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Incumbents' response against disruptive business model innovation

Case: Video game industry

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Abstract:

For incumbents to stay in the market as a competitive force for an extended time requires a business model innovation. Yet, in a disruptive market, the rules are different. In the video game industry during the years 2010-2022, a new and disruptive business model arrived, GaaS-business model, and as a result, redefined the way an industry creates and captures value by introducing new activities and partners in unprecedented ways. To survive the threat and exploit the opportunity, several incumbent video game organisations have responded to disruptive business model innovation by redesigning their strategy. Hence, incumbents innovated their BM in order to maintain their established role in the changing environment. Some incumbents succeeded in BMI in response to DBMI, and some failed.

This study's purpose is, therefore, to understand why incumbents succeed or fail in responding to DBMI through BMI. The study specifically chose to analyse the influence of managerial choices and dynamic capabilities BMI response in order to answer our research questions: "*Why do incumbent organisations succeed or fail in innovating their business model in response to a disruptive BMI?*". This research comprises theory chapters that leverage existing theories and prior studies to enhance our understanding and address the research questions formulated for this study, along with three specific objectives that support the main research question. The theory chapters focused on BMI, DBMI, dynamic capabilities and managerial choices. As a result, a research framework was developed to leverage in collecting and analysing the empirical data. This research uses qualitative content analysis in case study research, which is why two incumbent video game organisations were chosen to be analysed: Activision Blizzard (Case A) and Electronic Arts (Case B). Their annual reports and statistics between 2010–2021 have been collected and analysed for managerial choices and dynamic capabilities that influence the success or failure of BMI. Findings revealed new managerial choices that influence the BMI and the role of ambidexterity throughout the whole BMI process in response to DBMI. The findings reveal what the incumbent has done (managerial choices) in their BMI process during the disruption phenomena. The data on managerial choices can convey information about incumbents' dynamic capabilities and other factors that may have influenced the success or failure of BMI.

Based on the theories, the findings of empirical data, interpretations and discussion, the research results reveal seven notable reasons why incumbents succeed in BMI response and four notable reasons why they fail in BMI response. For instance, successful incumbents focus on managerial choices that emphasises exploring at the beginning of the DBMI process, focus on acquiring external knowledge and competencies, and minimise the conflict between the established BM and the new BM. In contrast, unsuccessful incumbents respond too early without adequately exploring the DBMI, and establish too close the organisational linkages between the established BM and the new BM, especially if the new BM consists of highly conflicting BM elements.

Keywords: Business model, Business model Innovation, Disruption, Disruptive business model innovation

Vaasan yliopisto**Markkinoinnin ja viestinnän yksikkö**

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Tiivistelmä:

Markkinoilla kilpailukykyisenä toimiminen pitkään vaatii liiketoimintamallin uudistamista. Disruptiivisilla markkinoilla säännöt ovat kuitenkin erilaiset. Videopelialalla vuosien 2010–2022 aikana syntyi uusi ja disruptiivinen liiketoimintamalli, GaaS-liiketoimintamalli. Kyseinen liiketoimintamalli määritteli, miten ala luo ja hyödyntää arvoa tuomalla mukaan uusia toimintoja ja kumppaneita ennennäkemättömillä tavoilla. Selvitäkseen disruptiivisen muutoksen tuomista uhkista sekä hyödyntääkseen sen tarjoamia mahdollisuuksia, vakiintuneet videopeliorganisaatiot reagoivat suunnittelemalla uudelleen strategiansa disruptiivisen liiketoimintamalli-innovaation vuoksi. Näin ollen vakiintuneet videopeliorganisaatiot uudistivat liiketoimintamallejaan säilyttääkseen vakiintuneen asemansa muuttuvassa ympäristössä. Osa vakiintuneista toimijoista onnistui innovoimaan liiketoimintamalliaan vastatakseen disruptiiviseen liiketoimintamalli-innovaatioon, kun taas toiset epäonnistuivat.

Tämän tutkimuksen tarkoituksena on ymmärtää, miksi vakiintuneet toimijat onnistuvat tai epäonnistuvat vastatessaan disruptiiviseen liiketoimintamalli-innovaatioon liiketoimintamalli-innovaation kautta. Tämän gradututkielman tutkimuskysymys kuuluu seuraavasti: *"Miksi vakiintuneet organisaatiot onnistuvat tai epäonnistuvat innovoimaan liiketoimintamalliaan vastauksena disruptiiviseen liiketoimintamallin innovaatioon?"*. Vastatakseen tähän tutkimuskysymykseen, tutkimus keskittyy analysoimaan, miten johtamispäätökset ja dynaamiset kyvyt vaikuttavat liiketoimintamalli-innovaation onnistumiseen tai epäonnistumiseen. Tutkimus sisältää teoriaosioita, jotka hyödyntävät olemassa olevia teorioita ja aiempia tutkimuksia vastatakseen tälle tutkimukselle asetettuihin kolmeen tutkimustavoitteeseen, jotka tukevat päätutkimuskysymystä. Teoriaosiot keskittyvät liiketoimintamalli-innovaatioon, disruptiiviseen liiketoimintamalli-innovaatioon, dynaamisiin kykyihin ja johtamispäätöksiin. Tämän seurauksena luotiin tutkimuskehys, jota hyödynnettiin empiiristen tietojen keräämisessä ja analysoinnissa. Tämä tutkimus käyttää laadullista sisällönanalyysejä tapaustutkimuksessa, minkä vuoksi valittiin kaksi vakiintunutta videopeliorganisaatiota analysoitaviksi: Activision Blizzard (Case A) ja Electronic Arts (Case B). Näiden organisaatioiden vuosikertomuksia ja tilastoja on kerätty vuosilta 2010–2021 sekä analysoitu johtamispäätösten ja dynaamisten kykyjen osalta, jotka vaikuttavat liiketoimintamallin uudistamisen onnistumiseen tai epäonnistumiseen.

Tutkimustulokset paljastavat uusia johtamispäätöksiä, jotka vaikuttavat liiketoimintamalli-innovaatioon sekä ambidextrisuuden merkitystä liiketoimintamalli-innovaatioprosessin aikana. Tulokset paljastavat, mitä vakiintuneet toimijat ovat tehneet (johtamispäätökset) liiketoimintamallinsa innovaatioprosessin aikana disruptio-ilmiön aikana. Johtamispäätöksiin liittyvät tiedot välittävät tietoa vakiintuneiden toimijoiden dynaamisista kyvyistä ja muista tekijöistä, jotka voivat vaikuttaa liiketoimintamalli-innovaation onnistumiseen tai epäonnistumiseen.

Teorioiden, empiiristen tietojen, tulkitsemisen ja keskustelun perusteella tutkimustulokset paljastavat seitsemän huomionarvoista syytä, miksi vakiintuneet toimijat onnistuvat vastatessaan liiketoimintamallin uudistamiseen ja neljä huomionarvoista syytä, miksi he epäonnistuvat liiketoimintamallin uudistamisessa. Onnistuneet vakiintuneet toimijat keskittyvät esimerkiksi tutkiviin johtamispäätöksiin disruptiivisen liiketoimintamalli-innovaation prosessin alussa, hankkimaan ulkoista tietoa ja osaamista sekä minimoimaan ristiriidan vakiintuneen liiketoimintamallin ja uuden liiketoimintamallin välillä. Toisaalta epäonnistuneet vakiintuneet toimijat reagoivat liian aikaisin ilman riittävää perehtymistä disruptiiviseen liiketoimintamalli-innovaatioon sekä luovat liian läheisiä organisaatiolinkkejä vakiintuneen liiketoimintamallin ja uuden liiketoimintamallin välille.

Avainsanat: Liiketoimintamalli, Liiketoimintamalli-innovaatio, Disruptio, Disruptiivinen liiketoimintamalli-innovaatio.

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1 Introduction

Organisations have undergone significant changes in the last few decades since competition is becoming more dynamic, and constant technological innovation is becoming more common (Casadeus-Masanell et. al., 2015, p.1). The market environment demands organisations to maintain their competitive advantage in even harsher terms. In a disruptive age, established business models are under attack. They are subject to immediate displacement, disruption, and, in extreme circumstances, destruction (Jong & Djik, 2015). These turbulent times drive incumbent organisations to reframe their business models. Hence organisations must innovate their business model if they aim to stay as a dominant player in the market.

Failing to adapt the business model to the changing environment is a killing blow to the organisation (Gassmann et. al. 2013, p. 1). As a result, business model innovation is crucial for maintaining a competitive advantage. Studies indicate that organisations whose revenues are much higher than their competitors are also twice to emphasise business model innovation, and hence possesses competitive advantage that is difficult to imitate or replicate and have better tools against new competitive threats (Amit & Zott, 2012, p.1). The key to surviving long termly in the market occurs through business model innovation. Therefore, without BMI, there is no future for the organisation. So, the importance of BMI is undisputed. However, a question remains: How to innovate a business model in a disruptive age?

Video game industry is a perfect market for illustrating the importance of business model innovation and how organisation have innovated their business model in response to disruptions. In the last 40 years, the video game industry has had tremendous business model innovations. From 1970 to 1980, the gaming industry was mainly coin-operated by playing in an arcade shop containing large arcade machines. At that time, video game consoles were being created but not accepted by the mass consumer until Nintendo introduced its' Super NES console in 1991. It dominated the gaming market and created a new market: Home game consoles. Nintendo created a much better value proposition

than the arcade console since teenagers could now be entertained more quickly at home than in arcades. At that time, video games were targeted at young teenage boys with easy-to-play and non-violent titles such as Super Mario. (Chikhani, 2015; Zackariasson & Wilson, 2010, p.143–144.)

The rise of Nintendo stopped, and the fall of arcade shops escalated in 1994 with the entry of Sony's home console, PlayStation (Zacariasson & Wilson, 2010, p.143–145; Markides, 2015, p.135–137). It dominated the market by emphasising a different value proposition compared to Nintendo, and thus attracted different customers that were young adults who had a more significant disposable income. Sony's video games were more profound, sophisticated, and violent than Nintendo's. Arcade shops were utterly eradicated, and the primary gaming audience did not want the traditional market of easy-to-play and non-violent games that Nintendo offered (Markides, 2015, p.135–137; Zacariasson & Wilson, 2010, p.143). Nintendo's business model was hence, outdated. Nintendo did not innovate or adapt its business model, which is why things got worse in 2001, with the arrival of Microsoft's Xbox, which offered an even more complex and innovative game console. Microsoft and Sony were battling head-on with each other while Nintendo got the underdog title.

In a short time, competitors' business models caused problems for Nintendo. They knew they had to change their strategy and innovate their business model. Researchers show that copying the value proposition of the new business model is not a successful strategy for established firms (Markides, 2015, p.137). Luckily Nintendo realised this. As games and consoles became more complex, Nintendo recognised that there was a large audience who wanted to play simple and fun games with family and friends (Markides, 2015, p.136). So, by adapting to the new disruptive business model, not copying it, in 2006, Nintendo launched the Wii console, which targeted working women with families of all ages. As a result, Nintendo outsold its new family-friendly game console compared to Microsoft and Sony. Hence Nintendo re-emerged as a dominant and established organisation in the video game industry (Statista, 2022).

Now a new threat/opportunity in the video game industry has been seen: mobile gaming and the free-to-play model or, in their umbrella term, Games-as-a-service (GaaS). GaaS, in short, depicts an expanding segment of the video game industry where games receive endless monetised new content to promote the customer's continuing playing and paying (Guiney & Xu, 2019, p.564–565; Dubois & Weststar,2022, p.2334–2336). The GaaS model originated from mobile games but later expanded to the Pc and console segment (Guiney & Xu, 2019, p.564–565; Dubois & Weststar,2022, p.2334–2336).

The impact of GaaS model to the industry is easily seen in the statistic. Free-to-play games accounted for 4 out of every 5 dollars spent on digital games in 2019 because of the mobile segments' strong performance in the game industry. In addition, free-to-play spending accounted for 80% of all digital game revenues in 2019 (Superdata, 2019, p. 8, 10). Also, Microsoft has developed a subscription service, Xbox game pass in which a customer can access library of games withing the PC and console. Consumers are now given a choice; do you pay premium price for product or dive in to the GaaS model for an easier access for trying the service (Clement, 2022a). The Xbox game pass hit a milestone by surpassing 25 million subscribers in January of 2022. Sony seeing how Microsoft is exploiting the new trend, they also developed their business models value proposition and value capture by releasing a similar subscription service as their competitors. However, Sony loses nearly 2 million subscribers ever since they revamped the model toward the GaaS (Wood, 2022).

The succession of the new model attracts established firms to change and innovate their business model, to be similar as the GaaS- model (Chew, 2016, p.229–233). There is a possibility to not innovate the established firm's current business model toward GaaS, but it seems to be to most popular and profitable now (Superdata, 2019, p. 8, 10). Some have succeeded in innovating their business model against never-ending uncertainties. One of the largest video game organisations such as Activision Blizzard, has adapted the new business model, by publishing video games that include the same elements as the

mobile game free-to-play model: The product is free but includes in-app purchases and is a live service game (Activision Blizzard, 2015, p. 4-6). Nevertheless, some organisations fail to innovate their business model in response to the game-as-a-service model. As a result, consumers are not delighted with the new value proposition and value capture established organisations have provided.

So, a question remains, why some incumbent organisations fail or succeed to innovate their business model in response to a disruptive BMI? To answer the question, this research focuses on two incumbent video game companies, Activision Blizzard (Case A) and Electronic Arts (Case B)

1.1 Research purpose, question, and objectives

There is diverse information about what capabilities, competencies, and assets are required for responding to disruptive business model innovations (Leih et al. 2015, p.3,5-9; O'Reilly & Tushman, 2008, p.186,188–190; Kim & Min,2015, p.35–38,39–40). However, there is little information about the organisations managerial choices that are in fact, the crucial factors that determine if the incumbent organisation have successfully realised/implemented their resources and capabilities, and thus increased the firm's performance in response to disruptive business model. This research question aims to fill this research gap.

This study's research question is:

Why do incumbent organisations succeed or fail in innovating their business model in response to a disruptive BMI?

Answering the above-mentioned research question occurs through understanding and analysing organisations' managerial choices when innovating their business model in response to DBMI. The results of this study bring to light the choices that promote positive change toward a successful business model innovation and the mistakes that

organisations must avoid. The research question itself is a broad subject. Hence there have been set three research objectives for this study:

1. How and why incumbent organisation respond to disruptive BMI.

The first research objective aims to understand how and why incumbent organisations respond to disruptive business model innovation. There are different methods for organisation to respond against DBMI (Mao et al., 2020, p.10). This paper, however, focuses on the context of responding to disruption through business model innovation. The different responses will be thoroughly explained. Also, the aim is to understand the reasons for changing the business model. Additionally, clarifying business model and business model innovation is necessary since the definitions depend on the industry (Osathanukul,2015, p.4–5). To achieve the first research objective, this paper provides different takes on business model innovation but leans on the °360 Business model innovation framework (Rayna & Striukova, 2016, p. 22). Business model components are explained through the °360 Business model innovation framework since DBMI represents the disruptive innovation that occurs in any business model component (Charitou & Markides,2003; Christensen & Raynor,2003; Dewald & Bowen, 2010).

2. How dynamic capabilities and what managerial choices contribute to incumbent success or failure in innovating their BM in response to a DBMI?

Solving the second research objective occurs through understanding the right managerial choices and mistakes that can appear when innovating a business model in response to business model disruption. As Casadesus-Masanell and Ricart state (2010, p.198): "*Business models are made of concrete choices and the consequences of these choices*". Consequently, the choices and decision processes of the management create and shape the organisation's business models (Casadesus-Masanell & Ricart, 2010, p.198; Amit & Zott, 2010, p.6–8). Managerial choices are thus critical to a company's success as they determine how resources are allocated, products are developed, and

services are delivered (Kim & Min, 2015, p.35, 39–40; Leih et al., 2015, p.7–8). Effective managerial choices can help organisations adapt to changing market conditions, meet customer needs, and achieve sustainable growth. Managerial choices are, therefore, a significant factor in determining whether an incumbent organisation will succeed or fail when innovating its business model in response to disruptive business model innovation (Kim & Min, 2015, p.35, 39–40; Leih et al., 2015, p.7–8). Analysing managerial choices can provide insights into the incumbents' strategic direction, decision-making processes, and mindset, helping identify potential barriers or shortcomings in their approach to business model innovation. Furthermore, examining these managerial choices can help businesses in the video game industry anticipate possible obstacles in business model innovation. This is an essential step towards solving problems and a further step in understanding the right choices that promote change toward a successful business model innovation when incumbent organisations must react against DBMI.

The second research objective also covers dynamic capabilities, which influence incumbents' managerial choices and, thus, the success rate of whether the incumbent will succeed in responding to DBMI (Leih et al., 2015, p.5, 7–8). This research paper will not thoroughly analyse the theory of dynamic capabilities since there is not enough material to show what dynamic capabilities the case organisations possess. Nonetheless, in the findings section, it is possible to pinpoint incumbent organisations' dynamic capabilities by analysing their managerial choices. For instance, when an incumbent organisation responds urgently against a DBMI, it means that they have quickly spotted an opportunity/ threat (Leih et al., 2015, p.7–8). This conveys that the organisation possesses at least one of the key clusters of dynamic capabilities, sensing, which consists of processes and managerial activities that identify and assess opportunities/threats (Leih et al., 2015, p.7–8). With dynamic capabilities, the incumbent organisation can assess their ability to adapt and respond to disruptive changes, their agility in experimenting with new ideas, and their capacity to leverage existing resources and capabilities for innovative business models. All in all, by considering both managerial choices and dynamic capabilities, this research paper gains a comprehensive

understanding of the factors that contribute to the failure or success of incumbent video game organisations in innovating their business models in response to DBMI.

3. What video game organisation did (Managerial choices) when innovating their business model against a disruptive business model innovation and what are theirs aftermath situation?

After founding the theoretical framework, the third research objective aims to explain what managerial choices incumbent organisations implemented when innovating their business model in response to a DBMI. Additionally, the managerial choices convey information, in some degree, about their dynamic capabilities. Through this research objective, this paper aims to analyse empirical data of Activision Blizzard (Case A) and Electronic Arts (Case B). Case A and B are about an incumbent video game organisation that has successfully responded to disruptive business model innovation and consequently managed to create value for a targeted group and improve the firm's performance. This way, we understand what managerial choices and actions incumbent organisations implemented when innovating their business model in response to a disruptive business model innovation. After the incumbent's business model innovation, we can see what managerial choices and actions led the organisation to succeed or to fail and reveal if the incumbent had strong dynamic capabilities.

