organisations. We chose this particular empirical setting because, on the one hand, digital developments since the 1990s have the classical characteristics of discontinuous change and, on the other, our collaboration with a Dutch consulting firm in this industry allowed us to interview senior managers and to access sensitive documents in these organisations. Unlike most case studies that identify emerging patterns or relationships across several carefully chosen cases for subsequent hypothesis testing, we set out to describe unique pathways of adaption to the same discontinuous change by vastly different incumbent organisations. Following Rosenbloom (2000), we speculate that existing academic theories can help to explain many aspects of incumbent response to discontinuous change, but their relevance is triggered or accentuated by dimensions of incumbent heterogeneity, depending on each incumbent organisation's local contingencies.

2. Why do incumbents struggle?

2.1. Economic explanation

Economists see this phenomenon as a problem of underinvestment. The focus is on incumbent organisations' lack of incentive to invest in radical innovation for fear of cannibalising the stream of rents from their existing products (Reinganum 1983; Henderson 1993). More specifically, when an innovation is radical or drastic, incumbent organisations will rationally choose not to invest because their investment would significantly accelerate the date at which a replacement technology will be introduced and thus increase the probability that the stream of rents from their existing products will be cannibalised. Therefore, established organisations will, as economists predict, refrain from commercialising a radical innovation as long as possible, perhaps until it can be certain that the new technology will be introduced by other organisations, in most cases by new entrants.

2.2. Organisational explanation

The organisational explanation for incumbents' failure to adapt focuses on forces of inertia that make them incapable of changing to fit into a new environment, even though they may have the economic incentive to do so. Organisation theorists conceptualise forces of inertia in a number of ways.

2.2.1. *Structural inertia*

According to organisational ecologists, internal and external stakeholders prefer organisations that exhibit reliable performance. Therefore, organisations develop ‘structural inertia’ as they institutionalise their goals and routinise their activities over time to generate high reproducibility of structures that ensures predictability and reliability in their performance (Hannan and Freeman 1984). Gradually, a set of interdependent and mutually reinforcing structural features becomes ingrained in organisations, resisting piecemeal change. The result of structural inertia is that once organisations evolve into a stable state to align themselves with their specific environment niches, they cannot respond quickly and effectively to new threats and opportunities in the environment. In general, organisational ecologists assume that organisations seldom succeed in making radical changes in their strategy, structure and capability. Therefore, adaptation to a new environment occurs mainly at the population level through birth and death of organisations.

2.2.2. *Myopic learning*

Many organisational researchers blame the local or myopic nature of organisational learning for incumbents’ failure to cope with discontinuous change. Scholars in this tradition emphasise that organisations adapt through a feedback-based mechanism, reacting to feedback from past experience rather than anticipating the future. Learning generally privileges outcomes, threats and opportunities in the temporal and spatial neighbourhoods of an adaptive agent (Levinthal and March 1993). Myopic learning has two inertial consequences:

- (1) Alternatives that provide benefits that are local in time or space and costs that are more distant are likely to be chosen by organisations more often than they should be (March 2006, 206). As a result, organisational adaptation favours ‘exploitation of old certainties’ over ‘exploration of new possibilities’ (March 1991).
- (2) What an organisation can hope to achieve in the future is significantly constrained by what it has been capable of doing in the past, and where it can go in the future is a function of its current position and the path it has travelled (Teece, Pisano, and Shuen 1997). This notion of path dependence recognises that ‘history matters’ and organisations’ earlier choices influence their later ones. Therefore, when responding to change in the environment, organisations are held back by their previous investments, repertoires of established routines, and sets of existing skills and capabilities.

Taken together, the myopic nature of organisational learning dictates that incumbents cannot respond effectively to discontinuous change because their established routines and capabilities, which give them an advantage in a stable environment, turn into a substantial liability in the new environment.

2.2.3. *Organisational politics*

Another group of scholars have examined organisational politics as a source of inertia. An organisation may be validly characterised as an arena in which coalitions or groups with different interests vie for power and influence. They interpret information, diagnose organisational problems, and devise solutions in ways that reinforce their power and importance in the organisation (March 1988). As a result, conflicts and politics are omnipresent in any organisation. Organisational change, especially those major changes in strategy and structure in response to environmental discontinuity, inevitably involves redistribution of power and influence. This will trigger political

behaviours and turf battles as actors and groups try to maintain their power and influence. In the absence of strong leadership, such turf battles can slow down, dilute, or even hamstring any attempt to achieve meaningful organisational transformation (Pfeffer 1992).

2.2.4. Resource dependence

Resource dependence theory maintains that organisations are constrained by relationships with various internal and external stakeholders (Pfeffer and Salancik 1978). This theory proceeds from an indisputable proposition that organisations are not able to internally generate all the resources and functions required to maintain themselves, and therefore they must enter into relations with external parties that can supply the required resources and services, and satisfy the demands of powerful groups in their environment to ensure a continued supply of resources. Innovation management scholars following this line of reasoning have emphasised that customers (Christensen and Bower 1996), suppliers (Glasmeier 1991), and local communities (Sull 1999) may place great constraints on whether and how incumbent organisations adapt to discontinuous change.

2.2.5. Managerial cognition

Another thread of literature highlights the constraining effect of managerial cognition. This cognitive approach regards organisations as information processors that notice, interpret and act in response to the environment (Kaplan and Tripsas 2008). Human actors and thus organisations are assumed to have bounded rationality in that they have limited cognitive and memory capabilities to process complex, ambiguous, contested and incomplete information in the environment (March 2006). Therefore, organisations develop information filters or mental models to reduce the cost of information acquisition and utilisation. These information filters, mental models, cognitive frames, or beliefs, once established, help organisations make sense of the environment and create valuable efficiencies in a stable environment. However, they also serve as blinders that prevent organisations from appreciating and understanding new technology and new competition (Tripsas and Gavetti 2000).