All in all, the third research objective helps to understand the managerial choices of incumbent organisations that face a DBMI and, therefore, provides a bridge to the topic of "Were the managerial choices in business model innovation successful or not. If the business model innovation in response to DBMI was successful or failed, why? Did managerial choices convey any information about the incumbent dynamic capabilities?" As this paper analyses a DBMI that has passed, it is easy to analyse the history of these cases and the consequences of their managerial choices in business model innovation. With collected and analysed empirical data, this paper can comprehensively analyse the

managerial choices and dynamic capabilities which contribute to a successful and unsuccessful BMI in response to DBMI.

1.2 Delimitations and structure

According to Charitou and Markides (2003), Christensen and Raynor (2003), and Dewald and Bowen (2010), in environmental form and a larger context, a DBMI (Disruptive business model innovation) represent the disruptive innovation that occurs in any business model component. Of course, disruptive innovation and DBMI are not the same (Markides, 2006, p.19–20). However, DBMI provides a more holistic perspective regarding disruption. For instance, when a new technology arrives with a low-cost price, superior revenue structure and features, and consequently shakes the market, in a business model innovation context, the disruptive innovation occurs in value proposition and value capture BM components. Hence, according to the observations, this paper views disruptive innovations as part of a small-scale disruptive BMI. Nonetheless, this research paper analyses through the lens of DBMI theory.

To make this study more precise, it has delimitations. First, this study focuses only on established or, in other terms, incumbent organisations. Second, in this study, discussing how specific organisations fail to innovate their business model indicates a couple of things. When an organisation innovates its business model elements, it does not mean it is immediately successful. Instead, it is successful when it creates value for the targeted target group and does not destroy it, increases the company's performance, and enlarges the existing economic pie, by attracting new customers into the market or by encouraging existing customers to consume more (Foss & Saebi, 2017, p.208; Cucculelli & Bettinelli, 2015, p.329–330,344; Markides, 2006, p.20). So, when this paper mentions "fail" or "mistake", it indicates that the organisation has innovated their business model but made miscalculations, destroying or diminishing its value proposition and value capture elements. Hence, when responding to DBMI and implementing business model innovation, managerial choices can lead to failures, which are portrayed as an activity that destroys value.

On the other hand, managerial choices also lead to the right choices that are portrayed as an activity that creates value for the targeted group. Additionally, if the firm performance declines after the incumbents' response against DBMI, their business model innovation has failed since, without an exceptional performance, there is no competitive advantage (Foss & Saebi, 2017, p.201–202; Anwar, 2018, p.3–4; Cuculelli & Bettinelli, 2015, p.330,346–347). Without outstanding performance and competitive advantage, it is hard to create value for the targeted group, which is one of the conditions for business model innovation to succeed.

Third, this research's primary analysis is on managerial choices when responding to DBMI with BMI. As Kim and Min (2015, p.35) mention, managers' choices to mobilise their incumbent resources and competencies are critical elements. Hence, Incumbent resources and competencies do not guarantee the success of the business model innovation but the managerial choices. Therefore, incumbent resources and competencies need mobilising through successful managerial choices since the synergy between managerial choices and incumbent assets (resources and competencies) directly influences the organisation's performance after the addition of business model innovation (Kim & Min, 2015, p.35). Nonetheless, this research also analyses dynamic capabilities, which directly influence managerial choices (Leih et al.,2015, p.5,7–8). However, because of the limitation of case data, dynamic capabilities are not analysed as thoroughly as managerial choices.

This research paper acknowledges that dynamic capabilities also have a strong influence on managerial activities and processes, which is why this paper included it to bring more depth to discussions and results. This way, by considering both managerial choices and dynamic capabilities, this research paper gains a comprehensive understanding of the factors that contribute to the success or failure of incumbent video game organisations in innovating their business models in response to DBMI.

Fourth, this paper focuses on the aftermath of the business model disruption. This means that we analyse the situation of organisations after they have implemented their business model innovation activities. This way, this paper can comprehend if they have succeeded or failed in innovating their business model in response to disruptive business model innovation.

There are different ways of responding to DBMI. Nonetheless, it is essential to note that this paper analyses the incumbents' responses through a business model innovation lens. This means that all the incumbents' responses against a DBMI, such as BM adoption or strengthening BM, are different forms of business model innovation. Therefore, the incumbent's organisation responds to threats/opportunities through business model innovation. This approach provides a more holistic perspective, which academic studies need.

The structure of this study consists of seven chapters. The first chapter is introductory. The second and third chapters are theoretical chapters that aim to build a coherent research framework. The second chapter is based on the first research objective, and the third chapter is on the second research objective. The fourth chapter is about methodology and methods. The fifth chapter revolves around the third research objective. The fifth chapter is the findings of the collected and analysed empirical data. The research culminates in the sixth chapter, discussion, and interpretations, in which theory and empirical data are combined to answer the research question. The seventh chapter is a conclusion to this study.

1.3 Research Methodology

This research paper uses of qualitative content analysis in case study research. As Kohlbacher (2006) states: *“case study is not a methodological choice but a choice of what is to be studied. By whatever methods, we choose to study the case.”* As mentioned, it does not imply on how to analyse the cases but implicates what cases we will analyses. Nonetheless this research paper is based on multiple cases, that will be analyses through

content analysis-method. The research methodology will be thoroughly explained in chapter 4.

1.4 Key Concepts

Disruptive BMI = DBMI is a form of disruptive innovation. According to studies (Markides,2006, p.19–21; Mao, 2020, p.1–3; Snihur and Tarzijan, 2018, p.51–52; Cozzolino et al. 2018, p.1169–1170; Kumaraswamy et al.,2018; Christensen, 2018; Christensen 2006), DBMI is a type of innovation that redefines the way an industry creates and captures value by introducing new activities and partners in unprecedented ways. This can threaten the competitive position of established firms, potentially leading to their disruption. However, DBMI can also lead to new opportunities. In response to potential threats or opportunities, incumbents may experiment and adapt their business models in order to overcome the challenges posed by disruptive BMI.

Game-as-a-service business model = Game-as-a-service (GaaS) is an example of a disruptive business model innovation in the video game industry (Nowak, 2018; Karnes,2023; InnovecsGames, 2020; Osten, 2022; Zaiets, 2020). It involves offering games, for instance, as a subscription-based service rather than a one-time purchase, providing ongoing content updates and engaging players in a continuous experience. This model has disrupted the traditional business model of selling games as a product and has become increasingly popular in the gaming industry. It is important to note that GaaS is not a trend since a trend refers to a general direction in which something is developing or changing, whereas disruptive business model innovation refers to a new approach that fundamentally changes the way a business operates and creates value for its customers (Nowak, 2018; Karnes,2023; Markides, 2006, p.20–22, Yang et al., 2022, p.2–4). It is worth noting that the GaaS model is no longer a new or disruptive business model innovation in the video game industry. Many game developers have now adopted this model, which has become a common way of monetising games (Nowak, 2018; Karnes,2023; InnovecsGames, 2020; Osten, 2022; Zaiets,2020).

2 Incumbents responding to disruptive business model innovation.

In this chapter, this paper exhibits the definition of business model, business model innovation and disruptive business model innovation. After the reader has a solid ground to stand on, this chapter dives into understanding why incumbent organizations respond to DBMI and how do they respond. In conclusion, this research chapter will bring into question of the nature and the collision between the incumbent organisations and disruptive business model innovation.

2.1 Business model

The definition of business model is even today discussed and analysed. The business model has been depicted as an architecture of products and services (Timmers,1998, p.2–3), a reflection of the organisation's realised strategy (Casadesus-Masanell & Ricart, 2010, p.196–197), a representation of the relevant activities in the company(Wirtz et al., 2016, p.36–38), or even as elements that together create and delivers value to the targeted customer(Clayton & Johnson, 2009, p.1). As noted, there is not one theoretical grounding on which business model theory can stand on (Teece, 2010, p. 175).

Researchers also have differences regarding business model components/elements. For instance, the most famous research on the business model is Osterwalder's (2010) business model canvas, which different organisations have widely adopted. A business model canvas visualises the business model's nine elements that inscribe the value propositions and the activities that support them. However, Gassman, Frankenberger, and Csik (2013, p.1–2) depict the business model as a business model triangle consisting of four essential dimensions that emphasise building the business model around the customer. Hence, the customer's wants and needs influence the company's business model structure.

Despite the difference between different business model theories, research agrees that the business model explains how the value is created, proposed, delivered, captured, and communicated (Osathanukul, 2015, p. 3–4; Foss & Saebi, 2018, p.12; Wirtz et al., 2016, p.36–38). Therefore, this research paper defines a business model as a holistic framework that exhibits how an organisation creates, proposes, delivers, communicates, and captures value. Through the business model, an organisation can efficiently allocate and realise its resources and capabilities to solve the customers' needs (Saebi, 2014, p.2; Foss & Saebi, 2016, p.201–202). As researchers have acclaimed, business models are essential for firms to survive and thrive in today's complex and dynamic business environment (Gassman et al., 2013, p.1; Casadesus-Masanell & Ricart, 2010, p.1, 3; Wirtz et al., 2016, p.36–37).

Most business model frameworks, such as the aforementioned business model canvas and business model triangle, focus only on providing a holistic view of the business model but not on business model innovation (Gassman et al.,2013, p.1–2; Osterwalder,2010). As this paper focuses on DBMI, relying on a theoretical framework that provides BM and BMI theory is essential. Hence this research paper will view the business model through Rayna's and Striukova's °360 business model innovation-framework. According to Rayna and Striukova (2016, p.22), even a tiny business model change can be considered a BMI that can create a competitive advantage and positive market outcomes or lead to failure. With this in mind, the °360 BM framework offers a compressive take on BM's components and their possible outcome when BMI is implemented.

The figure 1 illustrates Rayna's and Striukova's °360 Business model framework. The business model includes five elements. For instance, the **value creation** element focuses on the processes and activities that the organisation engages in order to create value for its customers (Rayna & Striukova, 2016, p. 22). Organisations create value through core competencies, essential resources, and governance or in other terms, managerial choices. Value creation is, for instance, product design, manufacturing, and service

delivery. As Rayna and Striukova(2016, p.22) mention, "*Value creation- the mechanism by which goods and services acquire value that then can be captured and shared*".

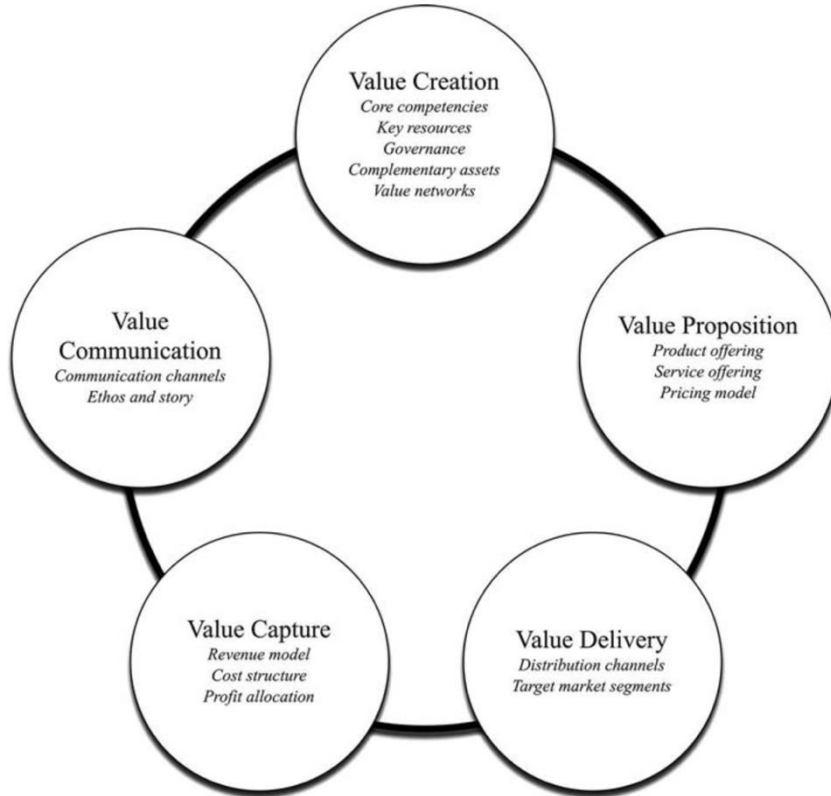


Figure 1 °360 Business model framework. Rayna & Striukova (2016, p. 24)

The value proposition refers to a mechanism in which the created value is provided to the market (Rayna & Striukova, 2016, p. 23). The value proposition should be designed to meet the specific needs of the customer segments that the business serves (Rayna & Striukova, 2016, p. 23; Gassman et al., 2013, p.1–2). It specifies to the market what the organisation offers and at what price. For instance, when an organisation innovates a new pricing model, the business model innovation occurs in the value proposition element (Rayna & Striukova, 2016, p. 23; Gassman et al., 2013, p.1–2). **The value delivery** element refers to the various ways in which the business delivers its products or services to customers (Rayna & Striukova, 2016, p. 23; Gassman et al., 2013, p.2). The value can be delivered via online platforms physical stores, or partnerships with other businesses.

The value capture element involves identifying how the business generates revenue (Rayna & Striukova, 2016, p. 23; Gassman et al., 2013, p.2). This can include sales of services, products, subscriptions, or advertising. Value capture determines the financial viability of the business and its ability to sustain itself over time. So, in short, it refers to an organisation's ability to benefit from the value created, which is why it includes a revenue model. As the value proposition element is inclined to change, so is value capture. These two elements are usually the first to be innovated when a BMI occurs (Rayna & Striukova, 2016, p. 23).

The value communication element is about communicating their created value to the customers, strategic allies and other shareholders. This is not only about describing the value offered but building an emotional attachment between the customer and the organisation (Rayna & Striukova, 2016, p. 23). This is a critical element of the business model since it helps to build brand awareness and loyalty.

2.2 Business model Innovation

In order to maintain or pursuing excellent performance and competitive advantage in a highly dynamic market, it requires for an organisation to change its business model (Kim & Min, 2015, p.52–53; Rayna & Striukova, 2016, p. 21–22; Foss & Saebi, 2017, p.218). Therefore, innovating their business model. So, what is the definition of business model innovation? In this regard, disagreements and discussions exist (Foss & Saebi, 2017, p.203–204). Nonetheless, researchers have a consensus that business model innovation is all about innovating and changing one or more business model components/elements or even adding a new business model (Foss & Saebi, 2017, p.210; Leih et al.,2015, p.3; Snihur & Zott, 2020, p.4). For instance, video game companies innovated their revenue and pricing model by offering "free" games, that included in-app purchases for enhancing the player experience and attaining more value from the proposed value (Rayna & Striukova, 2014, p.67–71). If we view this example through the lens of the °360 BM framework, The BMI occurred on value proposition and value capture (Rayna &

Striukova, 2014, p.67–71,75–77). As Leih, Linden and Teece mention (2015, p.2–3), BMI is about solving strategic issues for which the top managements are accountable for. Foss and Saebi (2017, p.216) also mention that BMI ultimately requires managerial choices, which is why BMI fundamentally requires to be designed and planned. This only means that BMI implementation and process do not occur naturally or passively but are concerted through collaborative activities (Leih et al., 2015, p.2–3; Foss & Saebi,2017, p.216). It must be noted that BMI is not homogenous since the BMI process and outcome may be minor, simple, complex, or large (Foss & Stieglitz,2014, p.2).

BMI definition depends highly on the industry (Osathanunkul, 2015, p.4–5). Adding a new product in one industry may be considered a BMI, while in another, it may not. Further, Saebi (2014, p.8,10) depicts business model **innovation** as just one of the hyponyms of the business model change. According to Saebi (2014, p.8,10), **business model innovation** is about shaping or disrupting the market by creating a disruptive BM. When as business model **adaptation** aims to align with the changing market environment, and business model **evolution** is about strengthening the existing business model (Saebi,2014, p.8,10).

Based on aforementioned findings, in this study, BMI is depicted as an organisation's new way of creating, proposing, delivering and/or capturing value (Foss & Saebi,2017, p.201; Snihur & Zott, 2020, p.4). Hence in this study, business model innovation can be little as strengthening the existing business model, adapting the business model to a disruptive BM or even large as creating a novel DBMI (Foss & Saebi, 2017, p.217). As in Markides's (2006, p.20) words: "*To qualify as an innovation, the new business model must enlarge the existing economic pie, either by attracting new customers into the market or by encouraging existing customers to consume more*". On that account, BMI requires an organisation to identify new ways of generating competitive advantages and performance through business model innovation. It is not about discovering new products or services but about redefining what an existing product or service is and how it is delivered to the customer (Markides, 2006, p.20). All in all, the outcome of BMI

results in changing the organisation revenue model, cost structure, value proposition, customer segments, channels, and key partnerships (Rayna & Striukova, 2016, p.22–24; Foss & Saebi, 2017, p.215; Gassmann, 2013, p. 1–2).

Even though BMI results an enormous advantage to the company, it is challenging for organisations to succeed in BMI (Haftor & Costa, 2023, p.1; Gassmann, 2013, p.1; Foss & Stieglitz, 2014, p.15–17). What even makes it more challenging is that essential traits of BM are shaped during the period of early founding of the company (Chesbrough & Rosenbloom, 2002; Snihur & Zott, 2020, p.1). These BM traits can be the most resistant to change for long periods of time despite environmental shift and disruption. Consequently, BMI requires top management to actively challenge their traditional business methods and explore and experiment with new approaches to generate sustainable competitive advantage in a rapidly changing market environment (Schiavi & Behr, 2018, p.347; Foss & Stieglitz, 2014, p.12–13; Foss & Saebi, 2017, p.216; Haftor & Costa, 2023, p.3).

It could be concluded that the organisation's reasons for BMI are to aim for better performance and thus gain a sustainable competitive advantage. However, this conclusion is far from the truth. According to the study, specific drivers push organisations to innovate their business model (Saebi et al., 2017, p.575–576; Snihur & Zott, 2020, p.1–2; Markides, 2006, p.22; Foss & Saebi, 2017, p.215,217–218). The first driver is an external/Internal threat, for instance, a new entrant, economic crises, changing customer preferences, new disruptive BM or a revolutionary innovation. The second driver is managerial perceived opportunity. This refers to a situation where an organisation perceives an opportunity and thus aims it through BMI. However, it is vital to notice that external threats and opportunities do not always influence organisations to innovate their business model (Saebi et al., 2017, p.575–576; Snihur & Zott, 2020, p.1–2). In conclusion, disruption in the organisation's market is one of the motives behind business model innovation. With BMI, managers aim to change/innovate their

business model activities to meet the changing rules and conditions (Saebi,2014, p. 148).

In a practical sense, BMI is a process of search, learning and experimentation with uncertain market environment and performance prospects (Foss & Stieglitzs,2014, p.12; Foss & Saebi, 2015b, p.11). Incumbent BMI process includes constant balancing between exploiting the existing business model while actively exploring the novel BM (Sund et al. 2021, p.12–13; Osiyevskyy & Dewald, 2015, p.58). If incumbent organisation highlights too much on the exploiting aspect, the organisation fails to perceive any new opportunities and threats. It thus fails to experiment with any novel business models (Yang et. al., 2022, p.5). On the other hand, if the incumbent organisation focuses too much on the exploration aspect, it fails to capture value from the existing business model, thus shortening its lifecycle and efficiency (Yang et. al., 2022, p.5).

In the next section, the role of disruption is explained and proved, and the relationship between incumbents' responses against disruptive BMI is analysed in order to answer the research question.

2.3 Incumbent Organisations and Disruption

The incumbent organisation can be defined as an organisation with an established position in a particular market. The incumbent organisation usually holds a significant market share in a specific industry (Chen, 2023). For instance, in this research, case firms such as Activision Blizzard, EA and Ubisoft have long been operating in the video game industry with a significant market share (NewZoo, 2023b). As incumbent organisations hold market power and resources, it is challenging for entrants to gain a foothold. Nonetheless, the position of the incumbent organisations is not necessarily secure, especially in the video game industry since disruptive technologies and business models can emerge. Therefore, it poses a never-ending threat to the incumbent's market position.

As the definition of BM and BMI can sometimes be confusing, so can the definition of disruption (Christensen et al., 2018, p.1043; Kilkki et al., 2018, p.275–276). The term "disruption" appeared first time in 1997 in Christensen's research "*innovators dilemma*" (Kilkki et al., 2018, p.275–276, Christenssen,1997; Markides, 2006, p.19). According to Christensen (1997; Christensen et al., 2019, p.1047–1050; Markides, 2006, p.19; Kilkki et al., 2018, p.275–276) disruption is a process where a new entrant in a market introduces innovations that fundamentally changes the markets established rules and hence alters the competitive landscape. Disruption often provides, compared to incumbent organisations, a more affordable, accessible, or convenient alternative to existing offerings. The main selling point of disruption is that it is, according to Christensen (1997; Christensen et al., 2018, p.1047–1050), "*a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves upmarket, eventually displacing established competitors*". It is thus harmful to incumbent organisations to rely too much on the current customers when a novel disruption hits the market (Christensen et al., 2018, p.1047–1050). The organisation conflicts between the old and the new market need lead to a situation where incumbents may focus too much on serving the old needs while disruptive entrants capture a significant share of the market by serving new needs (Kilkki et al., 2018, p.275–276, Christensen,1997).

However, some academics have criticised Christensen's views on disruption for being too general (Kilkki et al., 2018, p.276). For instance, Markides (2006, p.19) mentions that disruption is not only about introducing new products or services but about fundamentally changing the rules of the game in the industry. When as Danneels (2004, p.249) comments, "*A disruptive technology is a technology that changes the bases of competition by changing the performance metrics along which firms compete*".

When the disruption theory was discussed, it mostly considered a technology change-framework (Yang et. al.2020, p.20). Nonetheless studies have shown the importance of business models, which in fact were the essential factor behind disruptive innovation

(Yang et al., 2020, p.20; Markides, 2006,19–20; Christensen et al., 2018, p.1050). Consequently, the disruption theory has also developed in a way that disruption is not only about technologies but of business models (Markides, 2006, p.19–20; Cozzolino et al.,2018, p.1169–1170; Kilkke et al., 2018, p.276).

Over the years the disruption theory has been used to explain all kinds of disruptive innovations. According to Markides (2006, p.19), this is a mistake since various types of disruptions have different impacts on competition and create different kinds of markets. Markides (2006, p.19) proposes that we should consider them as separate things for such a disruptive technological innovation is very different from a disruptive business model innovation. These innovations emerge differently, affect competition in different ways, and demand different reactions from established companies (Markides, 2006, p.19). By grouping all types of disruptive innovations together, we are combining things that are fundamentally different. Studies have concluded that disruptive innovation can be technology disruption and/or business model innovation disruption (Markides, 2006, p.19–20; Cozzolino et al.,2018, p.1169–1170; Christensen, 2006, p.43,48–49). For simplicity, this research separates a technological disruption and business model disruption based on Markides (2006, p.19–25) typology on disruptive innovations.

As this research mentioned in the delimitation chapter, according to Charitou and Markides (2003, p.55–58) and Dewald and Bowen (2010, p.199), in environment form and a larger context, a DBMI represents the disruptive innovation that occurs in any business model component/s. This research thus focuses mainly on business model disruption in order to analyse holistically the incumbent's business model and its components.

All in all, disruptive innovations, including DBMI, can be characterised by their ability to disrupt established markets and create new growth opportunities, often by appealing to underserved or overlooked segments of the market (Christensen et al., 2018, p.1047–1050; Markides, 2006, p.20–22, Yang et al., 2022, p.2–4). Nonetheless, A question remains, how does innovation disruption occur? So, in short, when an incumbent

organisation focuses on maintaining its current markets and customers, it simultaneously neglects customers at the bottom market. When a disruptive innovation appears on the market, it primarily serves the bottom market that the incumbent organisation forgot or neglected to serve. As time pass, Disruptive innovation conquers the bottom market, but it does not stop there; in fact, it eventually attracts incumbents' top market customers. Typically, it is too late for the incumbent to respond to disruption when this situation occurs. (Christensen et.al. 2018, p.1047–1050; Markides, 2006, p.20–22, Yang et al., 2022, p.2–4).

This research defines disruptive innovations based on aforementioned findings; Disruption is a process (Kilkki et al. 2018, p.276); The disruption impacts a large share of organisations that are included in a system where the disruption arrives; an incumbent organisation is disrupted when it must redesign its strategy to survive a change in the environment (Kilkki et al. 2018, p.276). From this forward, the discussion revolves around only on DBMI. This research defines DBMI as a type of innovation that redefines the way an industry creates and captures value by introducing new activities and partners in unprecedented ways (Markides,2006, p.19–21; Mao, 2020, p.1–3; Snihur and Tarzijan, 2018, p.51–52; Cozzolino et al. 2018, p.1169–1170; Kumaraswamy et al. ,2018, p. 1026–1027, 1031–1032; Christensen, 2018,s.1051–1052,1066,1070). DBMI can threaten the competitive position of established firms, potentially leading to their disruption. However, DBMI can also lead to new opportunities. In response to potential threats or opportunities, incumbents may experiment and adapt their business models in order to overcome the challenges posed by disruptive BMI.

As Incumbent organisations respond to DBMI through different methods of BMI, in the next section, we will analyse what and how incumbent organisation deals with DBMI.

2.4 Incumbent organisations responding against DBMI

Before diving into how incumbents respond to DBMI, it is noteworthy to examine the process of DBMI since it is crucial for incumbents' organisations to survey and detect

any threats/opportunities and to recognise their patterns (Leih et al., 2015, p.6–9). If incumbent organisations can easily detect the DBMI, they already have a considerable advantage in responding against the DBMI. Typically, when a DBMI arrives in the market, it does not conquer the market (Markides, 2006, p.20–22; Christensen et al., 2018, p.1047–1050; Yang et al., 2022, p.2–4). However, it attracts some customers that the incumbent organisation neglected. At this stage of the process, incumbent organisations have no motivation or little incentive to adopt or to respond to the situation (Markides,2006, p.21). As studies mention (Markides, 2006, p.20–22; Christensen et al. 2018, p.1047–1050; Yang et al., 2022, p.2–4), this is because the new business model (DBMI) attracts only the customers that the established company is not focusing on, and it would require for the incumbent organisation attain some conflicting and different BM components. However, over time, the DBMI undergo significant improvements, reaching a point where they not only meet the standards set by incumbent organisations but also surpass them in new aspects. As a result, even loyal customers become intrigued by these novel approaches and gradually start transitioning towards them (Markides, 2006, p.20–22; Christensen et al., 2018, p.1047–1050; Yang et al., 2022, p.2–4). Naturally, the rapid growth of these DBMI:s catches the attention of incumbent organisations (Markides,2006, p.21).

As more existing and new customers embrace the new business model, it garners increasing attention from the media and the established players (Markides,2006, p.20–22; Christensen et al., 2018, p.1047–1050). At this stage, incumbents organisations cannot ignore the new way of conducting business and are thus motivated or pressured to explore different ways to respond to it (Markides,2006, p.20–22; Christensen et al., 2018, p.1047–1050). Here lies an interesting dilemma for the incumbents' organisations, as Markides(2006, p.21) states: "*These new ways of competing conflict with existing ways. It is extremely difficult to make the two coexist (Existing BM and DBMI) in the same organisation-hence the reason why these innovations are considered disruptive to the established firm*". In other words, DBMI creates a situation where the incumbent organisation faces a dilemma where the new business model directly contradicts the

incumbent's current business model. Therefore, integrating the two approaches within the same organisation becomes exceedingly challenging, which explains why these new and innovative business models are deemed disruptive to incumbents' organisations (Markides,2006, p.20–22; Christensen et al. 2018, p.1047–1050).

In this kind of dilemma, a question remains, how to respond against a DBMI? Academics have provided different approaches to incumbent business model innovation. For instance, Christensen (1997; Christensen et al., 2018, p.1062–1065) provided three different ways to respond; acquiring a different organisation that possesses the same elements as the DBMI; trying to innovate the existing business model incrementally or radically; creating and separating independent organisation, which processes and values will be developed in order to solve the new problem within the incumbent organisation.

Markides's (2006, p.21–24; Charitou & Markides,2003, p.57–63) theories on responding to DMBI are similar to Christensen, with few differences; adopting the same elements as DBMI, creating a novel BM, strengthening the existing business model or doing nothing. Habtay and Holmen (2014, p.301–302) instead provide research results that the type of response depends highly on the current DBMI threat level, as seen in figure 2. If the threat level is a single threat, an incumbent organisation can respond by integrating a separate unit, which has the elements of DBMI, into the incumbent main unit. Additionally, the incumbent can leverage the dynamic competencies which it already has. However, when the threat is a double threat, the incumbent organisation should create a separate unit and acquire organisations that own the necessary capabilities for creating a DBMI. The greater the threat, the more critical it is for incumbent organisations to acquire DBMI:s specific competencies.

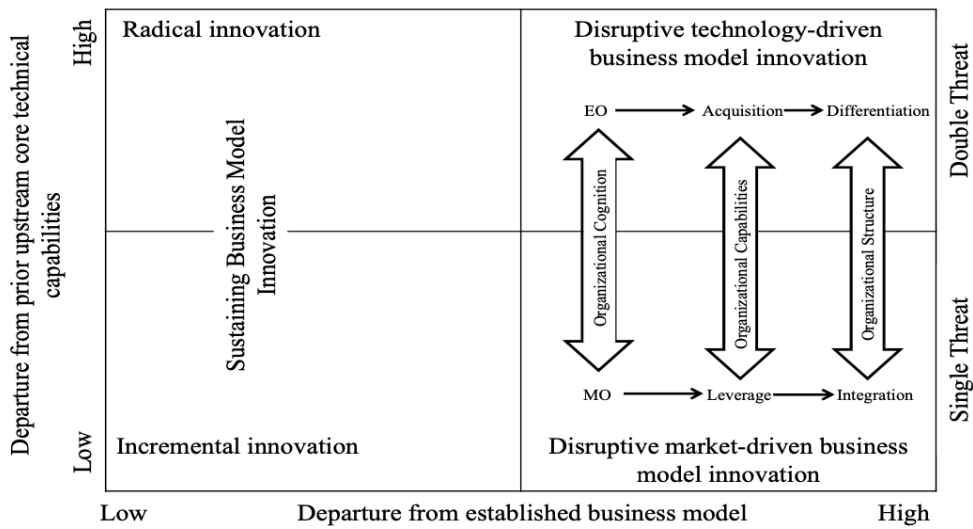


Figure 2 Framework for organisational responses based on the nature of disruption. Habtay & Holmen (2014, p.301)

Kim and Min (2015, p.36) demonstrate the topic differently. They categorise incumbents' business model innovation into *original* or *imitative*. An *original* BMI is fundamentally about creating a new BM, which has never been seen on the market and also reframes the rules of doing business. *Imitative* BMI is when an incumbent organisation adds a new business model which has already been invented by other competitors. Imitative BMI is all about BM adoption and addition. As Kim and Min (2015, p.36) mention, BM adoption is about replacing the old BM components with new ones. This way incumbent organisation has fewer concerns about managing the new BM and the old BM simultaneously. BM addition is the other way around since it is about adding a new business model, which usually is the same as the DBMI. This, however, requires the incumbent organisation to manage the new and the old BM simultaneously.

Based on the findings above, the most discussed BMI responses are **strengthening the existing BM, imitation/adoption of disruptive BM** or **developing new BM** in the industry. Hence the existing research on how incumbent organisations respond to new and disruptive business models has mainly focused on three responses. **The first response** (Response 1) is for incumbents to strengthen their current business models to counteract the harmful effects of the disruptive models (Mao,2020, p.3; Markides,2006,

p.21–24; Charitou & Markides,2003, p.57–63; Habtay & Holmen,2014, p.301–302). Incumbents achieve this by offering more value or forming partnerships with other established companies to solidify their position in the market (Mao,2020, p.3). However, this approach can make it harder for these organisations to adapt and create an entirely new business model due to organisational inertia; the tendency to stick to old ways of doing things (Yang et al.,2022, p.3;).

The second response(Response 2), BM adaptation/imitation is about either modifying the incumbent's established BM and/or addition of a new BM that adopts the current DBMI, while still keeping their original model intact(Mao, 2020, p.3; Markides,2006, p.21–24; Charitou & Markides,2003, p.57–63; Kim & Min, 2015, p.35; Danneels, 2004, p.256). This way incumbent firm aims to align to the new industry rules, which the DBMI impacted on (Saebi,2014, p.8–10; Kim & Min, 2015, p.36; Mao et al., p.10). In BM adoption/imitation response, adding a new BM occurs mainly by creating a new department, subsidiary or separate unit that adopts the DBMI while still keeping their original model intact (Mao, 2020, p.3; Markides,2006, p.21–24; Charitou & Markides,2003, p.57–63; Kim & Min, 2015, p.35; Danneels, 2004, p.256). This could lead to better performance, but incumbents face challenges in gaining a competitive edge over the disruptors. Additionally, it is important to note that in BM adoption/imitation, the new BM is new to the incumbent organisation but not for the industry (Saebi,2014,8–11; Mao et al., p.10).

A third response (Response 3) and an often-overlooked response for incumbents is to develop an entirely new business model that disrupts the disruptors (Mao, 2020, p.3; Markides,2006, p.21–24; Charitou & Markides,2003, p.57–63; Kim & Min, 2015, p.35). This response allows them to overcome the challenges posed by disruptive business models and explore new opportunities. However, these companies must act quickly and develop their new business model before the disruptive model becomes mainstream in the industry (Mao,2020, p.3). Once the disruptor captures most customers, incumbents will have a harder time competing with them.

This research defines business model adoption as incumbents aims to align with the changing market environment (Saebi,2014, p.8–10; Kim & Min, 2015, p.36). This can occur either by adding a new business model or modifying the incumbents established business model. As BMI refers to the process of making changes or introducing new elements to an existing business model to create value, improve performance, or gain a competitive advantage, BM adaptation can be considered a form of BMI. However, BMI response (Response 3, creating new to the industry BM) involve more radical and transformative changes, compared to BM adoption, as depicted from the table 1 (Saebi,2014, p.8–10; Kim & Min, 2015, p.36; Mao et al., p.10).

Hence the theoretical findings, this research will use Mao's et al. (2020, p.10) framework on incumbents' responses to DBMI. The framework can be seen in table 1, which depicts the three responses to disruptive BMI (Mao et al. 2020, p.3). The table 1 shows each response attributes in novelty, the difficulty of implementation, the amount of effort and time, response speed and competitiveness advantages to disruptive BMI. Furthermore, based on the managerial motivations and how they perceive the DBMI as a threat or opportunity, it affects incumbents' BMI response (Dewald & Bowen, 2009, p.200,211).

	Strengthening the existing BM	Imitation/ adoption disruptive BMI	Developing new BMs to the industry
Scope of change	individual elements	architecture of BM that links elements	architecture of BM that links elements
Novelty	adaptation	new to the firm	new to the industry
Difficulty of implementation	low	medium	high
The amount of effort and time	low	medium	high
Response speed	fast	medium	slow
Competitiveness advantages to disruptive BMI	existing competitive advantages might be destroyed	low potential of competitive advantages	high potential of competitive advantages

Table 1 Comparison among the three responses to disruptive BMI. Mao et al. (2020, p.10)

There are many debates about the best BMI response against DBMI. As the table above indicates, every BMI response has its characteristics and consequences (Mao,2020, p.10). For instance, developing a new BM to the industry is known as "disrupt the disruptor"- strategy (Markides, 2006, p.22; Mao et al., 2020, p.3). The response speed is

slow, it requires an enormous amount of investment and difficult to implement (Mao, 2020, p.10). However, if response is successful, it provides the most competitive advantage compared to other responses.

It is important to note that every response can also be implemented in a specific way through managerial choices. For instance, if the incumbent responds to DBMI by adopting it (Response 2) or developing a new BM to the industry (Response 3), in both situations, the incumbent can create a separate unit or integrate the new BM into the existing BM (Mao,2020, p.7–10). There are discussions about which approach is the best. The most discussed approach is creating a separate unit that will adapt the DBMI (Charitou & Markides, 2003, p.61; Markides, 2006, p.22; Danneels, 2004, p.256; Christensen,1997). A separate unit eases the incumbent organisation to focus on the existing business model while the new separate unit explores the new business model (Markides,2006, p.22; Christensen et al.,2018, p.1062). This way incumbent can adapt to the DBMI without it disrupting the existing BM. As time passes, the incumbent can innovate their existing business model so that their BM components will not be conflicted with the DBMI components (Markides,2006, p.22; Christensen et al.,2018, p.1062). Consequently, it can later integrate the separate unit into the incumbents' main unit (Mao et al.,2020, p.10–11). These mentioned examples are managerial choices. In later sections, we will analyse the best and worst managerial choices in BMI, when the incumbent responds to DBMI. As a result, we may find how, for instance, integration, separation, or other managerial choices impacted the results of BMI.

This research aims to understand why incumbent organisations have failed or succeeded to innovate their business model in response to DBMI. Based on the empirical data, this research will not focus on each response's characteristics, pros or cons, but focuses incumbents BMI responses (response 1,2,3) against DBMI and the managerial choices that are rooted from the BMI responses. It is important to note that these responses are made through business model decision, and business model decision are made through

managerial choices. Deepening the analysis, dynamic capabilities influence on managerial choices.

2.5 Summary

This research has defined BM and DBMI. It is important to note that in this research, business model innovation can be little as strengthening the existing business model, adapting the business model to a disruptive BM or even large as creating a novel DBMI (Foss & Saebi, 2017, p.217).