2.3. A summary

Discontinuous change in the environment poses a great challenge to incumbents not only because it destroys the value of their accumulated capabilities and various complementary assets in the old technology, but also because by the very presence of incumbents' established routines, competencies, and mental models that are associated with past success, it is extraordinarily difficult for them to make significant change in their modes of operation and develop a new configuration of capabilities for the new competition. Even when incumbent organisations recognise the need or have the economic incentive to change in response to environmental shifts, they are often unable to respond effectively.

With a careful comparison of the above perspectives, one may find that they are often intertwined with each other. For example, while the myopic learning perspective highlights constraints of existing capabilities and barriers to developing new capabilities, incumbents may rationally anticipate these constraints and barriers. If this is the case, deciding not to respond may be a completely rational choice, as predicted in neoclassical economics research (Henderson 2006). Also, while Christensen and Bower (1996) stress the role of customer power in the framework of resource dependence theory, the underlying problem could be cognitive. That is, managers in their

study had deeply entrenched mental models about the disk drive business and thus literally could not see the opportunity or threat of disruptive innovation emerging from the low-end market. Still, the resource dependence explanation and the organisational politics explanation may be related to each other, as managers aligned with the largest and most profitable customers 'will pull the most political weight and will be able to divert resources to their own projects' (Henderson 2006, 7).

Besides, managerial cognition may both feed into and flow from the path dependent nature of organisational capability accumulation. While cognitive frames are often a carrier of path dependent behaviour as shown in Thrane, Blaabjerg, and Moller (2010), it is equally possible that established routines and embedded competences within incumbent organisations make it difficult for senior managers to recognise the potential destruction of discontinuous change in the first place. Similarly, one could argue that structural inertia is closely associated with processes of local search, capability rigidities, stable power and resource dependence relationships, simplified mental models, and lack of incentive to change in incumbent organisations. It is clear that all these causal mechanisms are interrelated and need not be mutually exclusive.

3. Methods

3.1. Research setting

In this research, digital media represent disruptive innovation, a particular type of discontinuous change that challenges incumbent organisations in the newspaper industry. Many digital developments that have impacted the newspaper industry are similar to circumstances in the magazine industry as examined by Cox and Mowatt (2008). Digital media initially underperform on traditionally important performance attributes and often require a different business model with a lower cost structure. The newspaper business is a two-sided market, one for readers and one for advertisers. In the market for readers, new sources that provide information online such as news sites, blogs, discussion forums, and online communities are disruptive relative to traditional print newspapers. These new sources of information perform relatively less well on traditionally important performance attributes, such as reliability, depth, analysis, and 'meaningful' journalism, but they offer a simpler and cheaper alternative with new features such as breaking news, searchable databases, weather and traffic updates, site customisation, community building and interactivity, etc. These new sources of information have proven their value over time along with the rise and growing acceptance of citizen journalism. A recent survey conducted in the Netherlands shows that for certain types of content, such as trends and professionals, the Internet has already scored higher on reliability than traditional newspapers (Huibers 2008).

A similar development can be found in the market for advertisers. For decades, advertisers relied on newspapers to post job openings, sell homes and cars because this medium reached a broad audience. However, this originally steady revenue stream from advertisement has been declining, partly because newspaper circulations have shrunk significantly (see Figure 1), and partly because new advertising alternatives have arisen online. The Internet has opened up opportunities to target specific customers, eroding the traditionally profitable mass-reach business model of newspapers. Although the reach and effectiveness of new advertisement possibilities on the Internet is initially hard to assess, the Internet does offer other interesting attributes like interactivity and direct targeting, which are not available for print products.

For newspaper organisations, these changes are disruptive, sometimes deeply traumatic. In the online environment, competition is much more intense because traditional entry barriers like

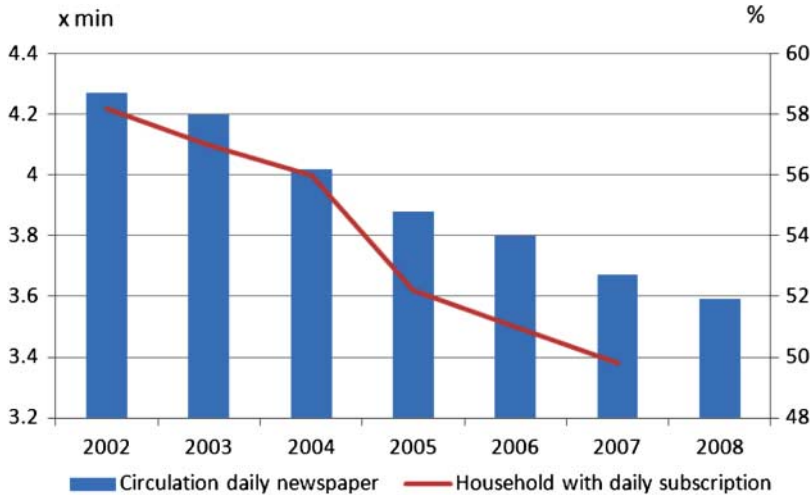


Figure 1. Circulation of Dutch daily newspapers.
Source: Commission for Innovation and Future Press (2009).

owning expensive presses and having access to physical distribution channels have lost their importance. Competition is further intensified as traditional boundaries between different media such as newspaper, radio, TV, mobile and the Internet are disappearing. Meanwhile, digitalisation also gives further impetus to the globalisation of media businesses, to which national newspapers are especially vulnerable because of their focus on providing general interest news.