The definition of disruption and DBMI has also been defined. In short, this research defines DBMI as a type of innovation that redefines the way an industry creates and captures value by introducing new activities and partners in unprecedented ways. DBMI can threaten the competitive position of established firms, potentially leading to their disruption. However, DBMI can also lead to new opportunities. In response to potential threats or opportunities, incumbents may experiment and adapt their business models in order to overcome the challenges posed by disruptive BMI. Through understanding the dynamic between BMI response and DBMI, this research provided a solid foundation for how and why incumbent organisations respond to DBMI.

To conclude, this research is supported by °360 Business model innovation framework, narrowed BMI responses into three responses, provided a holistical perspective on BMI and the process of disruption and DBMI. In the next chapter this research depicts topics regarding to dynamic capabilities and managerial choices, since the second theory chapter is based on second research objective: *How dynamic capabilities and what managerial choices contribute to incumbent success or failure in innovating their BM in response to a DBMI?*

3 Incumbents' Dynamic capabilities and Managerial choices

In this chapter, this research aims to answer the second research objective: "*How dynamic capabilities and what managerial choices contribute to incumbent success or failure in innovating their BM in response to a DBMI?*". The importance of managerial choices was proven in the introduction chapter. In this research, managerial choices are defined as concrete choices and the consequences of these choices in decision-making and decision process where the organisation changes their BM (Casadesus-Masanell & Ricart state 2010, p. 198; Amit & Zott, 2010, p.6–8). Managerial choices are concrete activities, processes and planning that help to allocate resources, develop products and services, adapt to market conditions, and meet customer needs (Kim & Min, 2015, p. 35, 39–40; Leih et al., 2015, p. 7–8).

Managerial choices can be, for instance, activities that aim to impact any business model components that are seen in Figure 1. For example, planning and innovating the current BM revenue model toward free-to-play model is a managerial choice and is thus considered as if innovating the value capture BM component (Rayna & Striukova, 2016, p.23; Rayna & Striukova, 2014, p.69–71, 75–77). All in all, innovating the BM can be defined as a process in which the top management actively changes and alters the intra-organizational and/or extra-organisational systems of activities (Saebi, 2014, p.7); it is hence concluded that managerial choices consist of an infinite number of activities. Hence this research cannot provide every managerial choice but rather a complex theory foundation on specific managerial choices that either enforce or diminish the success rate of BMI response against DBMI. This research has chosen few important managerial choices that are analysed in chapter 3.2. Nonetheless, the findings may reveal new managerial choices, which this research did not recognize.

Before we analyse managerial choices, it is essential first to understand the influence dynamic capabilities have on the quality of managerial choices.

3.1 Dynamic Capability

Dynamic capabilities influence incumbents' managerial choices and thus the success rate of whether the incumbent survives in the face of change (Leih et al.,2015, p.5,7–8; Saebi,2014, p.3–4; O'Reilly & Tushman,2008, p.186–188). With dynamic capabilities, the incumbent organisation can assess their ability to adapt and respond to disruptive changes, their agility in experimenting with new ideas, and their capacity to leverage existing resources and capabilities for innovative business models. Incumbents may encourage preparedness for BMI by developing dynamic capabilities that support the incumbent to change and innovate their business model (Saebi,2014, p.3–4). Dynamic capabilities in its core are high-order capabilities that allow the incumbent to orchestrate its resources in order to meet the current and future needs of the markets while simultaneously embracing technological opportunities and being proactively responsive (Leih et al.,2015, p.3; O'Reilly & Tushman,2008, p.186–188). As dynamic capabilities exist in top management level, changing incumbents' BM in response to changing rules is the critical task and responsibility of top management (Leih et al., 2015, p.3). Consequently, dynamic capability theory is a significant addition to this research.

Dynamic capabilities include activities, processes, and leadership skills that identify the need to innovate the existing BM and the essential resources that are accessed and orchestrated in search of new value creation (Leih et al. 2015 p.7; O'Reilly & Tushman, 2008. p.189). For instance, strategic alliances, joint ventures, BMI, product development and all other activities that nurture coordination and organisational learning (O'Reilly & Tushman, 2008. p.189). Hence it is seen that the application of dynamic capabilities requires top management to make critical and high-quality choices (Leih et al.,2015, p.7). As O'Reilly and Tushman (2008, p.189) argue:" *These capabilities result from actions of senior managers to ensure learning, integration, and, when required, reconfiguration and transformation—all aimed at sensing and seizing new opportunities as markets and technologies evolve*". Hence findings reveal that organisations' successful BMI is based on abilities to sense new opportunities and the ability to seize and implements the opportunities (O'Reilly, 2008, p.188; Leih et al.,2015, p.1,3,8,11). It is thus concluded that

dynamic capabilities emphasise top managers in adapting, integrating and reconfiguring incumbents' BM, resources, and competencies to match the changing rules of the markets and to overcome organisational inertia and path dependence (O'Reilly, 2008, p.188). Ultimately, the dynamic capability is connected to BMI and managerial choices (Leih et al.,2015, p.1,3,8,11).

Dynamic capabilities can be divided into three clusters of processes and managerial activities that are tied to BMI development and implementation (Leih et al.,2015, p.8; O'Reilly, 2008, p.190–191; Teece,2018, p.43–44).

The first cluster is sensing, which is about identifying opportunities and threats, and evaluating them (Teece,2007, p.1322,1326; O'Reilly & Tushman,2008, p.190; Leih et al,2015, p.9–10). This involves exploring future possibilities, analysing the markets, listening to customers, and scanning the business environment for possible changes and disruptions. In order to identify and shape opportunities and threats, incumbents need to scan, search and explore the market they are operating in and the more distant markets (Teece,2007, p.1322). For instance, the GaaS business model originated from mobile games, which initially was not seen as a part of the video game industry market (Dubois & Weststar,2022, p.2334–2336; Prato et al., 2014, p.3,11–12,16). Activities based on sensing, such as search, are relevant for gaining information about the whole business ecosystem and understanding the evolution of industries and markets (Teece,2007, p.1322,1324; O'Reilly & Tushman,2008, p.190). For instance, R&D is seen as a search activity which searches for new BM or products. Studies, however, argue that R&D often focuses on scanning locally (Teece,2007, p.1322,1324). In dynamic and fast-paced environments, such as the video game industry, local search/exploration activities are not enough since incumbents are also required to explore the outskirts or, in other terms, distant markets of their established market (Teece,2007, p.1322–1324).

The second cluster is seizing, which occurs after threats and opportunities are sensed and evaluated (Leih et al., 2015, p.8; O'Reilly & Tushman,2008, p.191; Teece,2018, p.43–

44; Teece,2007, p.1326). As Leih et al. (2015, p.8) state, seizing is "*The mobilisation of resources internally and externally to address opportunities and to capture value from doing so*". It is not enough to sense the changes but also to create and capture value from these new discoveries and innovations. Seizing in its core involves seizing the opportunity firstly establishing control or influence over, then coordinating complementary assets, for instance, through strategic acquisition, strategic alliances, joint ventures, and the creation of separate units with an adopted BM or a novel BM(Leih et al., 2015, p.8; O'Reilly & Tushman,2008, p.191; Teece,2018, p.43–44; Teece,2007, p.1326). All in all, seizing revolves around activities that aim to acquire vital assets, components, and DBMI elements that are necessary for change and innovation.

The third cluster is transforming/reconfiguring, which is about continuing the renewal of the organisation with the sensed and seized opportunity/threat (Leih et al., 2015, p.8; O'Reilly & Tushman,2008, p.191–192; Teece,2018, p.43; Teece, 2007. p.1334–1336). With the seized competencies and assets, the incumbent can put the BMI in motion or, in other terms, implement it. The transforming/reconfiguring cluster is in the end, asset orchestration. It is not about creating separate exploratory and exploitative units but more about integrating these new units in a value-enhancing way. As O'Reilly and Tushman (2008, p.191) state: "*Insofar as a reconfiguration represents a break from the organisation's past, these shifts may also be associated with an identity shift for the firm's stakeholders*". In a practical sense, transformation/reconfiguration requires the ability to selectively phase out the old products, old services and old way of doing things, and changing the BM(Leih et al., 2015, p.10). Incumbent may even have to adopt a radically different BM, which may not be stable but at least shakes up the incumbent in a sense that helps it succeed in innovating an improved and sustainable BM that holds up the changes caused by DBMI.

These Clusters holistically forms up the dynamic capabilities. The figure 3 shows how the dynamic capability is formed and in Table 2 how every cluster creates and captures value in connection with BMI.

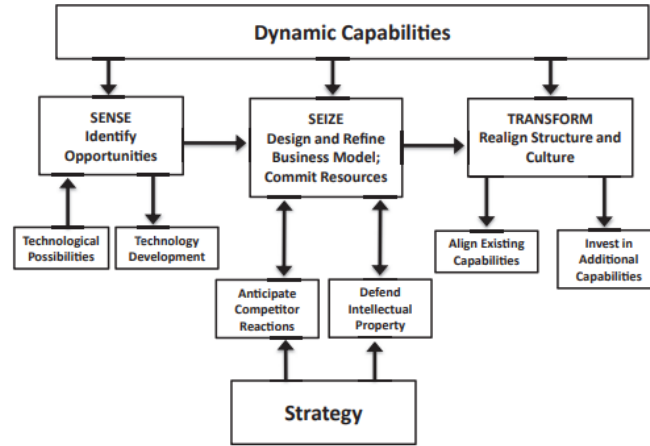


Figure 3 Simplified schema of dynamic capabilities, business models, and strategy. Teece (2018, p 44)

	Sensing	Seizing	Transforming
Creating value	Spotting opportunities and threats; identifying avenues for research and development; “open” innovation; conceptualizing new customer needs and new business models	Investment discipline; commitment to research and development; building competencies; achieving new combinations	Achieving recombinations; “pivoting” as required; reinventing the business in response to new opportunities
Capturing value	Positioning for first mover and other advantages; determining desirable entry timing; lining up required complementary assets	Intellectual property qualification and enforcement; implementing business models; leveraging complementary assets; Investment or co-investment in “production” facilities	Managing threats; honing the business model; developing new complements; managing the business ecosystem

Table 2 Activities conducted to create and capture value (Organised by clusters of dynamic capabilities). Leih et al. (2015, p.24)

In conclusion, as seen from the findings, dynamic capabilities are multi-faceted, and incumbents will not always be strong across all the clusters. An incumbent may be excellent at sensing new threats and opportunities but weak at identifying new BM to exploit them (Teece 2018, p.43). On the other hand, an incumbent may be good at developing a new BM but inferior at implementing and refining them (Teece 2018, p.43).

When dynamic capabilities are weak, incumbents have even more pressure to make managerial choices that are not based on organised management response, consequently leading to ad hoc problem solving (Leih et al., 2015, p.9). But with strong dynamic capabilities incumbent easily and quickly recognize emerging threats/opportunities or even anticipates them. Nonetheless, in this research, strong dynamic capabilities mean strong in sensing, seizing and transforming/reconfiguring (Teece,2018, p.43).

3.2 Managerial choices that enforce incumbent firm toward a successful BMI in response to DBMI.

Some past researchers have identified factors and managerial choices that could lead to successful BMI response. These factors are, for instance: responding to DBMI as an opportunity or as a threat (Markides, 2015, p.138–139; Gilbert and Bower,2002, p.96); Creating a separate unit to exploit new market/DBMI (Christensen & Raynor,2013, p. 8); Funding the new separate unit in stages(Gilbert,2003); hiring an active integrator between the separate unit and incumbent(O'Reilly & Tushman,2004, p.3–4,7–9); Inserting integrating mechanism between the separate unit and incumbent(O'Reilly & Tushman,2004, p,3–4,7–9; Gulati & Garino,2000, p.108–110,112–113); Modularising integration between the separated unit and the incumbent(Gilbert,2003); being patient with the separate unit in stages and over time(Cooper & Smith,1992, p.61–61,67–68); Remaining committed to the separated unit over a long period(Cooper & Smith,1992,s.61–61,67–68). Nonetheless, these are not the only findings because incumbent organisations responding to DBMI through BMI is a complex situation that heavily relies on many factors: The nature of DBMI, managerial mindset and choices, dynamic capabilities, and the BMI response. In this chapter, we analyse different findings and perspectives regarding managerial choices that enforce incumbent organisation toward a successful BMI in response to DBMI.

For simplicity, this research focuses on managerial choices on separation strategy, strategic acquisition, integration, sense-giving activities, insurance strategy, strategic

alliances, and open innovation. Through these theories this research will have a solid foundation to stand on when analysing the empirical data.

3.2.1 Managerial choices: Separation strategy

The challenge lies in exploiting the current business model while exploring the DBMI in the hope of exploiting it. As mentioned in the first theory chapter, the main issue is the conflict between the old BM and the DBMI since the core of DBMI is not usually compatible with the old BM. Primarily based on Markides (2006, p.22) and Christensen (2013, p.95,136,141) theories, to solve the dilemma, managers must keep the two business models and their underlying value chains physically separate in two distinct organisations. This so-called separation strategy deflects the conflict between the old and new BM. Nonetheless, as Markides (2015, p.127) mentions, *“Separation strategy is not enough to ensure success. It also requires for the firm to put in place an integrating mechanism that allow for the exploitation of synergies between the unit and the parent”*.

Markides is widely known for its analysis of how incumbents' firms could exploit DBMI through the lens of a separation strategy. Based on his findings, Markides (2015, p.138–139) states four main factors that successful incumbent organisations did when responding to DBMI. **The first factor** is that successful incumbent organisations approached the new market created by DBMI as fundamentally different from their current market (Markides, 2015, p.134–135,138). For instance, in a successful response, top managers understand that even if the DBMI appears to be similar as the markets current BM, it is no more than an illusion. This leads to managerial choices that revolve around exploring what competencies and assets to acquire and not heavily leveraging the incumbents' strengths and competencies into the new market, hence avoiding competency trap (Wallin et al. 2021, p.21; Gans,2016). Successful incumbents innovated their BM with different BM elements that target different customers compared to DBMI. When as unsuccessful incumbents easily fell into the trap of focusing too much on finding out how to leverage their existing assets in the new market rather than approaching the DBMI with an entrepreneurial mindset. This resulted in low business

model performance and thus indicated the failed attempt to innovate their business model in response to DBMI (Markides, 2015, p.134).

Based on Markides's (Markides, 2015, p.130–134,138) findings, **the second factor** is that successful incumbents innovated their business model that was not only different from their established one but was also different from the DBMI. Even if incumbents innovate their business model to be different than their established BM, but the same as DBMI, it results in an unsuccessful BMI response against DBMI, resulting in an ineffective business model. As Markides (Markides, 2015, p.131) states, "*Established firm cannot rely on the disruptors business model to exploit the new market*". Markides (2015, p.132) findings highlight that incumbents should counter-attack DBMI through developing a differentiated BM.

The third factor is managerial choices based on attacking the DBMI rather than defending against it (Markides, 2015, p.137–139; Gilbert, 2003; Gilbert & Bower, 2002, p.96–97). Findings reveal that the critical determinant for incumbents' BMI response to success appears to be the attitude with which the new market or DBMI was approached (Markides, 2015, p.137–139; Gilbert, 2003; Gilbert & Bower, 2002, p.96–97). Incumbent organisations that went through defend-approach were more inclined to short-term orientation and adopted their BM to be similar as DBMI to use it to compete with the DBMI head-on (Markides, 2015, p.137–139). Incumbents believe it was enough to copy the elements since they assume that they will do better with their resources and competencies than the DBMI. Unsuccessful incumbents thus perceive the DBMI as a threat to their established BM rather than an opportunity to exploit (Markides, 2015, p.137–139). However, Gilbert and Bower(2002, p.95) theorise that perceiving the DBMI as a threat is more beneficial to the organisation since it generates a serious commitment from the top manager in the form of funding and resources. Gilbert and Borrow (2002, p.95) state that perceiving the disruption as an opportunity, resources will be allocated poorly and inefficiently. **The fourth factor** is also based on mindset and how managers approach the DBMI; successful incumbents' approach with commitment and

long-term orientation with their separated unit/s (Markides, 2015, p.137–139; Cooper & Smith,1992, p.67–68).

Based on Markides and others, the mindset and how managers approach the DBMI influence a lot on how successful their BMI response against DBMI will be (Markides, 2015, p.138–139; Gilbert, 2003; Gilbert & Bower, 2002, p.96–97)—especially factors one, three and four. Nonetheless, as Markides focused on responding to DBMI through a separation strategy, there are more tangible managerial choices regarding the separation strategy that lead to a successful response. If an incumbent organisation responds to DBMI with BM adoption or with a novel BM, it can, and primarily, be implemented by a separation strategy. To succeed in separation strategy, managers are required to integrate specific mechanisms that provide the possibility of having effective synergy between the separated unit and the incumbent (O’Reilly & Tushman,2004, s,3–4,7–9.; Gulati & Garino,2000, p.108–110,112–113; Markides, 2015, p. 126–127). These managerial choices on integrating mechanisms are; Using the same goal that the separate unit and the incumbent are aiming for; Transferring knowledge, resources and people between the two and use joint conferences to make them feel united and part of one company; Hiring outsiders to staff the unit but using an insider to lead it; A separate unit having a general manager that sits on the board of the parent(O’Reilly & Tushman,2004, s,3–4,7–9.; Gulati & Garino,2000, p.110,112–113; Markides, 2015, p.126–127). These are only a few but the most critical mechanism for ensuring that the separation strategy is successful.

Additionally, regarding the separation strategy, if incumbents implemented the integration mechanism, the conflicts between the incumbent (Old BM) and separated unit (Adotoped BM or Novel BM) will either decrease or rise and the synergies between them also either decrease or rise (Nickerson & Zenger, 2002, p.550,560–561; Markides, 2015, p. 129). Managers must choose whether to integrate the separate unit or make it even more independent. Theory suggests that as time goes forward, the balance between separation and integration changes (Nickerson & Zenger, 2002, p.5050,560–

561; Markides, 2015, p. 129). Therefore, the incumbent's policies and mechanism to manage the separated unit need to evolve and change continuously. What worked at the beginning of the separation strategy may not work anymore later. For instance, the separated unit may need, at first, lots of different policies and integrating mechanisms to keep the systems and processes ongoing. However, as time goes forward, the separated unit may improve and become more independent and thus does not need much help from the parent company. In this situation, managers can choose to either integrate the unit into the incumbent if the incumbent has innovated its established BM to a degree that it does not cause conflict with the new DBMI that the separated unit has (Markides, 2015, p. 130; O'Reilly & Tushman, 2004, p. 2–4, 7–9.; Gulati & Garino, 2000, p. 108–110, 112–113). Or keep the separated unit separated. These mentioned choices are hard to manage over time without the agility to adapt and make choices depending on the situation. This leads to the incumbent organisation needing agility to change its choices over time (Markides, 2015, p. 129). As Markides (2015, p. 130) stated: “ *The trick, therefore, is to design control and incentive systems that encourage behaviors that promote exploitation of the core business and short-term orientation while at the same time fostering a culture encourages long-term orientation questioning, experimentation and collaboration*”.

It was also evident, based on the Markides data (Markides, 2015, p. 124, 127–128; Gulati & Garino, 2000, p. 110), that successful incumbents distinguished themselves from unsuccessful ones by granting significantly greater operational and financial autonomy to separate units. In addition, incumbents fostered the development of unique cultures and budgetary systems within separate units, allowing them to have their own CEOs (Markides, 2015, p. 124, 127–128; Gulati & Garino, 2000, p. 110). These policies gave these separated units with their adopted or novel BM the essential freedom and independence to cater to their respective markets in the most suitable manner. Notably, this autonomy was achieved without compromising the potential synergies between the incumbent and its separate units (Markides, 2015, p. 124, 127–128; Gulati & Garino, 2000, p. 110). The incumbent, while ensuring a close eye on the separate unit's strategies,

actively encouraged collaboration between them through shared incentives and reward systems. Moreover, to facilitate seamless cooperation and the exploitation of synergies, the separate units' CEOs were selected from within the organisation. This approach further enhanced the cohesion and collective success of the entire organisation.

The separation strategy can be concluded in one sentence stated by Markides (2015, p.128): *"Findings suggest that successful firm are able to find the right balance between, on the one hand, protecting the new business unit by placing it in a separate unit and, on the other hand, exploiting synergies between the unit and the parent by putting in place integrating mechanism"*

3.2.2 Managerial choices: Strategic acquisition, Integration, Sense-giving activities, Insurance strategy, Strategic Alliances, and Open-innovation.

Multiple choices exist to manage the DBMI through exploration while exploiting the current BM and sustaining innovations (Habtay and M. Holmén, 2014). In the last sections, we analysed the theory of creating a separated autonomous unit, innovating its BM, and later making the new unit independent or integrating it to the incumbent. In this chapter, this research analyses strategic acquisition, integration, sense-giving activities, insurance strategy, strategic alliances, and open-innovation importance on the success of BMI response.

Strategic acquisitions of disruptive startups, competencies and technologies as a managerial choice is one of the most discussed and most supported theories and thus supports our research objective (Habtay & Holmen, 2014, p.293–294; Ferrary, 2011, p.181–183, 189–190; Malmström & Wincent, 2012, p.132–133, 152–153; Benazzous, 2019, p.114–115). Strategic acquisition is an essential managerial choice that impacts BMI and thus the success of responding to DBMI (Habtay & Holmen, 2014, p.293–294; Ferrary, 2011, p.181–183, 189–190; Malmström & Wincent, 2012, p.132–133, 152–153; Benazzous, 2019, p.114–115). Based on Bogers et al. (2014, p.19–20)

findings, strategic acquisitions were pivotal in rapidly building the necessary capabilities for succeeding BMI. As speed is critical for incumbent organisations when responding to DBMI, strategic acquisitions provide vital capabilities for BMI in a short period of time. For incumbents, this is preferable than having to develop these capabilities slowly. Strategic acquisitions also provide more time for incumbents to adapt and innovate their established business model. Habtay and Holmen (2014, p.293–294) stated that acquiring competencies that the incumbent does not have minimises the time needed to innovate and, thus, establishing the position in the changing market and providing solutions to overcome stiffness and inflexibilities in incumbents' routines and processes. However, this can raise costs and, if poorly managed, increase internal tensions, making the organisational inertia even worse and hence complicating the BMI in response to DBMI.

It is revealed that incumbents successfully responded to DBMI by **acquiring key competencies of DBMI to innovate a new BM**. However, based on Habtay and Holmen (2014, p.301), to succeed in responding to DBMI requires understanding its nature first and then choosing the correct response. This can be seen in the figure 2. If the disruption is a double threat, meaning that departure from the upstream core technical capabilities and departure from the established business model is high, strategy acquisition and differentiation are the best ways to respond to DBMI (Habtay and Holmen,2014, p.301). This is because the core characteristics of DBMI are vastly different from the incumbent's BM. Markides (2006, p.21–22) states this to be the conflict between the established BM and the new BM (DBMI). The wider the difference, the bigger the conflict, and thus, the harder it is for incumbents to innovate and adapt to the changing rules caused by DBMI.

When the nature of DBMI is a single threat, the conflict is much smaller, meaning that the incumbent can leverage its existing competencies and assets without causing any friction between the old and the new BM and later integrate the new BM(Habtay and Holmen, 2014, p.301; Markides,2006, p.21). **Integration** is a managerial choice that allows more control and flexibility toward the developed BM (Gans.2016, p.5–6). Integration is usually an incumbent's ending event, which is why managers are required

to organise the firm toward a deeper integration so that the DBMI can be absorbed and exploited while, at the same time, the incumbent retain control of key aspects of its BM (Gans, 2016, p.8). Based on Habtay and Holmen (2014, p.302) findings leveraging existing competencies through appointing internal managers increases incumbents' effectiveness. Additionally, Charitou & Markides (2003, p.61) findings revealed that incumbents succeeded in innovating and growing their new disruptive ventures/DBMI when they transferred internal CEOs to their disruptive spinoff (Separated unit).

It is then of utmost importance to the incumbent to scan, search and explore the DBMI before planning and implementing managerial choices that have a long-term impact on the incumbent BM (Leih et al., 2015, p.6–9). For instance, if DBMI is a double threat, but the incumbent organisation would respond against it as it would be a single threat by leveraging its own assets and competencies while at the same time integrating conflicting DBMI elements to the incumbent BM, it is a powder keg ready to explode since DBMI elements are in its nature disruptive to incumbents BM (Markides,2006, p.20–22; Christensen et al. 2018, p.1047–1050; Habtay & Holmen, 2014,s.301–302). Hence deeming the incumbent to fail BMI in response to DBMI. This example proves that the nature of DBMI is disruptive to the incumbent business model and thus needs to be carefully analysed, scanned, and explored before acquisition, leveraging competencies, separation or integration.

It is important to note that Habtay and Holmens (2014, p.301–302) findings are based on seeing the disruption as a threat. Hence, cross firing Markides (2015, p.137–139) theory that managers perceiving the disruption as a threat prevent a successful BMI response. All in all, incumbents can acquire external competencies through strategic acquisitions while at the same time leveraging internal prior experiences, assets, and competencies (Habtay & Holmen, 2014, p.294). However, as findings reveal, leaning heavily on one choice and activity does not result in a successful BMI.

Boger et. al. (2014, p.15) provide information regarding sense-giving activities. They state that focusing on sense-giving activities enforces the successful BMI (Bogers et al., 2014, p.15). Sense-giving activities are managerial choices that aim to communicate and share about the DBMI and the business model innovation occurring in the organisation. This results in the creation of shared meaning, which is an effective way to overcome the conflict and the organisational inertia between the old BM and the new BM (Bogers et al., 2014, p.11–13,15; Chesbrough,2010, p.359–361).

Additionally, the decisions on where exactly to house the newly separated unit affect on the success of BMI response (Bogers et al., 2014, p.16–19). The findings state how the separated unit with new or adopted BM shields the innovation process from the rest of the incumbent organisation. This statement is in line with Markides (Markides,2006, p.21), Christensen (2013, p.136,139,177), and other researchers' theories on when responding to DBMI either by BM adoption or novel BM, the best way to do it is through separation strategy since it solves or at least dampens the conflict between the new and old BM.

Forming strategic partnerships and strategic alliances is an effective managerial choice since the incumbent can gain access to new resources, capabilities, and markets (Yang et al.,2022, p.5; Mao et al.,2020, p.3; Benazzouz,2019, p.113–114). This can help organisations innovate their business model more quickly and effectively. Additionally, strategic alliances are an excellent tool for the incumbent to test the new elements of DBMI without it causing conflict in the established BM (Benazzouz,2019, p.113–114; Yang et al., 2022, p.5). As Yang et al. (2022, p.5) states, incumbents usually attempt to pursue partnership, strategic alliance, and licensing startup technology when there is too high risk to integrate a new BM element immediately. Through strategic alliances, it is possible to avoid cannibalising the incumbents' products and services (Benazzouz,2019, p.113–114). A strategic alliance is hence suggested to resolve the uncertainty of the DBMI. After forming a strategic alliance, the incumbents learn and eventually possess the dynamic capabilities, competencies and resources that are inevitable for innovating

their BM in response to DBMI. When the DBMI reaches its maximum value threshold, if possible, incumbents could license or integrate vital parts of DBMI into their established model (Yang et al., 2022, p.5). All in all, especially when the established BM and the DBMI are highly different, strategic alliance and acquisitions are managerial choice that aims to overcome core rigidities in established business model that are disrupted, and to buy time for the incumbent to innovate their BM (Yang et al., 2022, p.19)

The aforementioned theories on strategic acquisitions and alliance relate to Wallins et al. (2022, p.26) and Gans's (2016, p.4–6) theories on insurance strategies. The insurance strategy is based on managerial choices that aim to build a flexible and integrated business model that can easily absorb and integrate disruptive innovations into the company without causing conflict between the established BM and the new BM. It is not about innovating a new BM or adopting BM, but more like strengthening the BM. Wallins et al. (2022,s.26) and Gans (2016, p.4–6) suggest that incumbents can manage DBMI by taking advantage of external knowledge, resources and talent and by developing integrative capabilities through the creation of cross-functional teams that can handle both the old and the new BM. Alternatively, in other words, creating business units that can balance exploitation and exploration activities, hence an ambidextrous organisation, which is based on theories and findings, is one the most effective way to respond to DBMI(O'Reilly & Tushman, 2008, p.185–188,192–193;O'Reilly & Tushman, 2004, p.3–4,8).

In the empirical data, it is seen that incumbent video game organisations implement managerial choices based on an insurance strategy that aims to own key business model elements to the extent that it makes it almost impossible for entrants to disrupt the incumbent's BM. This is seen as a managerial choice that makes the business model easily to integrate DBMI elements (Wallins et al., 2022, p.26; Gans, 2016, p.4–6). For instance, Microsoft successfully created a GaaS business model that easily integrates new business models and units to its established BM, making it harder for companies such as Sony to compete with (Warren,2021; Warren,2023). Microsoft has bought two

major video game organisations in the past 5 years and quickly integrated them into Microsoft ecosystems and business models. Nonetheless, Gans (2016, p. 4–6) mentions that relying too much on strategic acquisitions and alliances that provide incumbent complementary assets for innovating the BM should be seen as a strategy to buy time. In the end, the incumbent needs to absorb the DBMI either by separation unit, considering the aforementioned theories on successful separation strategy, or integrating the DBMI, making it part of the incumbent's established business model (Gans, 2016, p. 4–6; Habyay & Holmen, 2014, p.300–302; Mao et al., 2020, p.10–12).

Managerial choices that lead to open innovation have proven to be a successful way to innovate incumbent BM and to manage the DBMI (Yang et al., 2022, p.19; Benazzouz,2019, p.115–116; Chesbrough, 2007). As Chesbrough (2007;2007b) states, open innovation is a collaboration between the incumbent and external partners, such as customers, suppliers, universities, and even competitors, to co-create and share resources, knowledge, and ideas to drive innovation. Findings claim that an organisation that is too internally focused easily misses several opportunities (Yang et al., 2022, p.19; Chesbrough, 2007). This is because incumbents' businesses must combine external competencies and technologies to unlock their potential to do something with the opportunities. Yang et al. (2022, p.19) finding indicates that incumbent internal capabilities are usually no longer valuable or practical when innovating their BM in response to DBMI. This means that when an incumbent organisation adapts and innovates its established BM, it usually does not have the required technology, information, assets and competencies that DBMI has. Hence, open innovation is one way to acquire these essential factors through different ways, such as alliances and acquisitions, to promote collaboration with external knowledge and experience. Open innovation reveals the incumbent firms how they can use and innovate their business model by leveraging internal and external sources of ideas (Yang et al., 2022, p.19). If an organisation is over-reliant on exploiting its current business model, open innovation is perfect exploration activity and managerial choice (Yang et al., 2022, p.18).

This research has now depicted the managerial choices that enforces incumbents toward a successful BMI in response to DBMI: separation strategy, strategic acquisition, integration, sense-giving activities, insurance strategy, strategic alliances and open innovation. Through these managerial choices, we can understand what managerial choices the case organisation implemented when responding to DBMI. The findings may indicate then the Case organisations dynamic capabilities and their specific BM response (Strengthening BM, Imitation adaptation BMI, A creation of novel BM)

3.3 Research Framework

Based on the collected theories and findings, this research has created a research framework as seen below. It indicates the influence of DC and managerial choices on BMI in response to DBMI. The framework provides dual nature by showing the process of how DC capabilities affect the ability of incumbent organisation especially in the BMI aspect, how incumbent will response to DBMI through three different BM responses, and from there managerial choices that influence the success BMI. The other nature lies in that DC, BM responses and managerial choices are levels that enforces the success of BMI in response to DBMI. These levels are, hence influencing each other. As this research aims to understand why incumbents succeed or fail in BMI in response to DBMI, through this framework we aim to find the answer in managerial choices and dynamic capabilities.

This research has collected the theories and findings on managerial choices in separation strategy, strategic acquisition, integration, sense-giving activities, insurance strategy, strategic alliances, and open innovation that to some degree changes the business model. There are other managerial choices to analyse on top management level, but this

research focuses on aforementioned ones. Nonetheless findings may reveal other significant managerial choices, that maybe later added to research framework.

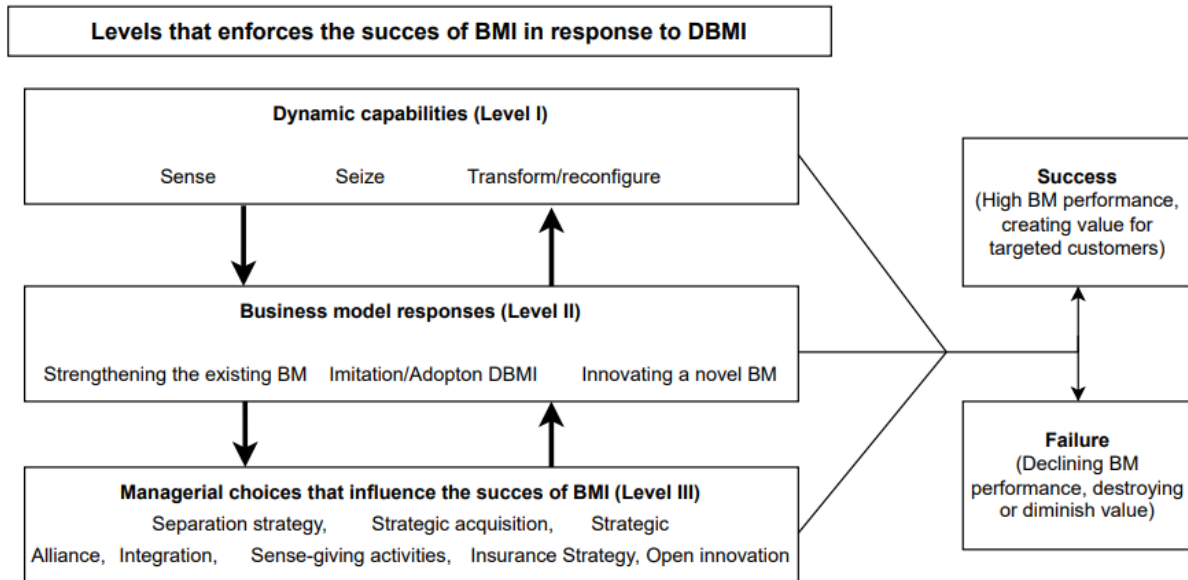


Figure 5 Research Framework

The dynamic capabilities are also included in framework. Sense, seize and transform/reconfiguring clusters influence the incumbent's skill to sense DBMI, to recognise what competencies to require for innovating a BM and to get those competencies, and to actually implement the planned changes and late capture value from the outcome of the BMI in response to DBMI. As DC affects on the quality managerial choices, through empirical data we can pinpoint if the lack of strong dynamic capabilities and specific managerial choices were the downfall for incumbents' response. For instance, if incumbent implemented managerial choices too late, it is an indication of a lack of sense cluster, meaning that incumbent failed to sense through search activities early any sign of DBMI.

The empirical data findings are analysed and discussed in chapter 6 based on research framework (figure 4), and the frameworks of others, theories, and findings that this research provided. DC (Level I) and managerial choices (Level III) are the main focus for finding an answer to the research question.

4 Methodology and research method

The research methodology chapter delivers an outline of this study's research method and data. As our research question is based upon understanding why incumbent organisations succeeded in responding to DBMI through BMI, this research methodological approach is qualitative research. As Eriksson and Kovalainen states (2016, Chapter 1):” *Qualitative research approaches, therefore, are concerned with interpretation and understanding*”.

This research leans on pragmatism paradigm, since this research aims solve the issue of why incumbent organisation succeed or fail in BMI when responding to DBMI. Pragmatic paradigm fits in this research since it supports the use of mixed methods (Metrens, 2012, p.256). The aim of pragmatism paradigm is to find methods which fits with the research question. Therefore, pragmatism paradigm is perfect for this research since the topic revolves around understanding the complex phenomenon and how incumbents navigate in it. Solving this problem provides important insights to academics and practitioners. As pragmatic research is a kind of (developmental) practical problem-solving activity, case study research as a qualitative approach fits this research.

The best qualitative approach for this research is case study research for several reasons. **First**, case research provides a contextual understanding of the situation. Hence when analysing a phenomenon, it important to note that the context affects the findings, especially in this case study, since this research analyse two different case organisations under the same phenomena. The contextual understanding makes it possible to capture the nuances of each case organisation, considering their managerial choices, dynamic capabilities and their BM responses. **Second**, case research provides guidance and clarity, when analysing a complex phenomenon. This is why case study normally aims to answer why, how, and what questions. Incumbents responding to DBMI through BMI is a complex phenomenon that involves countless of different factors. Hence case research allows this research to analyse deeply into each case firm, making a progress for understanding “Why” incumbents succeed or fail in their BMI when responding to DBMI.

The question “Why?” in itself is multidimensional and complex question, that can have infinite amounts of answer. Hence the case research approach makes collecting data and analysing it more manageable. **Third**, the case research allows this research to analyse the causal links between the managerial choices, DC, and BM response and ultimately their influence on the outcome of BMI. Case research thus allows to investigate the causal links within the context of real-world incumbent organisation. Through examining multiple case firms that provide different outcome, this research can identify what managerial choices and dynamic capabilities contributed to the success or failure of BMI. **Fourth**, the case research provides the tools to take a holistic perspective when analysing the case firms. (Eriksson & Koistinen, 2005, p.4–5,7–8; Yin, 2003).

As Kohlbacher (2006) states: “*case study is not a methodological choice but a choice of what is to be studied. By whatever methods, we choose to study the case.*” Therefore, it is important to note that case research does not imply on how to analyse the cases but implicates what cases we will analyses.