We limited this research to one industry, i.e. the Dutch newspaper industry, to minimise extraneous variations that might be derived from different industry or country settings. We chose one case for each important type of newspapers in the Netherlands, NationalKrant as representative of national newspapers, RegionalKrant as representative of regional newspapers, and FreeKrant as representative of free newspapers.¹ Although this sampling frame maximises observed heterogeneity among the three chosen incumbent organisations, it must be noted that some dimensions of incumbent heterogeneity are specific to the three market segments within the newspaper industry.² For instance, compared with national newspapers, regional ones are at least temporarily protected from the globalisation of media businesses by their local specialisation. Nevertheless, our analysis was conducted at the organisation level and, as will be seen shortly, many other aspects of incumbent heterogeneity such as governance structure and type of ownership, the influence of professional staff and their values, and the vision of the leader are not directly related to market segmentation within the newspaper industry.

3.2. Data collection

Data for this research were collected in three phases. In phase one, we interviewed NationalKrant and RegionalKrant every year from 2004 to 2008 and FreeKrant in 2008. All interviews started with the same question: what do you think of the challenge of digital media and what has your organisation been doing to deal with it? Each interview lasted about one to one and a half hours. In each year, a different focus was chosen for these interviews, including opportunity and threat of digital media, subscription and advertising revenue, organisational structure

and strategic repositioning, the profession and value of journalism, and top management leadership in organisational transformation. FreeKrant was not included for interview until 2008 because of difficulties negotiating access to its senior managers and editors. In total, over 30 hours of interviews were performed with seven senior managers, four senior editors and five members of the board of directors; about one third of them were interviewed more than once.

The second phase of data collection was carried out during the two months between April and May 2009 when we collected various company documents related to our research question, including annual reports, internal company memos, business plans and board meeting minutes. In total, 47 company documents were selected and given to us by the three newspaper organisations. We then combined interview notes and company documents to construct timelines of major strategic responses to digital media.

In phase three, we conducted a longer interview (about three hours) with a senior manager or chief editor from each newspaper during the three months between June and August 2009. All these three informants had been holding high-level positions in their respective organisations and personally participated in nearly all major decisions in the past 8–10 years, which was the critical period when the three newspapers felt and responded to the impact of digital media. The main purpose of these three interviews was to recount, elaborate, supplement, and update these three newspapers' response trajectories in the past 14 years (1996–2009).

4. Case descriptions

We did analysis in two steps. In the first step, within-case analysis was done by building case write-ups for each newspaper based on interview notes and archival documents. The task of this step was to compile an internally consistent account of how each newspaper organisation became what it was in 2009. For each major strategic decision, whether it was about the traditional print business or about developing an online business, we focused on factual accounts of how a decision was made, how it was implemented, and what outcome it delivered. We sent the complete case descriptions (Section 4) to the three interviewees of the final phase of data collection and asked them to confirm the veracity of our accounts. They all responded and offered only minor corrections. In the second step, we conducted cross-case analysis searching for similarities and differences between cases. While similar patterns across cases may be explained by received wisdom in the literature, we focused more on differences across cases that may be primarily driven by incumbent heterogeneity. Results of the first-step analysis are reported in this section, and second-step analysis in the next section.

4.1. Case one

NationalKrant was originally a Roman Catholic newspaper. In the 1960s and 1970s it aimed at higher educated readers such as university students and intellectuals, and it has largely kept up with that generation. It considers itself a quality newspaper with a high journalism standard. With a total circulation of over 250,000 it is one of the largest national Dutch newspapers. NationalKrant is part of DMG (Dutch Media Group), a Dutch publisher of newspapers, books, magazines and multimedia founded in 1994. The shares of DMG were in the hands of three foundations. The shareholdings of these foundations were represented by a Board of Directors appointed by the foundations. However, editors were basically free to choose whatever path to follow because of their professional authority and journalistic independence guaranteed by many statutes of DMG.

‘Especially in the old days, the chief editor was king of NationalKrant’, said a member of the board of directors. This had been the case till 2004 when a British investment firm became the majority shareholder of DMG.

During the mid 1990s, NationalKrant realised that the Internet could be a potential threat while its printed paper was still very profitable. NationalKrant’s move online in 1996 was relatively early compared with other Dutch newspapers. The momentum for this move came from the editorial division that, according to Jan Wolkers, the publisher, ‘held high regard for innovation and experimentation’. However, Jan Wolkers continued, ‘this editorially driven innovation was not commercially oriented.’ The editors regarded the Internet as something on the side to enhance the existing printed paper, not as a substitute for significant income. For years, they were hardly convinced by the potential of digital media; ‘I believe in the combination of print and digital. However, this will always be a niche market, and this also applies to the electronic version of our newspaper’, asserted a senior editor in a 2005 interview. The result was that a selection of the print content was simply put online for free, without a clear business model for revenue generation in mind. During this period, a new print product, NationalKrant Magazine, was created as an extra title to the printed paper on Saturdays and was less about news but more about lifestyle, fashion, beauty, etc.

By the end of 1999, DMG parent of NationalKrant clearly felt the pressure of globalisation of media businesses that was being accelerated by the digital revolution. To secure a strong position in the online market, DMG Interactive Media (DIM) was created as a separate business division to centralise and strengthen the whole group’s online business. DIM developed new online offerings on a huge scale with massive support from the DMG headquarters. Unfortunately, DIM ‘exploded’ along with the Internet Bubble in 2002. DIM faced many problems, for example, DIM managers came and went, which was not beneficial for a consistent and coherent online strategy. In 2001, DIM’s job site was stopped, as it could not secure a strong position against earlier entrants. The database of job openings was subsequently put under the control of NationalKrant. Its auction site could not meet expectations either, and was terminated in the same year. In September 2001, DIM announced it had to cut costs and would only invest in projects that could make profits. This meant the premature end of its news site, travel site and consumer site. In 2002 DIM was completely stopped and its remaining Internet activities were put back under the control of individual newspapers. In the aftermath of DIM, online business innovation at NationalKrant was, again, primarily editorial-driven and characterised by small-scale experimentation, looking for solutions close to its traditional print business.

In 2004, the board of directors of DMG sold the majority of its shares (52.5%) to a British investment firm. The financing of this transaction was done by means of a leveraged buyout (LBO) that resulted in a considerable financial burden for the group. This also meant that the three foundations and their representatives on the board of directors saw their influence diminished in important investment decisions such as new business development. The British investment firm, as the largest shareholder, advanced its agenda of refocusing on the traditional newspaper business and improving business efficiency through all possible means of cost reduction. This period was ‘the age of Excel’ for NationalKrant, as ‘all investment decisions were made by the headquarters based on formal financial projections of good returns presented in elaborate Excel sheets’, recalled Jan Wolkers.

From 2005 to 2006, NationalKrant created several new products. In 2005, it became one of the first Dutch newspapers to create a blog for its website. In response to the declining advertising revenues of the printed paper, NationalKrant added a web shop to its website in 2005. Although it has become profitable, its revenue has been small compared to the revenue from the printed paper.

In 2006, NationalKrant developed a job site aimed at higher educated professionals, which has become a major information platform for job openings and personal development in the country.

To reach a younger generation of readers, DMG launched two free newspapers, first FREE-X in early 2007 and, a few months later, FREE-Y. FREE-Y was first organised at the group level, but DMG quickly decided that it should also aim at a higher educated public and was integrated into NationalKrant. Inside NationalKrant the feelings were mixed. Some felt such an experiment would distract focus from the existing and more important business and could harm the image of NationalKrant as a high quality newspaper, while others thought it could be a right step towards a cross-media strategy. Unfortunately, FREE-Y was short-lived with its last issue in October 2008.

In 2007, the British investment firm left DMG and sold its shares back to the three foundations. DMG was left with huge debts and interest liabilities carried over from the 2004 leveraged buyout. Then, DMG switched back to a decentralisation approach and shifted as many responsibilities as possible to its business units. As a result, NationalKrant gathered more momentum for its online business. It hired external advisors and started its 'Boost Program' for digital media. It reorganised its website into special themes (e.g. heart and soul, travel, women). It pursued a cross-media strategy in which products or services could be offered as an integrated solution across different platforms (print, web, TV, mobile). However, the chief editor admitted 'the real cross is pretty limited, especially for our advertisers'. Meanwhile, 'the print business remains the dominant logic in this strategy', said a senior marketing manager.

In 2009, DMG was bought by a Spanish media company. It is likely that the online strategy of DMG and NationalKrant under its arm will be changed again, because the Spanish media company does not believe in an integrated approach to multimedia, it has kept its editors for each medium separate, and it wants both the printed paper and the website to be financially independent. An overview of these developments at NationalKrant is given in Figure 2.

4.2. *Case two*

RegionalKrant is a regional newspaper based in a Dutch province. Since an acquisition made in 2000, RegionalKrant has actually been operating as two sister newspapers that work with each other side by side and target the same province, as a full merger of the two sister newspapers was not allowed by the Dutch competition authority. In 2005 this restriction was lifted and since then RegionalKrant has been working on integrating the two sister newspapers into one. For example, RegionalKrant has a unified website for both newspapers. The following analysis will look at RegionalKrant as one entity because a distinction between the two sister newspapers does not add insight into RegionalKrant's response to digital media.

RegionalKrant has a circulation of about 120,000. It was part of Telecom Media Group (TMG) from 1972 until April 2006 when TMG sold RegionalKrant to a European media group headquartered in London. Despite being part of a larger group, unlike NationalKrant in case one, RegionalKrant always had autonomy over its publishing and online strategy, with only part of its background processes centralised in the holding company.

Starting from 2002, its initial response to digital developments known as 'Mooi Gouvernement' (Dutch for 'beautiful province') was primarily aimed at maintaining existing subscribers, readers and advertisers. The aim was to improve existing titles, to develop new revenues through the exploitation of the existing subscriber base and to improve marketing communications (*RegionalKrant Annual Report*, 2003). The result was that its news website was used merely to complement the existing print products. It simply presented its print content online and did not target a new customer segment.

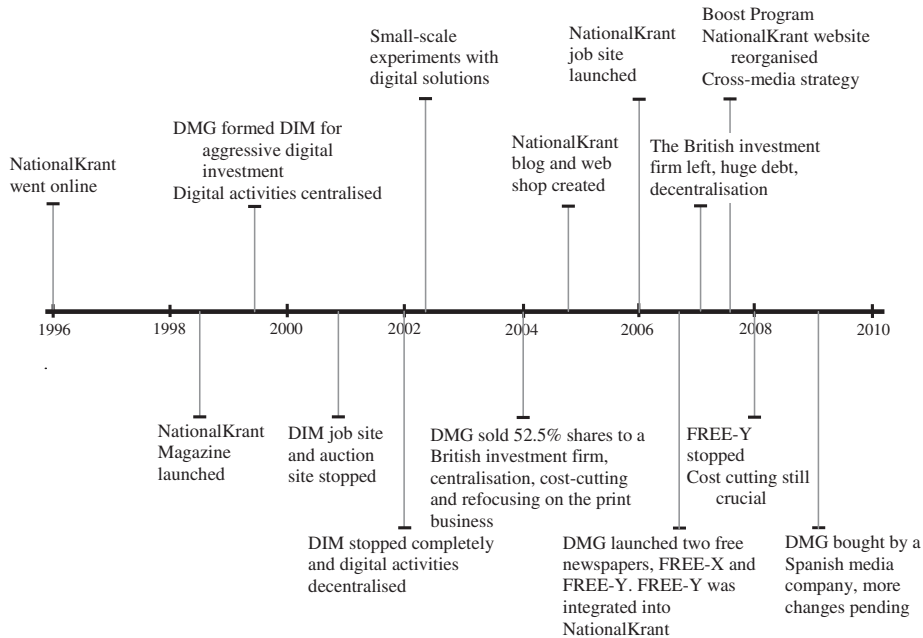


Figure 2. Timeline of NationalKrant.