Qualitative analysis can be categorised into inductive, deductive, and abductive approaches (Tuomi & Sarajärvi, 2018, p.80–83; Reichertz, 2014, p.126–129). Each approach represents different ways of interpreting and making conclusions from the collected data. In **inductive** approach, it is about generating theories from the qualitative data since the main purpose is to develop a new theory or framework based on the qualitative data (Tuomi & Sarajärvi, 2018, p.80–83; Reichertz, 2014, p.128–129). Research starts with almost no information or theories about the research topic. In **deductive** approach the research starts with predefined theory and frameworks, which are tested, confirmed, or refined through analysing qualitative data (Tuomi & Sarajärvi, 2018, p.80–83; Reichertz, 2014, p.127–128). As opposed to inductive analysis, deductive analysis always starts with a clear theoretical framework and theory. The collected data needs to be relevant to the theory which has been established in the research.

This research is not based on either analysis, but on **abductive** analysis, which combines the elements of both, inductive and deductive analysis. Abductive analysis revolves around examining and analysing qualitative data in order to create reasonable explanation that fit the observed phenomena (Tuomi & Sarajärvi, 2018, p.80–83; Reichertz, 2014, p.126–127). Researchers analyse and examine qualitative data without preconceptions and try to find any patterns that could lead to hypotheses or interpretations that may provide logical explanation for the observed data. The main purpose of abductive analysis is to have the best explanation of the observed phenomena. Consequently, taking a more flexible approach by combining data-driven and theory driven elements.

There is two reasons why this research is based on abductive analysis. **First**, the research is constructed with varied theories and frameworks, that guides in analysing the empirical data. The theory alone does provide an answer to our research question but with empirical data, we rearrange and modify our recollections of theories and information with observed facts. **Second**, the research topic is approached as a complex phenomenon, where incumbent organisation respond through BMI to the threat or opportunity provided by DBMI. Understanding the phenomena requires theory that includes already known observation but can absorb new ideas and information based on the findings. This research is hence driven by reason of abductive analysis, in which theory is essential for understanding the findings, especially when they are surprising or puzzling. As Peirce (Reichertz, 2014, p.126) states: *“Abduction makes its start from the facts, without, at the outset, having any particular theory in view, though it is motivated by the feeling that a theory is needed to explain the surprising facts. ... Abduction seeks a theory”*.

4.1 Research Material

This research has chosen two incumbent video game organisations, Activision Blizzard (Case A) and Electronic Arts (Case B). Their annual reports between 2010–2021 have been collected and analysed. Additionally, statistic data are leveraged in order to grasp

if the incumbents maintained their established role in the video game industry and to indicate their business model change from the traditional BM toward the new BM. We chose 2010–2021 time period, since during that time the DBMI (GaaS Business model) showed its first sign in the early 2010s and later in the 2020s became the dominant business model design in video game industry (Hussain et al., 2023, p.1–3; Seidl et al., 2017, p.700–701; Karnes, 2023; Dubois & Weststar, 2022, p.2333–2336). This research chose these organisations since they are active in BMI, are successful incumbents in the video game industry and have changed their strategies and BM in DBMI phenomena. As Kilkki et al. (2018, p.276) mentions incumbents BM are disrupted when they realign their strategy to survive or to adapt to the changing rules in the market. Based on the empirical data, the chosen case organisations have in a short period of time changed their strategy and innovated their business model in response to DBMI.

Annual reports are great way to obtain management level information on their implemented activities, planned strategies, risks, strategic acquisitions, alliances, and many other top management choices (Bowman, 1984, p.61–63,69–70; Stanton & Stanton, 2002, p.478–479). And through these choices we can analyse what managerial choices may have enforced the success of BMI, and if the incumbent has or lack strong dynamic capabilities. Nonetheless is important to note that annual reports are also used as a PR tool for delivering the message they want, in order to presume the image and vision of the organisation to the shareholders (Bowman, 1984, p.63; Stanton & Stanton, 2002, p.485–486,493). Hence this research recognizes that annual reports do not provide all the data on managerial choices, but only the managerial choices that provide a positive impact on the organisations image. As this research is based on case study approach, other research material such as statistics are also leveraged. Yet the main analysis is targeted on annual reports.

As this research analyses two incumbent organisations, this case study is collective. In collective case studies, the results illustrate the phenomenon from different perspectives (Eriksson & Koistinen, 2014, p. 14–16). Consequently, making the research

material and possible the findings more diverse and thoroughly. The annual reports and statistics were collected in 2023 summer.

4.2 Analysis method

After collecting all the annual reports from each case organisation website, there is total 24 annual reports. With the case research approach guiding what cases to analyse and how the data is gathered, the collected data is analysed based on qualitative content analysis with the support of the research framework. Hence this research is based on multiple cases, that will be analysed through qualitative content analysis-method. In short, as Schreier (2013, p. 170) states, " *Qualitative content analysis is a method for systematically describing the meaning of qualitative data*". The main features of qualitative content analysis are its flexibility, systematic process, and the ability to reduce data (Schreier, 2013, p. 170; Tuomi & Sarajärvi, 2018, p. 103–105). These features are necessary for this research, since the collected empirical data consists of three case organisation annual reports between 2010–2021. Hence 24 annual reports data have been collected and analysed. Through content analysis method, this research finds organisation statements in annual reports that indicates their planned and implemented managerial choices and the process of their BMI in response to DBMI. The research framework (chapter 3.3) and research question guide the gathering and analysis of data.

In this research, qualitative content analysis processes through five steps, based on Schreier (2013, p. 170–172) and Tuomi and Sarajärvi (2018, p. 103–105) statements about the process of qualitative content analysis. The process is depicted below.

1. Selecting material
2. Building a coding frame
3. Segmentation and the evaluation and modifying coding frame.
4. Main analysis
5. Presenting and interpreting the findings

The first step in its core is collecting the research material based on the research question and case research strategy (Schreier, 2013, p. 170–172; Tuomi & Sarajärvi, 2018, p. 103–105). The first step has been explained in chapter 4.1.

The second step is to go through the material, distinguish and mark the things that are important for the research question, research framework, and the third research objective (Schreier, 2013, p. 170–172; Tuomi & Sarajärvi, 2018, p. 103–105). This has been done by declaring key terms related to the research question and topic. With the key terms, we can collect all the important and necessary information from the annual reports. These key terms are *business model, business model innovation, disruptive business model innovation, disruption, risk, opportunities, adoption, free-to-play, live service game, microtransactions and customer engagement*. These terms are related to our research framework and DBMI phenomena (GaaS BM). Also, this step was implemented through thematization approach, hence the findings of the case study were accessed through central themes and views that are searched for in the material. These themes and views are based on research frameworks, especially on level 3, managerial choices, which were analysed in chapter 3.2. Data regarding to Dynamic capabilities Level (1) and business model response (Level 2) are also gathered, nonetheless they are harder to pinpoint compared to managerial choices. Yet it is possible to interpretate through managerial choices about Level 1 and Level 2. Managerial choices were marked with red color, business model responses with yellow and dynamic capabilities with green. Blue was marked on topics that were not related to only one theme or keyword, but to many. Predetermining the themes guides in structuring the research material and hence supporting the qualitative content analytical process. Nonetheless, it is important to note that new themes and keywords emerge from the empirical material. (Puusa & Juuti, 2020, p. 153).

Through abovementioned guidelines, this research firstly started to implement the second step on Activision Blizzard (Case A). Each annual report from 2010 to 2021 were

separately reviewed, starting from annual report 2010. Based on the determined keywords, themes and colour scheming, annual report 2010 data were marked, distinguished and then transferred to a word-document in a linear timeline. For example, the first thing to do when opening an annual report is to read the first introductory, for understanding the context of current annual report; *Is the incumbent doing well, its current situation, achieved goals, unachieved goals, future risks and opportunities*. If the introductory mentions anything related to key terms and themes, it is marked and transferred to word document under the “*Activision Blizzard, Annual report 2010*”-headline. After analysing and choosing to collect significant data from the introductory sections, we will search from the whole annual report sentences that include any of the keywords. This is done with each key word, one by one through CTRL+F mechanism, which allows us to find the keyword among 2010 annual report. If a keyword is found, the whole chapter of it will be read, in order to understand in what context, the keyword was used. If the context does not fit the theme, it will not be marked. If it fits, it will be marked and translated to word document with a colour scheme. This process is meant to find the most relevant managerial choices, that aimed to change the BM, innovate the BM, response to DBMI aka threat or opportunity, and processes or activities that indicated to strong dynamic capabilities. After all the annual reports have gone through the aforementioned process, this case study will lastly collect secondary statistic data, on the current situation of the case organisation: Did they succeeded in responding to DBMI through BMI?

The step two of the qualitative process was done to all two case organisations, making total of 24 annual reports, and 7 statistics data that convey their growth from 2010–2021. The whole process took three weeks to complete. A month after, the process was done again, in order to fill the remaining gaps.

In the third step the collected material is to be evaluated and segmented, and lastly create categories, themes or classify the material. (Schreier, 2013, p. 170–172; Tuomi & Sarajärvi, 2018, p. 103–105). Already at the end of the second step the collected material

in word documented is segmented by case organisation, timeline and colour scheme. The collected material is thus reduced in manageable way. In the beginning of the third step the collected material, 24 pages, were read, in order to gain a holistic understanding of the case study and of the managerial choices case organisations did when responding to DBMI, while aiming to find similarities and dissimilarities between the case organisations. This was done four times and then during the fifth time, a conclusion (reduced data) of each case organisation during the 2010–2022 time were constructed. From the collected material, under categories were formed. For instance, in the collected material there is a sentence stated by Case A in 2011 annual report:

“We plan to continue to expand the Call of Duty franchise by entering new markets and establishing new business models. Our studio in Shanghai is working hard on our first, large-scale free to-play microtransaction Call of Duty game for China, which is one of the largest and fastest growing markets in the world.”

These statements appear in other case organisation during the same time period, empathising the similarities occurring during the DBMI phenomenon. Also, it states innovating a new business model through a separate unit, in order to exploit free-to-play model. Hence responding to DBMI through BMI. This statement also imply that the case organisation scanned and noticed a DBMI, and thus promoted explore activities, in order to understand the new BM, in hoping of exploiting it. As this analysis is based on abductive approach, based on Tuomi and Sarajärvi (2018, p. 97–98), we have already main categories based on the written theory, that that we aim to collect and analyse. The collected material then provides under categories that are connected to main categories. For aforementioned statement from the collected material, hence, provides several under categories, for such as BMI, DBMI, BM response, explore activities, scan activities and it even convey information about incumbents’ dynamic capabilities. These under categories then connect main categories, the three levels from our research framework, Dynamic capability (level I), Business model response (Level II) and then Managerial choice (Level III). This is an exemplar of how this process has been

implemented and how from the reduced data, we pinpoint themes and under categories, which eventually is connected to our main categories.

The third step has been implemented three times for three weeks. In this step, the case material has been segmented and evaluated three times. After the third time of evaluation and segmentation of the collected analysed material, additional key terms were added in order collect more meaningful information.

The fourth step is analysing the collected material, where we present the empirical data in themes and categories. The fourth step occurs in the next chapter. During the analysis process, a matrix for managerial choices was created. Step by step, managerial choices were pinpointed during the reading of the collected material and then transferred to the matrix. As a result, a matrix (table 6) was created, which depicted what managerial choices case organisations implemented at a specific time. The matrix also depicts new managerial choices that were not in our research framework but were relevant and influential for the BMI in response to DBMI. A second matrix (table 5) was formed based on the managerial choices revealed in the matrix and the collected material. The second matrix depicts, at a specific time, what business model response the incumbent was inclined to, what dynamic cluster's activities and choices were predominant, and the explore/exploit nature of managerial choices. Both matrixes provide a holistic perspective of the managerial choices and information about dynamic capabilities and other findings such as explore/exploit based managerial choices. Through these matrixes, it is easier to understand how the BMI is processed, the effects of their managerial choices, and their strong/weak dynamics capabilities.

The fifth step is presenting and interpreting the findings related to research framework. This transpires in chapter 6.

This research collected, segmented and analysed empirical data linearly for three reasons. **First**, the linear timeline perfectly depicts how DBMI phenomena proceeded

and how the incumbents responded to it. **Second**, provides a holistic view on incumbents BMI, and how they in a specific period of time adapted to the changing situation. **Third**, easy to notice the change occurring in incumbents established BM.

4.3 Reliability and validity of the study

Evaluation of this research occurs mainly through two main components of objectivity, reliability and validity (Kirk & Miller, 1986, p.19–21; Eriksson & Kovalainen, 2016; Sarajärvi & Tuomi, 2017, p.118–122). The research is reliable when methods used in research is a proper tool for collecting and analysing data. Also, the result needs to remain same even if the study is repeated, and the findings of the research is always interpreted and discussed. This research is reliable for three reasons. **First**, the empirical data which is collected and analysed perfectly fits for answering the research question. **Second**, the materials, annual reports are a reliable source for gaining information about incumbents' managerial choices. However annual reports are not perfect form of data, since they are used as a communication tool to convey more positive than negative information (Bowman, 1984, p.63; Stanton & Stanton, 2002, p.485–486,493). Hence to improve the reliability, this research leveraged secondary data such as statistics and news articles. **Third**, to ensure reliability, this research used consistent and well-defined methods, measurement tools, and data collection techniques. The aim is to minimise random variations and errors in the research process. Nonetheless the interpretations may vary depending on the researcher.

Validity then ponders if research results correspond to reality and has the research collected and analyses data that it was intended to study (Yin,2014, p.43–48; Kirk & Miller, 1986, p.19–21,24–26). As this is qualitative research, objective truth is not the main objective, but correct and transparent interpretations are. This study is valid for three reasons. **First**, this research investigated what it intended to study: managerial choices and the information they conveyed about other influential factors on the success or failure of BMI in response to DBMI. **Second**, the results correspond to reality since the data conveys accurate information about implementing managerial choices. The

interpretations and secondary data then reveal the effects of managerial choices on BMI. **Third**, the research is built from the core to understand incumbents' BMI in response to DBMI holistically. Hence, making choices such as collecting, segmenting, and analysing empirical data linearly in order to provide a holistic yet in-depth understanding of the DBMI phenomena.

The reliability and validity of the research can also be evaluated through terms: dependability, transferability, credibility, confirmability, goodness, and usefulness (Sarajärvi & Tuomi, 2017, p.118–122). **Dependability** is connected to reliability and evaluates if research findings align the research material. **Transferability** is connected external validity, and asks the question, can research findings and results transfer to another context. **Credibility** is connected to internal validity and evaluates if the findings are believable. **Confirmability** evaluates to what extent are the findings and results are confirmable. **Goodness** evaluates if the research has been approached with the right methods. **Usefulness** evaluates if the research topic is relevant to the academic field. Through these terms guiding the process, the research reliability and validity is secured.

5 Case analysis and findings

This chapter aims to answer the third research objective: *“What video game organisation did (Managerial choices) when innovating their business model against a disruptive business model innovation and what are their aftermath situation?”*. Through analysing empirical data, this research aims understand if there were specific managerial choices and dynamics capabilities that in the end affected the outcome of the incumbents BMI. Third research objective helps to understand the managerial choices of incumbent organisations that faces a DBMI, and therefore provides a bridge to topic of *“were the managerial choices in business model innovation successful or not. If the business model innovation in response to DBMI was successful or failure, why? Did managerial choices convey any information about the incumbent dynamic capabilities?”* Consequently, the third research objective aims to explain what managerial choices incumbent organisations implemented when innovating their business model in response to a DBMI. The managerial choices then convey information, in some degree, about incumbents’ dynamic capabilities.

It is important to note that Activision Blizzard’s (Case A) annual report 2010 is published in 2011, and annual report 2011 published in 2012 and etc. Meaning that 2011 annual report states financial data from 2010. When as Electronic Art’s (Case B) annual report 2010 is published in 2010. Meaning that Case B’s Annual Report 2010 states financial data from 2009.

The finding reveals managerial choices linearly. It depicts what managerial choices case firms implement in specific time. It shows how case organisations viewed the DBMI and the measures they were committed to implement to respond to the threat/opportunity. Consequently, providing a holistic view of case firm BMI process in response to DBMI.

The findings reveal that each case organisations managerial choices stem from dynamic capabilities. For instance, managerial choices for Case A in 2010–2013 were based on sense cluster. Consequently, exploring, scanning, and testing the new DBMI, before

implementing crucial BMI. In 2014–2017 the managerial choices were based on seize cluster, since Case A made significant choices in acquiring significant competencies and assets that were required for responding to DBMI. The acquired competencies, assets, talent and knowledge were then committed fully to the BMI, through creation of new free-to-play titles and reshaping the old titles to live service games. In 2018–2021 managerial choices were based on reconfigure/transform cluster because Case A continued to BMI through managing and honing their new business model. In this stage Case A business model is vastly different from 2010, for it has incrementally innovated its established model to have the elements of the DBMI. Case B has similar findings, but some dissimilar. For instance, managerial choices for Case B in 2010–2013 were based on sense and seizing cluster. Case B hence responded early to DBMI. The finding also reveals ambidexterity actions and processes, and to what business model response the case organisation incline to.

In the following chapters, 5.1 and 5.2, findings are revealed. It is important to note that Case A managerial choices are easier to categorise into three clusters in a specific time compared to Case B. Hence Case A's headlines, such as "2010–2013 Sense," depict that sense cluster activities and managerial choices were predominant during that time. This, however, does not mean that the case organisation made only sense-based choices at that time. Case B headlines usually consist of two clusters, such as "2010–2013 Sense and Seize" because Case B's managerial choices were not as concentrated on a specific cluster (sense, seize, or transform/reconfigure) at a particular time, compared to Case A.

5.1 Case A (Activision Blizzard) Findings

5.1.1 2010–2013 Sense

In 2010, Case A did not mention any managerial choices regarding DBMI. However, they already had successful video games that operated through a subscription business model and published a digital platform, Battlenet, through which consumers gained

access to Case A services. Not until 2011 Case A stated the term "Free-to-play" for the first time:

" We plan to continue to expand the Call of Duty franchise by entering new markets and establishing new business models. Our studio in Shanghai is working hard on our first, large-scale free-to-play microtransaction Call of Duty game for China, which is one of the largest and fastest-growing markets in the world." (Case A, Annual report 2011).

This statement reveals that Case A acknowledges the GaaS business model as an opportunity and thus performs managerial choices as investing time and money in their separate unit. Additionally, Case A stated that expanding onto free-to-play markets, AKA the GaaS-Business model, occurs first through forming a strategic alliance with an organisation that already operates with the new DBMI model.

During 2012–2013, Case A recognised mobile games and free-to-play markets as a threat and opportunity:

"We face challenges related to the continued success of mobile devices, including tablets. The business models for interactive entertainment on these devices are much less certain than the proven ways we generate returns from our online subscription services," (Case A, Annual report 2012).