In mid 2005, in response to declining subscription and advertisement income, RegionalKrant took steps to cut costs and at the same time raised its prices to keep the total income steady. Reducing costs on existing activities has remained an important objective ever since. However, according to Hans Bosman, the long-time managing director of RegionalKrant, this strategy of making further incremental improvements on the print business ‘also more or less reduced the sense of urgency to change’. Ironically, as early as 2001, top management at RegionalKrant believed that ‘news would be free in the future’ and was aware that ‘the situation of RegionalKrant would not be sustainable’, Hans Bosman emphasised.

In 2006, RegionalKrant was considering creating a new paper of €90 subscription per year to complement the regular paper of €260 subscription per year. This extension of the print business had two goals: (1) limiting the loss associated with declining subscription by expanding into a lower tier market; (2) filling the advertising gap between regular newspapers and free newspapers (*RegionalKrant 2nd Board Meeting Minutes*, 2006). However, in the end, the plan was not followed through because of the concern of market and financial risks.

In 2007, RegionalKrant attempted to supplement its declining revenues from subscription and advertisement with a third revenue stream. It started its Enterprise Activities, a web shop with a wide variety of offerings that targeted its loyal subscribers, but the revenue from Enterprise Activities remained insignificant compared to the print business.

Only in early 2009, did RegionalKrant start to radically change its business model. The new strategy was to transform itself from a newspaper organisation to an information organisation that provides news related local information on a cross-media platform. It was leveraging its local expertise by creating special interest online communities for subjects such as travel, sport and health, all related to the local region. ‘For example’, said a senior marketing manager, ‘if customers

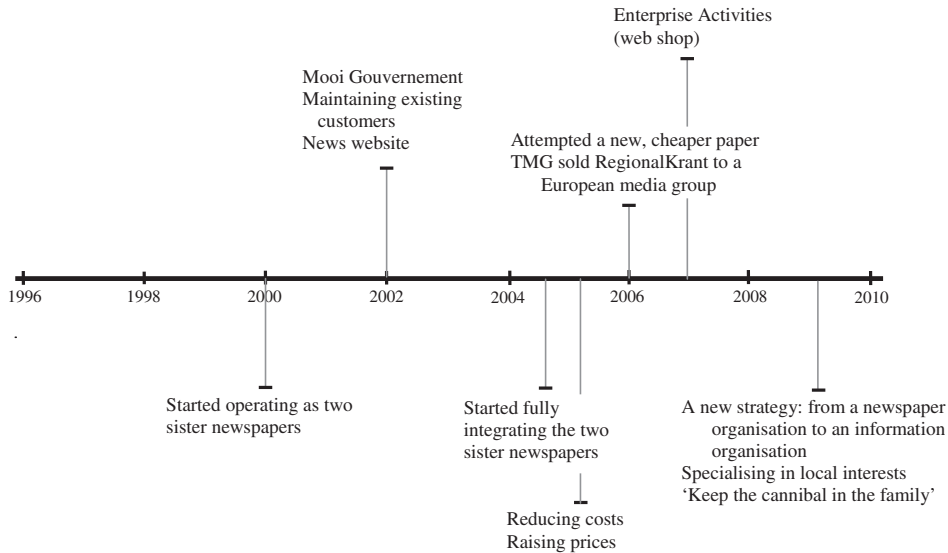


Figure 3. Timeline of RegionalKrant.

read a news article about a case of the H1N1 Flu in the province, they can go to our health site and find all kinds of information related to the flu in the local area'. Therefore, RegionalKrant would provide a central hub with all the relevant local information and suggestions based on the interests and behaviours of consumers. This new business model would be less dependent on subscription, but depend more on innovative commerce with local businesses. The content had to be gathered from many different sources like user generated content in blogs, content provided by the public sector, content provided by other news organisations, and, of course, content created by RegionalKrant editors. This meant that the role of editors had to change from a content creator to a content manager. However, existing editors resisted this change of roles and responsibilities very much. A senior editor was obviously against the idea of user-generated content: 'I don't believe in filtering capabilities of social media, you will need a professional editor for that. The consumer will have an influence on the selection of content, but not much on the creation of content'.

Hans Bosman had a clear vision for RegionalKrant. He said the old newspaper should be viewed as 'a cash cow to be milked'. Meanwhile, RegionalKrant must quickly adapt to a situation where news would be free. 'When an organization fears that investing in a new development might cannibalize existing revenues, it is probably an indication it should go ahead with it. Keep the cannibal in the family!' said Hans Bosman. He stressed that the way to achieve this transformation was by 'setting up a separate unit with new personnel or personnel that succeed in changing through training and by making use of strategic alliances'. Figure 3 gives an overview of these events at RegionalKrant.

4.3. Case three

FreeKrant, started in 1999, is one of the biggest Dutch free newspapers and part of the Telecom Media Group (TMG) like RegionalKrant. FreeKrant has 99% autonomy and its own budget to

decide over which course of actions to follow (Huibers 2008). It strives for maximum reach in the segment of students and young professionals with a focus on news and entertainment. With a circulation of over 400,000, FreeKrant is primarily distributed among users of public transport, especially at train stations. FreeKrant has a unique strength, according to its chief editor: 'we have managed to successfully integrate editorship with commerce without sacrificing their journalistic credibility, something that traditional paid newspapers often have huge problems with.'

In 2000, just one year after FreeKrant was founded, it went online. But, like most other newspapers, it just put some content of its printed paper on the website. Online advertising revenue was insignificant compared with the print product and no urgency was felt to create a significant revenue source online. In fact, FreeKrant kept growing to peak in 2007 (*FreeKrant Annual Report*, multiple years), and not much could be done to improve the existing print business because it was already very efficient.

In 2007, FreeKrant decided to take advantage of different media platforms and tried to introduce a cross-media strategy. The first attempt was editorial-driven. It failed because the print product remained the centre of attention and online activities were perceived as less important by the editors (Huibers 2008). In the second attempt, a selection was made from existing editorial staff to form an independent unit to deal with online activities. However this still was not sufficient. According to the chief editor and a senior business development manager, some staff members could not shed the old way of thinking and even though some did, there were 'constant conflicts between the new unit and editors of the print division'.

During this period, FreeKrant acquired three Internet startup companies: PinLinks, Junctions and Carplex. All three firms were focused on students, starters or young professionals and offered information regarding labour market trends, career planning and personal development. FreeKrant deliberately chose to keep these acquired firms independent and physically separate in order 'not to suffocate them by integrating them into the existing business of FreeKrant', emphasised a board member and the chief editor.

In April 2008, the FreeKrant website was put under complete control of a recently acquired business called NayStyle. NayStyle started as a blog in 2003 and was well known for its provocative, sarcastic and direct approach to dealing with actualities. Over the years as its subjects were increasingly more about news, lifestyles and politics, NayStyle became one of the most popular blogs in the Netherlands. By relying on its active community, NayStyle often came up with news reports on interesting topics earlier than major Dutch news organisations. 'Obviously', said a board member, 'NayStyle has much more knowledge about doing innovative businesses to make money online and building a website based on a new journalistic style'. The decision to give NayStyle complete control over the digital platform seemed to be fairly successful because, as told to us by a senior marketing manager, after this reorganisation, online traffic to the FreeKrant website increased dramatically. However, online revenues remained limited especially compared with the print product.

FreeKrant seemed to have a clear view of how to deal with digital challenges. Both managers and editors understood that to be successful with online advertising, one had to be willing to give up its old advertisements. Few organisations could effectively exploit digital activities inside the existing business because the way of thinking and doing of the print product was too powerful and dominant, even in a free newspaper organisation. Therefore, FreeKrant had two options, its chief editor commented: (1) 'Pick the best people from the organization, make them completely independent, take a 50% stake in the business, and give them the assignment to compete the heck out of you' or (2) 'Acquire firms with the right competencies on time and keep them separate

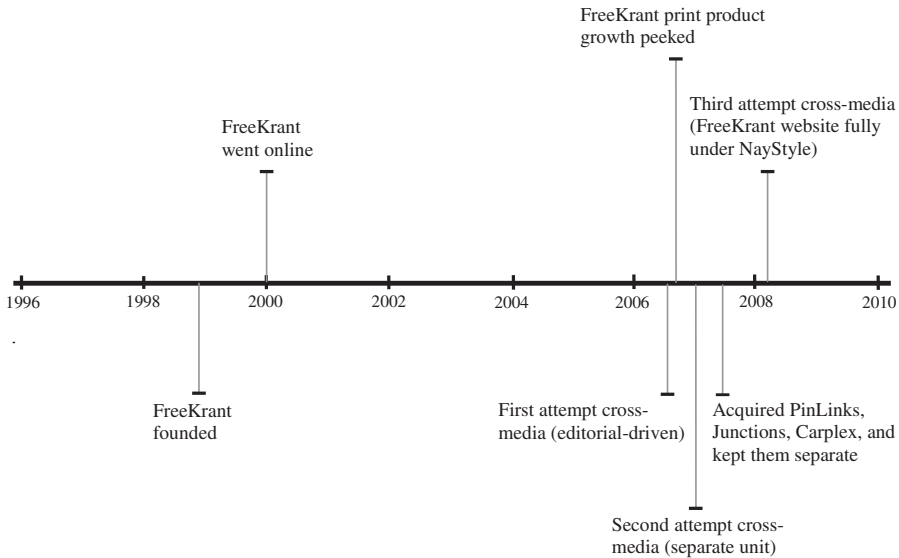


Figure 4. Timeline of FreeKrant.

and independent from the existing business'. The timeline of these developments at FreeKrant is summarised in Figure 4.

5. Analysis and discussion

A few common observations can be made before we move on to analyse the role of incumbent heterogeneity in their responses to the digital revolution. First of all, when they initially went online, practically all newspaper websites simply presented their print content and did not target a new customer segment. The Internet was thus used on a sustaining basis to complement the print product. Coping with the digital revolution requires developing a new business model for the online environment. However, all three newspapers started their online initiatives inside existing organisations and force-fitted resources for disruptive projects into the old business model of print products. Second, both NationalKrant and RegionalKrant tried hard to improve the print business by reducing cost and launching additional print products, which suppressed the urge to confront the digital revolution head-on. It seemed that they could hold their investment in the new business, at least temporarily. Similar efforts were not observed at FreeKrant simply because it was already very efficient and it was growing rapidly until 2007. Third, their early attempts at online business were barely successful. Pursuing a disruptive opportunity is often a trial-and-error process whereby organisations grope their way forward along a treacherous path full of challenges and surprises. Without experiencing several setbacks, they could not realise that a much more fundamental organisational transformation was needed. Finally, one of Christensen's most cited recommendations, i.e. creating an independent or structurally separate organisational unit to develop the new business, stands out from all three cases. These common observations are consistent with the literature on disruptive innovation in particular and the literature on incumbent response to discontinuous change in general.