They hence sense that a new business model, a DBMI, has arrived and is already showing disruption in the video game industry. Case A does not mention if they will respond against it, only implying that these opportunities and risks exist. The below statement reveals the conditions if they aim to innovate their business model in response to DBMI.

"We extend into new business models and high-margin emerging markets only when highly promising or proven, sometimes by others, to avoid failure or distraction" (Case A, Annual report 2012).

In 2013, the first major managerial choices in response to GaaS are planned and implemented. Case A announced multiple new video game titles, strategic acquisitions of China's video game market, and new development plans for services and announced

their shift toward a free-to-play model, hence aiming to change their traditional business model towards the DBMI, GaaS business model.

"Over the next few years, we plan to introduce games, based on some of our most successful franchises, that operate on a free-to-play model with microtransactions." (Case A, Annual report 2013).

Case A aims first to offer a new GaaS-based business model not to their current customers but to new customers. This managerial choice is based on first testing with a separate unit's business model in a different video game market. They also enhance this by continuing their strategic alliance with Chinese video game organisations.

"Our plan is to bring the preeminent Western console experience to the world's largest population of gamers in China. To do that effectively, we have to deliver our Call of Duty franchise in a format that suits the Chinese market—on the PC and as a free-to-play game." (Case A, Annual report 2013).

In the 2013 annual report, Case A recognises the DBMI as an attractive opportunity to exploit through strategic acquisition, strategic alliances, and open innovation, mainly in China's video game organisations. Hence, aiming to explore and acquire new competencies that support Case A's adoption of the new model.

"The industry experienced one of the most significant and accelerated console transitions in its history, mobile devices began to deliver larger creative opportunities and financial returns, and business models like free-to-play games with virtual item monetisation and new geographies like China began presenting new opportunities for game makers." (Case A, Annual report 2013).

All in all, during the 2010–2013 years, Case A managerial choices revolved first, sensing any disruptions in the market. After sensing the new mobile game market and the new free-to-play model gaining growth, they implemented and planned managerial choices that aimed to test the new DBMI and to acquire the necessary competencies and assets for responding against DBMI, while at the same time leveraging internal prior experiences, assets, and competencies. At the end of 2013, their business model has not

been innovated, but case A has made several plans for it and has already made development choices.

5.1.2 2014–2017 Seize

During 2014–2017, the managerial choices in BMI in response to DBMI were more recognisable, and the BMI process was in full motion.

During 2014, Case A continued to invest in their digital platform, Battle net, since they recognised that DBMI negatively affects retail distribution channels. The sales of physical games are declining, and Case A responds to this by developing its platform, from which they can sell their products and services and communicate directly to consumers.

"However, the increase in digitally distributed games, including full-game downloads, add-on content, and free-to-play games, has partially offset the negative trends in the retail distribution channels." (Case A, Annual report 2014).

Simultaneously, they have tested their newly developed free-to-play games, Hearthstone, Call of Duty Online and Hearths of Storm, which received good results from testers. They hence choose to invest even more toward the free-to-play games, making Case A inclining more toward the GaaS-business model.

"Investments in infrastructure and scaling of new properties with the free-to-play business model. In January 2015, two of our new free-to-play games were released into beta testing. On January 11, 2015, Activision launched a public open beta for Call of Duty Online available in China. On January 13, 2015, Blizzard began closed beta testing for Heroes of the Storm, its upcoming free-to-play online team brawler featuring iconic heroes from Blizzard games." (Case A, Annual report 2014).

They also published a video game, Destiny, that had the elements of traditional BM and the new DBMI model since it was labelled to become a live service game. Case A states that the Destiny franchise will be a 10-year-long process, aiming to engage and provide continuous value to players.

In 2015, Case A officially declared its new strategy and aimed to innovate a new business model with a year-round engagement model. The year-round engagement model is depicted as a framework for bringing and capturing value through video games that provide services to consumers year-round. It is, hence, a depiction of GaaS-business model.

"While our business is transitioning to a year-round engagement model, the interactive entertainment industry remains highly seasonal." (Case A, Annual report 2015).

The statement above indicates that their BMI is still in progress, but they are highly committed to responding to DBMI. Additionally, Case A recognises the mobile game market as more diverse and potential than their traditional market. They started to take this opportunity.

"Over the last five years, mobile phones emerged as great devices for playing games. Because of their lower cost of entry, mobile phones—unlike PCs or game consoles—are much less expensive, easier to use, portable and available in every country in the world. The market for mobile games is more diverse than PCs or consoles; the mobile market is eight times the size it was five years ago and is projected to grow 64% over the next five years" (Case A, Annual report 2015).

Nevertheless, the mobile game market differs significantly from the console and pc market where Case A mainly operates. Case A mentions that they need competencies, assets, and skills they do not possess to respond to DBMI. They then make a managerial choice on strategic acquisition. Case A hence bought King Games video game organisation, the owner of Candy Crush mobile game that already has millions of players, constant cash flow and is from the core, based on the GaaS-business model. King has continued to operate as a separate entity within the Activision Blizzard portfolio, focusing on mobile gaming.

"The type of games that are successful on mobile phones, and the way you make and market these games, is different from games on PCs and consoles. We didn't really know how to do this well. To take advantage of this opportunity, we decided to acquire a company with the skills and capabilities to make mobile games. We needed to find one

that met our stringent criteria for how we allocate capital through an acquisition. King management is philosophically aligned with our strategic goals of building enduring franchises. Like Activision and Blizzard franchises, King games can be expanded and nurtured year-round." (Case A, Annual report 2015).

In 2015, Case A also published its first successful free-to-play titles on PC and on mobile. The new franchise Destiny has also been a successful addition to Case A's portfolio, providing constant cash flow and engaging consumers year-round. Destiny video game title is a live service created through a strategic alliance with Bungie's video game studio.

In 2016, Case A mentions that they continued toward the new model. Those managerial choices, such as strategic acquisitions, alliances, creation of separate units, open innovation with external partners in China, and investment toward the year-round engagement model, now provide outcomes and results.

"Increased consumer online connectivity has allowed us to offer players new investment opportunities and to shift our business to a more recurring and year-round model. Offering downloadable content and microtransactions, in addition to full games, allows our players to access and invest in new content throughout the year. This incremental content not only provides additional high-margin revenue, it can also increase engagement. Also, mobile games, and free-to-play games more broadly, are generally less seasonal. While our business is transitioning to a year-round engagement model." (Case A, Annual report 2016).

Case A states that during 2012–2017, they successfully developed and published several free-to-play and traditional video games that provide years of service to engage the player. While exploring the new market of free-to-play and mobile games, they have simultaneously developed their older products, such as Call of Duty, to be more live services, hence a GaaS (Game-as-a-service). In Case A words, a building block for growth is bigger audiences, increasing engagements, growing monetization, driven by franchise innovation, always-on gameplay, and mobile expansions (figure 5). These are GaaS-business model elements.

"As we otherwise make the shift to a year-round model, less of our revenues are generated during the fourth quarter" (Case A, Annual report 2017).

“Our core games business is our engine for innovation and growth. Historically, our consumers – numbering in the tens of millions – have been in developed countries and largely reliant on expensive personal computers and video game consoles. Mobile gaming meaningfully expands our reach, potentially unlocking billions of players around the world and new opportunities for our consumers to play games outside of the home.” (Case A, Annual report 2017).



Figure 8 Year-round engagement model. (Case A, Annual report 2017).

Figure 6 depicts the revenue of Case A, divided into product sales, which represent the established BM, and the in-game and subscription revenues, which represent the GaaS-business model. The figure 6 shows that product sales were their primary revenue source from 2016 to 2022. This perfectly exemplifies how, during 2010–2015, Case A explored the new business model, testing its products and services, alliancing with external organisations that had the competencies and assets of the DBMI, and strategic acquisitions of video game studies that, to some degree, possess capabilities for requiring to innovate the Case A business model in response to the changing rules of the market. Case A committedly developed products and services based on GaaS BM, which eventually the first titles were published in 2015 and from there on.

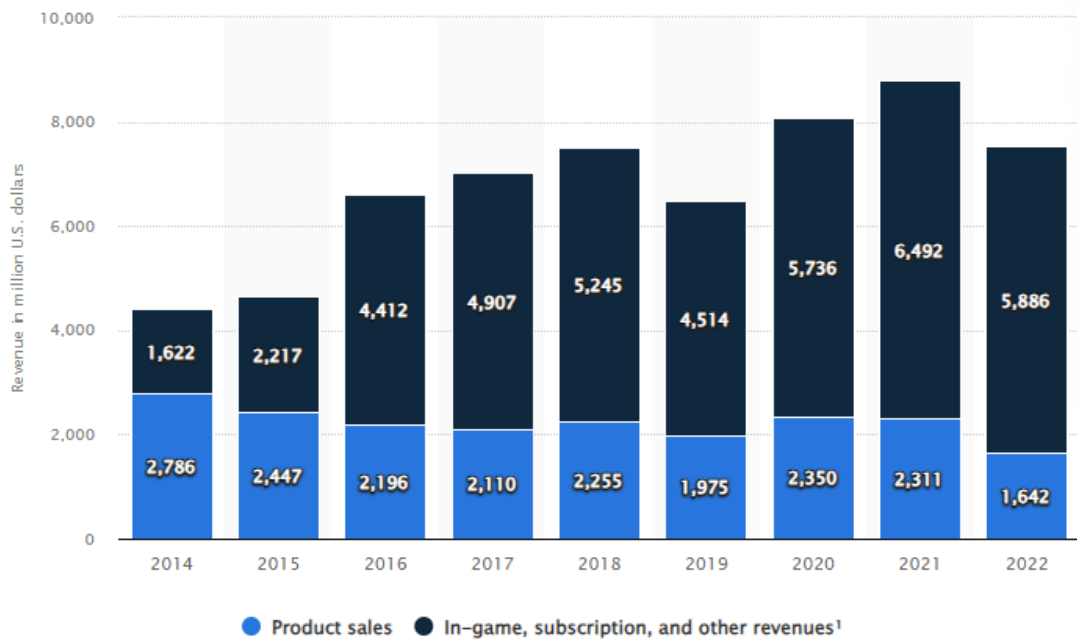


Figure 11 Net revenue generated by Activision Blizzard from 2014 to 2022, by composition. Statista (2023)

All in all, during the 2014-2017 period, Case A's Managerial choices revolved around strategy acquisition, alliance, sense-giving activities, open innovation and the creation of separate units. The acquisition of King video game company was left as a separate unit but integrated into Case A established BM. Hence, there were some managerial choices regarding integration. Nonetheless, the development and the publishing of new GaaS

video games are coming to fruition, as seen in the figure 6. Making the Case A BM revealing a resemblance to the DBMI. Nonetheless, their BMI in response to DBMI seems not to be completed as they continue to explore the DBMI while still exploiting part of it through separate units and alliances. Case A's separated units are all based on GaaS BM, while Case A changes its established BM step by step toward the GaaS BM.

5.1.3 2018–2021 Transform/reconfigure

During 2018–2021, the GaaS business model has become the dominant business model for Case A and the video game industry. The sheer amount of investing in BMI and making the Case A business model compatible with GaaS BM has provided several opportunities. Case A is hence implementing managerial choices where they find solutions to exploit their new business model. Case A is officially deprioritising the old BM and thoroughly adapted to DBMI.

“ We believe that we are in a strong position to take advantage of the free-to-play opportunity as we already operate multiple models at scale, including free-to-play titles, micro-transaction-based games, games with an upfront charge or with a subscription, and multiple combinations of these models. ” (Case A, Annual report 2018).

“A continuing industry shift to free-to-play games could result in a deprioritisation of our other products by traditional retailers and distributors.” (Case A, Annual report 2018).

In 2019, Case A states to have the required competencies and assets to invest in mobile gaming fully. They continue to find solutions on how to exploit the mobile gaming market. This was resolved in 2020 when they successfully published free-to-play mobile games. According to their statement, The GaaS business model, especially in the mobile gaming market, resulted in strong in-game monetisation and additional premium content sales.

“ By extending the franchise to mobile, the largest and fastest growing gaming platform, and introducing free-to-play experiences on PC and console, we tripled the size of the player base versus two years earlier “ (Case A, Annual report 2020).

The situation in 2021 does not differ from 2020. Case A stabilises the BMI in response to DBMI by exploiting its new business model, the year-round engagement model. What remains for them is the market share growth in the mobile gaming market. Nonetheless, they have shifted from their old BM to a new BM, which is highly based on GaaS-BM. All their older titles are, such as Call of Duty, which included only fixed prices in the past gradually adopted the elements of GaaS. Traditionally the consumer bought the video game, consumed it and then left it. Whereas now, the older and famous video game titles come with fixed prices but include in-game monetisation and highly engaged services, promoting consumer engagement year-round. While Case A simultaneously was developing and publishing new titles to be free-to-play through alliance, acquisition, and separation.

5.1.4 Case A: Dynamic capabilities and Business model response.

The managerial choices revealed the strengths and weaknesses of their dynamic capabilities and the nature of their business model response.

The managerial choices, planning and development in 2010–2013 reveal that Case A primarily scanned and explored the new opportunity/threat the DBMI brought. Hence revealing a strong sense cluster. During that time, the BMI response revolved mainly around strengthening their established business model while investing and exploring the new GaaS model. In 2014–2017 the majority of choices aimed to seize crucial competencies and assets while gradually adapting their established business model. Hence, a strong seize cluster. As they had the required skills, assets and competencies, Case B shifted to BM adaptation/imitation response. Case A designed, refined, and then innovated their established BM in a committing way, hence revealing their strong seize cluster and Transform cluster.

In 2018–2022, Case B fully transforms its business model and exploits it. It is achieving results from BMI, investing in additional capabilities, and managing the new business

model. As they successfully innovated and changed their business model, it is concluded that they have a strong transform/reconfigure cluster.

In 2010–2013, Case A managerial choices initially aimed to explore the new DBMI, but later, in 2014–2017, the choices inclined toward exploitation activities and more heavily in 2018–2021. The table below shows the findings regarding Case A.

	2010-2013		2014-2017		2018-2021	
	Case A	Case B	Case A	Case B	Case A	Case B
BM Response	Strength. BM & Adaptation/ Imitation		Adaptation/ Imitation		Adaptation/ Imitation	
Dynamic capabilities	Strong Sense Cluster		Strong Seize Cluster		Strong Transform/ Reconfigure Cluster	
Explore/Exploit	Explore		Explore & Exploit		Exploit	

Table 3 Activision Blizzard (Case A) findings.

5.1.5 Conclusion

Findings reveal that during 2010–2021, Case A made managerial choices based on strategy acquisition, strategic alliance, open innovation, separation and sense-giving activities. The empirical data did not mention open innovation, separation and sense-giving activities, but the findings highly indicate it. For instance, every year, Case A bought video game studios to work on new titles that were based on DBMI and were given the independence to innovate and develop new free-to-play titles. All the mentioned managerial choices were planned and implemented during 2010–2021, but the purpose of the choices varied depending on the situation the Case A organisation was in. For instance, during 2010–2013, strategic acquisition, open innovation and strategic alliance were implemented for exploring the new DBMI, as in 2014–2017 was to obtain the elements of DBMI in the hope of exploiting it in the future. As mentioned

in this research, we analysed managerial choices that aimed to innovate BM in response to DBMI. Yet findings reveal that Case A invested and proactively scanned, searched and explored the DBMI before actually responding against it. As tipping its toes in the lake rather than diving head-on.

Case A often mentioned the nature of free-to-play titles, live service games and mobile games and how they pose huge threats or opportunities. In 2010–2013, Case A perceived the DBMI as a threat, but in 2014–2017 as an opportunity. It may be because, during the early times of DBMI, they explored the DBMI and later acquired the essential competencies to respond against, hence Case A perceiving that they have the talent and knowledge to respond. The DBMI did not seem to be a significant threat when Case A saw they could do something about it. Ultimately, Case A approached the disruption as a threat but eventually as an opportunity when they gained enough competencies and assets. Approached first with caution but later with aggression. Hence, the defence and attack approach.

Sense-giving managerial choices were not verbally mentioned in the findings, but Case A illustrating and explaining their new engagement framework, is a form of sense-giving activity. Hence, Case A did sense-giving managerial choices.

Findings reveal that the aftermath situation of Case A is that it has succeeded in responding to DBMI, based on their statements about their new BM, statistics and managerial choices. As seen from the statistics, their revenue and profit are grounded from the GaaS model: Figure 6 depicts how the majority of the revenue is now from free-to-play games and live service games, Figure 7 depicts rapid growth, Figure 8 depicts their growth in the mobile game market. These are all the signs of a successful BMI in response to DBMI.