5.1. *NationalKrant*

The case of the NationalKrant clearly indicates that governance structure and type of ownership can have a huge influence on an organisation's strategic response to discontinuous change. When adapting to discontinuous change, it is highly likely that there will be conflicts between the new and traditional businesses, and hence top management should act as the integrator managing the tension between subunits that are pursuing different strategies for different business opportunities. It appears that the top of DMG was not successful in this role. The coming and going of large shareholders (a British investment firm in 2004 and a Spanish media company in 2009) made it difficult for NationalKrant to follow a consistent online strategy, and the meddlesome tendency of DMG only compounded this problem. As a result, NationalKrant's response to digital developments showed a pattern of two-steps forward and one-step backwards while its parent DMG went back and forth several times between centralisation and decentralisation. In contrast, RegionalKrant and FreeKrant, both under Telecom Media Group (TMG), had nearly full autonomy (99% in the case of FreeKrant); despite their relatively late responses compared with NationalKrant, they were able to gradually build up sufficient momentum toward a consistent cross-media strategy.

Another unique feature of NationalKrant is its high-end customer base and its ideological imprint of 'meaningful journalism' following many years of successful journalism targeting a higher educated audience. On many occasions, interviewees proudly stated that NationalKrant was 'an institutional news organization aimed at providing independent media in a democratic society, not a marketing organization to make exactly what customers want'. There was too much at stake for a very established incumbent like NationalKrant and the fear of self-cannibalisation was just greater, especially when the barrier was ideological in nature and the organisation's core identity was under threat. As a comparison, the fear of self-cannibalisation and ideological inertia were less as strong in RegionalKrant and FreeKrant, largely because their strategic positioning was lower than that of NationalKrant, and they carried less a legacy of historical success and brand recognition. This is particularly the case for FreeKrant that had a much shorter history and started with a business model not based on subscription fees.

Moreover, after the failure of DIM in 2002, online initiatives at NationalKrant and its parent DMG were either suspended or greatly downsized. Once burned in the Internet Bubble, both the DMG headquarters and NationalKrant were very hesitant to make large investments in new business developments. The organisation seemed to be living in the shadow of past failure nearly eight years later. The DIM disaster reinforced the belief at NationalKrant that they should focus on the existing newspaper business and increase the influence of editors over management. After the DIM failure, there was so much hesitancy for large investment that new business ideas took long incubation periods, 'sometimes up to four years' according to a senior business development manager. This was unfortunate as NationalKrant lost precious time to establish a stronger online position.

5.2. *RegionalKrant*

A unique feature in this case is the clear vision of Hans Bosman, the long-time managing director of RegionalKrant. He knew long ago what was coming and what should be done to respond to it. Instead of fearing self-cannibalisation, he would 'keep the cannibal in the family'. He understood the importance of setting up a separate organisational unit with 'new' people for the new business, and he had a solid agenda to acquire necessary new competencies through strategic alliances. This is in contrast to the common description of passive managers captured by their largest, most

profitable customers in the literature of disruptive innovation. It also contradicts the conventional blame that managers have great difficulties breaking their mental models associated with past success. Rather, this case is consistent with a recent study by Liu and Liu (2011) that highlights the importance of visionary leadership and managerial persistence in the process of organisational renewal.

Despite the managing director's clear vision, RegionalKrant still suffered from enormous organisational inertia, the main source of which was not external customers as predicted by Christensen, but employees and editors inside the organisation. Existing employees, editors in particular, had a strong view on how a newspaper organisation should be run and did not want to change their way of professional conduct. Managers often complained that editors got too much influence in running the newspaper. Although NationalKrant and FreeKrant encountered similar resistance from its editors, the situation at RegionalKrant was far more intense, persistent, and conflictual. A Dutch law called 'Wet op Ondernemingsraad' gives employees the right to form a works council to influence important strategic decisions. RegionalKrant employees and editors made 'very good' use of this law. Whenever an online business proposal that would inevitably change employees' and editors' operational routines was reviewed by the RegionalKrant Works Council, Hans Bosman told us, 'the process takes up too much time and maybe it would help newspapers to change if this law could be temporarily suspended'.

As with the NationalKrant situation, this case also indicates that the customer segment an incumbent organisation targets has an influence on its response to discontinuous change. The difference here is that customer segment is defined by geographical coverage, not whether it is high-end or low-end. Because of its regional focus, RegionalKrant faced less competition from digital developments than national newspapers. It was, at least temporarily, protected by the highly localised market from the deadly strike of creative destruction. This also gave RegionalKrant more time to develop a cross-media strategy for its local market. The new strategy of RegionalKrant involved radical change throughout the organisation but the local focus was maintained as its goal was to become a local hub of special interest communities around subjects such as travel, sport and health.

5.3. FreeKrant

The FreeKrant case indicates the importance of taking into account how disruptive an innovation is relative to a specific incumbent. A major difference with paid newspapers is that for FreeKrant, the online business model was much less in conflict with the existing free news model. FreeKrant was already familiar with the commerce associated with free news, zero subscription fees and young customers, and thus had little fear that its website would cannibalise more profitable readers of the print product. Its chief editor reckoned that digital developments did not have any palpable impact on the number of FreeKrant readers. Furthermore, classified ads, the type of advertisement most severely attacked by the digital revolution, never played an important role in FreeKrant revenue flows. In that sense, FreeKrant is a semi-incumbent, not a full one.

Another important dimension of this case is the approach to access online capabilities that FreeKrant was missing. Largely as a result of escalating time pressure, FreeKrant chose to acquire three Internet start-up companies, all related to the online labour market. In contrast, NationalKrant (and its parent DMG) had a strong tendency to launch online products itself instead of acquiring new businesses. Many potential targets like NU.nl or Hyves.nl were discussed in NationalKrant board meetings but none was acquired while it had ample opportunity and financial wherewithal to

do so. This was partly because NationalKrant believed it had sufficient time to build online capability internally as it responded to digital developments earlier than most other Dutch newspapers. Another reason was that NationalKrant carried a long legacy of historical success and prestige by doing everything itself, so it overestimated its chance of success in developing the new capabilities internally. Relating to this, the chief editor of FreeKrant pointed out that ‘traditional newspapers often underestimate the value of new firms in the digital market’.

At RegionalKrant, strategic alliances were preferred to access new competencies, not least because RegionalKrant was late in responding to the digital revolution. In a fast-changing environment, it is next to impossible for a small organisation like RegionalKrant to quickly develop all the relevant knowledge and expertise internally for the online business. Then, between strategic alliance and acquisition, RegionalKrant chose the former because of its limited financial means compared with NationalKrant and FreeKrant. Due to RegionalKrant’s high cost structure, small size, shrinking subscriber base, it was actually relying on a grant from a foundation established to help newspapers come up with innovative solutions to their problems. Without this grant, its fledgling online venture would have come to a standstill.

5.4. Main findings

From these cases, four dimensions along which incumbent response to discontinuous change may differ can be identified: response timing (early or late), size of commitment to the new business (big or small), progression of commitment to the new business (continuous or intermittent), and approaches to bridging the capability gap (internal development, strategic alliance, or acquisition). Our case analysis shows that these response strategies are neither mutually exclusive nor static, and that their relative focus differs over time as well as across incumbent organisations. Such inter-temporal and cross-sectional variations in response strategies are influenced by various incumbent-specific characteristics, such as the influence of professional staff and their values, the type of customer segment an incumbent aims at, governance structure and type of ownership, experience of past failure, time pressure, financial wherewithal, the vision of the leader, etc. These findings are summarised in Table 1.³

6. Conclusion

In this paper, we argue that existing studies mostly treat incumbents as a homogeneous population vs a population of new entrants, and thus the literature as a whole has downplayed the role of incumbent heterogeneity in terms of their resources, histories, values, strategic positions, etc. We propose that a deeper understanding could be achieved by explicitly examining various dimensions of incumbent heterogeneity that constrain or enable incumbent response to discontinuous change.

Any research that is limited to three organisations can yield only tentative implications. Nevertheless, we are reasonably confident that our longitudinal case study was sufficiently rich to allow for certain conclusions to be drawn. With a study of three Dutch newspaper organisations, we discover substantial variations in their response to the digital revolution that may be influenced by various incumbent-specific characteristics and shaped by interrelated contingencies internal or external to incumbents. These findings point to the danger of assuming there is any simple relationship between a particular factor (such as fear of self-cannibalisation, localness of search, organisational politics, or cognitive barriers) and incumbents’ response effectiveness. These different inertial factors come (or do not come) to dominate in different episodes of a particular incumbent organisation’s struggle with digital media depending on specific aspects of incumbent

Table 1. A summary of main findings.

Response strategies	NationalKrant	RegionalKrant	FreeKrant
1. Response timing	<p>Early</p> <p>Its editorial division held high regard for innovation and experimentation. Globalisation has an earlier and stronger impact on national newspapers than on regional ones.</p>	<p>Late</p> <p>It was at least temporarily protected by the highly localised market. Its continuous effort to improve the print business reduced the sense of urgency to change.</p>	<p>Late</p> <p>Digital developments were simply less disruptive to a semi-incumbent like FreeKrant. It kept growing to peak in 2007.</p>
2. Size of commitment to the new business	<p>Big (1999–2002)</p> <p>Aggressive investment in digital media were organised by its parent DMG, but ‘exploded’ along with the Internet Bubble. Then, there was much hesitancy in developing the new business.</p>	<p>Small always</p> <p>Its high cost structure, small size, and shrinking subscriber base made only small-scale investment possible. Resistance from editors and employees was intense, persistent, and conflictual.</p>	<p>Big (since 2007)</p> <p>Growing profits from its print business and escalating time pressure made the recent large-scale investment in digital media both possible and desirable.</p>
3. Progression of commitment to the new business	<p>Intermittent</p> <p>Its parent DMG went back and forth between centralisation and decentralisation. The coming and going of large shareholders made it difficult to follow a consistent online strategy.</p>	<p>Continuous</p> <p>It had high degrees of autonomy over its publishing and online strategy. Hans Bosman the long time managing director knew what was coming and what should be done to respond to it.</p>	<p>Continuous</p> <p>It had 99% autonomy. It was already familiar with free news, zero subscription fees, and young customers. It had a clear view of how to deal with digital challenges.</p>
4. Approaches to bridging the capability gap	<p>Internal development</p> <p>Its early response made it feel little time pressure. Its legacy and prestige of ‘meaningful journalism’ made it confident in developing the new capabilities internally.</p>	<p>Alliance</p> <p>It was late in responding to the digital revolution. Its small size precluded internal development of the new capabilities. Acquisition was not an option owing to limited financial means.</p>	<p>Acquisition</p> <p>It was under time pressure due to late response to the digital revolution. Unlike traditional newspapers, it did not underestimate the value of new firms in the digital market.</p>

heterogeneity and local contingencies. As these different causal mechanisms are often intertwined with each other, being triggered and accentuated by particular dimensions of incumbent heterogeneity, the common notion of causality gives way to complex interaction. We thus propose it is important for future research to integrate multiple theoretical lenses, to examine incumbent response as an evolving process of trial, feedback and evaluation, and to take into account the reflexive and emergent nature of the phenomenon.

Notes

1. 'Krant' is the Dutch word for newspaper. Because of the sensitivity of the data, names of newspapers and related human actors are disguised.
2. We thank an anonymous referee for directing our attention to the possible conflation between incumbent heterogeneity and market segment specificity. Future research may extend our study by selecting multiple newspaper organisations within a particular segment.
3. We thank an anonymous referee for the suggestion of constructing a table to summarise the key findings.

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