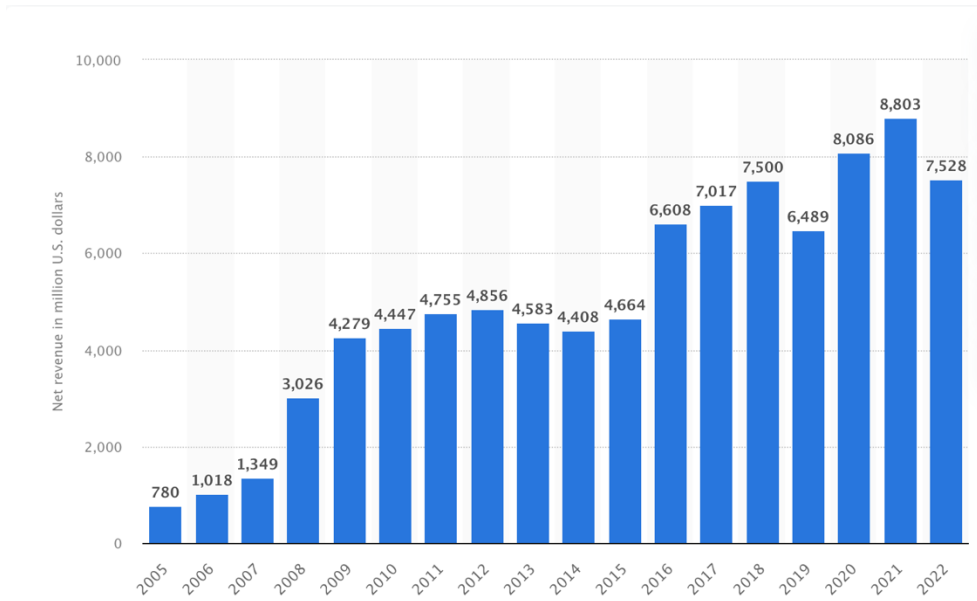


Figure 7 Net revenue generated by Activision Blizzard from 2005 to 2022. Statista (2023b)

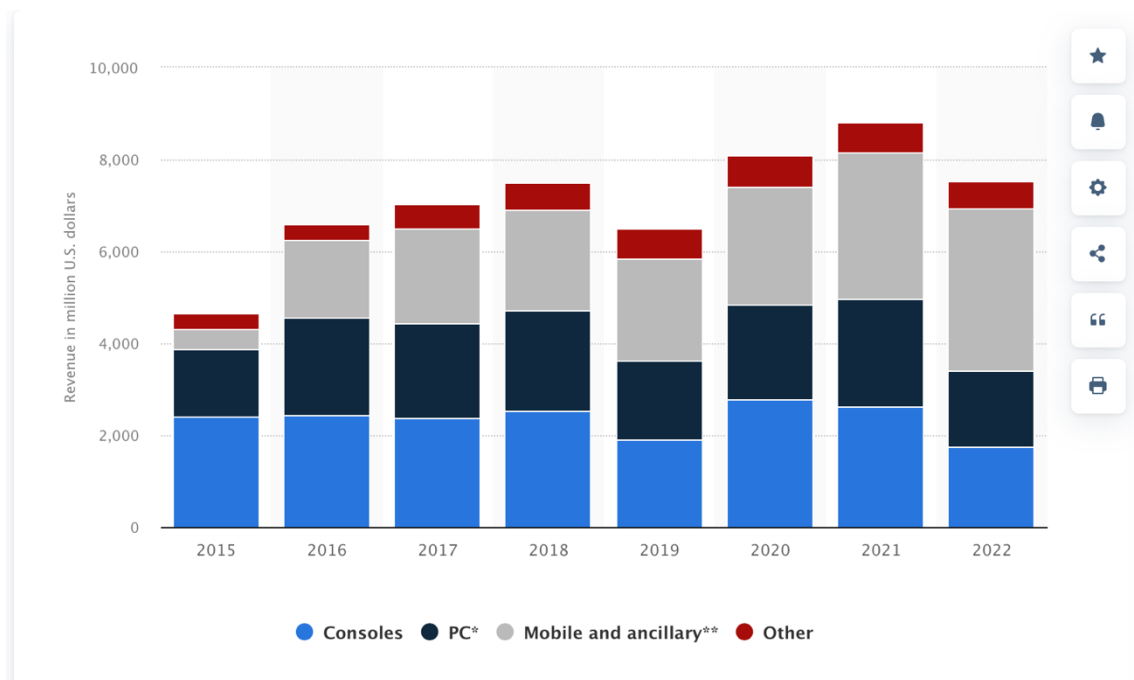


Figure 8 Net revenue generated by Activision Blizzard from 2015 to 2022, by platform. Statista (2023c)

Now, to the managerial choices that were not straightforwardly stated. First, they avoided the competency trap by not leveraging too much their competencies and assets. They aimed to gain competencies and assets, which they did not have, through strategy acquisition, alliances, and open innovation. They used the aforementioned choices to

buy time to incrementally innovate their established business model without causing too much conflict between the old and the new BM. **Second**, they did not state integration managerial choices. Yet, they did integrate some separate units, but there was no talk of an integration mechanism. **Third**, their new business model does not differ much compared to the DBMI, the GaaS-BM. Case A almost entirely copied all the business model elements of DBMI and gradually shifted toward it. **Fourth**, Case A gave their separate unit, especially those with elements of DBMI, an autonomous positioning. For instance, Case A gave King an autonomous position to deal with the free-to-play and mobile gaming market while exchanging information and competencies. Only later on, Case A developed mobile games and free-to-play titles.

All in all, Activision Blizzard has responded to the emergence of GaaS in several way from 2010–2021, by acquisition of companies specialising in GaaS, experimentation with the GaaS model and the development of GaaS Platforms, such as Battle net, development and implementation of GaaS features in games. Activision Blizzard hence responded to the DBMI by strengthening and evolving its own business model and embracing new trends and technologies. The responses of Case A can be then categorised as Strengthening the BM response and to imitation/adoption disruptive BMI response. Case A did not respond to DBMI by innovating a novel BM.

5.2 Case B (Electronic Arts) Findings.

5.2.1 2010–2013 Sense and Seize

In 2010 and 2011, Case B recognised the growth of online gaming and mobile games, which is why they have heavily invested in developing mobile games. There were 48 games in development for mobile games, as for Xbox console 22 and for PS console 21. They also mention how they plan to add the elements of DBMI (Free-to-play titles, microtransactions, customer engagement, online platform). This can be seen through managerial choices such as strategic acquisition. For instance, Case B acquired Playfish in 2009, a video game studio specialising in free-to-play games.

“Advances in mobile technology have resulted in a variety of new and evolving devices that are being used to play games by an ever-broadening base of consumers. We have responded to these advances in technology and consumer acceptance of digital distribution by offering subscription services, online downloads for a one-time fee, and advertising-supported free games and game sites. We expect online delivery of games and game services to be an increasing part of our business going forward.” (Electronic Arts, 2010 annual report; Electronic Arts, 2011 annual report).

Case B also mentions how they plan to add the elements of DBMI (Free-to-play titles, microtransactions, customer engagement, online platform). Hence, they want to invest in creating new kinds of games and services compared to their traditional products. In 2010 and 2011, they also officially mentioned that they seek new business models and ways to monetise video games.

“We are actively seeking to monetise the game properties that we publish through a variety of new platforms and business models, including online distribution, microtransactions, and subscription services.” (Electronic Arts, 2010 annual report; Electronic Arts, 2011 annual report).

In 2012, case B saw the DBMI as an opportunity to grasp on and thus invested even more in experimenting with free-to-play titles, microtransactions and casual games. Case B also published an online platform, Origins, where consumers can buy video games directly and digitally and maintain their social profile. Case B heavily invested on online platform.

“The popularity of wireless and other emerging gaming platforms such as smartphones, tablets and social networking sites, such as Facebook, has led to the growth of casual and social gaming. Casual and social games are characterised by their mass appeal, simple controls, flexible monetisation including free-to-play and micro-transaction business models, and fun and approachable gameplay. These areas are among the fastest growing segments of our sector and we have responded to this opportunity by developing casual and social games based on our established intellectual properties such as The Sims, FIFA, and Battlefield, and with our acquisition of PopCap. We expect sales of social and casual games for wireless and other emerging platforms to continue to be an important part of our business.” (Electronic arts, annual report, 2012)

Case B continues to mention their development and implementation of seeking a new business model, which includes its traditional video games, but also free-to-play games and live service games supported by microtransactions or subscription services. Consequently, they stated their new strategy, in which they aim to embrace the DBMI.

“Our business has evolved from a traditional packaged goods business model to one where our games are played on a variety of platforms including mobile devices and social networking sites. Our strategy is to transform our core intellectual properties into year-round businesses, with a steady flow of downloadable content and extensions on new platforms.” (Electronic arts, annual report, 2012).

Case B states that they have already shifted away from their traditional business model since they have generated substantial growth in the new business models and alternative revenue streams based on the continued expansion of their online platform. Nevertheless, Case B states to develop toward the GaaS model and has no significant free-to-play titles or live service games.

“ Our increasingly digital, multi-platform business no longer reflects the retail sales patterns associated with traditional packaged goods launches. For example, we offer our consumers additional services and/or additional content available through online services to further enhance the gaming experience and extend the time that consumers play our games after their initial purchase. Our social and casual games offer free-to-play and micro-transaction models”. (Electronic arts, annual report, 2012).

In 2013, Case B made a managerial choice where they reduced the development and publishment of new premium video games while simultaneously adding GaaS elements to their older video games. For instance, in 2009, Case B published 60 premium games with no microtransactions. In 2013, Case B published 13 premium titles with microtransactions and 22 mobile games with microtransactions. Hence, shifting their premium games, such as FIFA, toward GaaS-Model while simultaneously creating new titles that are from the core free-to-play, hence a GaaS-BM.

“We have aggressively reduced the number of significant titles releases that we launch each year.” (Electronic arts, annual report, 2013).

“Further, we are investing significantly in our own distribution platform, which consumers are already using to purchase and play games directly from us. Through online portals such as Origin, we are acquiring consumers of our games and game services directly and establishing on-going relationships with them. Through these relationships, we are engaging them in their favorite brands across a number of devices, allowing them to communicate with their friends, and inviting them to try our other game experiences.” (Electronic arts, annual report, 2013).

Overall, managerial choices in 2010–2013 are based upon, first, sensing the opportunities and threats arising from mobile and online games. Second, they quickly changed the core strategy of Case B, aiming to adapt new business models by reducing the development of premium games while simultaneously innovating on GaaS elements. Third, strategic acquisition of video game studios specialising in free-to-play titles and mobile games. Fourth, the acquired video game studios are separated units, hence implementing the separation strategy. Fifth, sense-giving activities, for they occasionally state the reasons and their aim for changing their business model. Sixth, investing in consumer relationship management through their GaaS-platform, Origin, to engage customers.

Case B, at this stage, is not even close to completing its BMI in response to DBMI, even if it states that its revenues have increased thanks to its GaaS- products.

5.2.2 2014–2017 Seize and Sense

During 2014–2017, Case B BMI is progressing rapidly. In 2014, "Game-as-a-service" is first time mentioned in their statement about changing their core strategy business. Case B continues to invest in capabilities that enhance its transitions to the new model. Consequently, their managerial choices, especially in 2014–2016, are mainly strategic acquisitions and leveraging their current assets and competencies for adopting the new business model.

"We believe establishing and maintaining direct relationships with our consumers and supporting the evolution of a games-as-a-service business model are strategic priorities. By acquiring direct relationships with consumers, we are able to market products and

services in a direct, targeted manner, often in response to purchasing history or playing behavior. We believe this reduces overall customer acquisition and marketing costs." (Electronic Arts, annual report, 2015,2016).

Case B invests profoundly in developing GaaS-title, acquiring capabilities while leveraging its current competencies and assets. Case B in 2014–2017 states to leverage their current assets to respond to GaaS. Case B, hence, sees the solution in using their older BM elements (Value proposition) to create a new BM that can manage DBMI.

"A cornerstone of our strategy is to leverage established intellectual properties (which we call "brands") to create year-round gaming experiences on multiple platforms, each capable of delivering additional content and revenue over extended periods of time." (Electronic arts, annual report, 2015,2016).

Case B's first significant managerial choice in strategic alliance occurred in 2016 with a Chinese company, Tencent. This is a managerial choice where Case B aims to acquire external knowledge, talent, and competencies they may not have and are required for innovating the BM. Case B also tested the GaaS model in mobile games in a different segment than where they usually operate (Console and PC segment).

"We have entered into agreements whereby we partner with certain companies, including Tencent Holdings Limited and Nexon Co., Ltd. or their respective affiliates, pursuant to which these companies publish our mobile and PC free-to-download games in certain Asian territories, including China and Korea." (Electronic arts, annual report, 2016).

In 2016, Case B made managerial choices, changing the organisation's internal activities, processes, and routines to be more compatible with the GaaS-BM. This is an insurance-managerial choice, where the business model is created to be an entity which can easily integrate as many elements as possible without causing any internal conflicts between the old and the BM and deflecting organisational inertia.

"We have also changed the makeup and skill set of our workforce, and combined the art of game-making with the science of managing dynamic live services and marketing those games and services. These changes have enabled us to increase our operational speed

and organisational flexibility while improving our fiscal discipline." (Electronic arts, annual report, 2016).

In 2017, Case B states to continue reducing the creation of premium games and increasing the creation of GaaS games. Case B occasionally acquired video game studios specialising in GaaS-model. Nevertheless, a major strategic acquisition occurred in 2017 when they acquired Respawn entertainment video game studio. The newly acquired unit is separated from EA and is developing and extending toward the GaaS-Model.

"From time to time, we contract with external game developers, such as Respawn Entertainment, to develop our games or to publish and distribute their games. We believe our established brands give us the opportunity to engage an increasing number of players across more platforms, more geographies and through more business models." (Electronic arts, annual report, 2017).

In 2017, Case B published Battlefield video game, an old and known brand for decades in the video game industry, which in the past operated through the old business model. As Case B transitioned to the new business model, the Battlefield 2 video game was published at a premium price but filled with GaaS elements such as in-game additions and season passes. The release of this game was a failure, as consumers were not happy with the offered video game (Gordon, 2018). Case B did not state their failure in annual reports. Yet they did mention that the live service games pose some risks for the first time since they started to BMI in response to DBMI.

"The increased importance of live services revenue to our business heightens the risks associated with our limited product portfolio as live services that are either poorly-received or provided in connection with underperforming games may generate lower than expected sales." (Electronic Arts, annual report, 2017)

Nonetheless, their other older titles, such as FIFA and Sims, have succeeded in integrating GaaS elements while staying as a premium game without any revenue backlash. Case B states that the new name of their business model is the live service engagement model, hence a GaaS model. As the statement below indicates, Case B has heavily leveraged their older titles in response to DBMI. The older titles have been

gradually developed toward the GaaS model. Only later on Case B's managerial choices demonstrate a willingness to adapt the business model by revising its in-game monetization approach based on player feedback and market dynamics, as seen in Case B's response to the Star Wars Battlefront 2 controversy.

"Our live services engagement model includes microtransactions, downloadable content, subscriptions, 3 esports, among others. For example, features such as the Ultimate Team mode in our FIFA, Madden NFL and NHL games and live services for our Star Wars, Battlefield and Sims franchises have extended the life of those games by engaging players over longer periods of time. This digital transformation also is creating opportunities in platforms, content models and modalities of play. For example, we have leveraged franchises historically associated with consoles and traditional PC gaming, such as FIFA, Madden NFL, The Sims, SimCity, and Star Wars, to create mobile and PC free-to-download games that are monetised through a business model in which we sell incremental content and/or features in discrete transaction". (Electronic Arts, annual report, 2017)

Overall, managerial choices in 2014–2017 are based upon strategic acquisitions, strategic alliances, open innovation with external companies and with customers, separation strategy, insurance strategies, sense giving activities, and highly leveraging their competencies from the established BM. Case B made managerial choices where they slightly removed the elements of the older BM while testing and eventually adding DBMI elements. Consequently, some GaaS video games were successful, and some were not. Ultimately, Case B BMI in response to DBMI, is incomplete since they continue heavily developing GaaS titles and increasing their mobile gaming expansion. However, the majority of their revenue is based now on live service games. Hence, their adoption of the new model is coming to fruition. Case B has seized competencies and assets required for transforming its old BM to resemble DBMI, the GaaS-model.

5.2.3 2018–2021 Transform/ Reconfigure

During 2018–2021 managerial choices lead to the finalisation of the BMI. Consequently, completing their BMI in response to DBMI.

In 2018, Several new video games were released and were in development. For instance, a live service game Anthem, which was highly anticipated. Case B succeeded in turning their old title, FIFA, into a live service game with a premium price. Case B's BMI, in response, is seeing results, since 40% of their revenue is based on GaaS- video games.

"EA's core strategies continued to deliver award-winning games and services to our players and deep player engagement. The breadth and depth of EA's portfolio of games across key platforms, combined with our focus on live services to extend and enhance our games, generated strong financial results for the Company. We exceeded our net revenue and operating income guidance for fiscal 2018, drove higher gross margins, increased our cash provided by operations and invested in products and services for the future." (Electronic Arts, annual report, 2018)

Case B's managerial choices are now based on exploiting their new and changed business model while, of course, continuing to explore the model in the mobile gaming segment. Case B states that the consumers are even more engaged in their video games year around.

"Players increasingly purchase our games as digital downloads, as opposed to purchasing physical discs, and engage with the live services that we provide on an ongoing basis. Our live services provide additional depth and engagement opportunities for our players and include microtransactions, extra content, subscriptions, and esports." (Electronic Arts, annual report, 2018)

Through the competencies and assets Case B has acquired through strategy acquisition, alliance, open innovation, insurance strategy, they state to have the opportunity to leverage the newly acquired capabilities for scaling their business model to even larger extent. Thus, Case B has integrated the core elements of GaaS model from its separated units to its established business model, which during the BMI process has been incrementally innovated. Incrementally innovating or in this aspect adapting/imitating the BM, provided the Case B opportunity to integrate GaaS business model elements without causing too many internal conflicts between the established and the new BM. Nonetheless Case B has recognized the value of allowing certain video game studios to maintain their independence and creative identity while leveraging the resources and

support of the larger EA organization. Hence implementing the separation strategy. However, in cases where there's a strategic alignment with EA's existing franchises or business goals, closer integration is pursued.

"We have an opportunity to leverage our scale to deliver engaging games and services to more players across more platforms. Our "One EA" model provides strategic advantages. For example, we have leveraged brands and assets from franchises typically associated with consoles and traditional PC gaming, such as FIFA, Madden NFL, The Sims, SimCity and Star Wars, to create mobile and PC games that are monetised through live services associated with the game" (Electronic Arts, annual report, 2018)

Nonetheless, some managerial choices have led to failures since the release of Anthem in 2019, which was a live service game with a premium price, was a huge failure, whereas the release of the free-to-play PC game Apex Legends was highly acclaimed and successful in terms of revenue and customer satisfaction. FIFA video game that has the same building blocks as the failed Anthem video game, is still the Case B's most successful title. Their managerial choice on fully copying the GaaS element of microtransactions, such as lootbox systems in Case B's premium video games has caused negative effects in the end.

"We have included in certain games the ability for players to purchase digital items, including in some instances virtual "packs", "boxes" or "crates" that contain variable digital items. The inclusion of variable digital items in certain of our games has attracted the attention of our community and if the future implementation of these features creates a negative perception of gameplay fairness or other negative perceptions, our reputation and brand could be harmed and our revenue could be negatively impacted" (Electronic Arts, annual report, 2018)

Case B did also managerial choices where they aimed to understand the consumer, in order to build, develop and ultimately engage the consumer to their live service platform. Hence, they continued to innovate and strengthen their GaaS-Platform, Origin.

"We also are strengthening our player network, connecting our players to each other and to the games they love. We are adopting consistent, cross-company methodologies to better understand our players' needs and continue to invest in technology that enables us to build personalised player relationships that can last for years instead of days or

weeks by connecting our players to us and to each other." (Electronic Arts, annual report, 2018)

In 2019, 45% of revenue is based from GaaS-model. Additionally, as previously mentioned Case B published the Anthem video game and their first PC free-to-play game. Case states that their managerial choices are aimed at adapting new business models, trends and technologies.

"We adapt our business by investing in creative and technical talent and new technologies, evolving our business strategies and distribution methods and developing new and engaging products and services. In fiscal 2019, we launched two new intellectual properties (Anthem and Apex Legends), brought Apex Legends to market as our first free-to-play console product, added frontline titles to our Origin Access Premier subscription service, and invested in more ways to reach our players now and in the future, such as cloud gaming and esports." (Electronic Arts, annual report, 2019)

Case B states that live-service video games are gaining more popularity in their traditional segment of the PC and console market. They are seeing results from changing their established model toward the GaaS-business model, and hence are focusing on exploiting through creating of new way to capture value, such as lootboxes.

"Likewise, the consumer acceptance of free-to-play, live service-based, online PC games has broadened our consumer base, and this free-to-play, live service business model is beginning to gain consumer acceptance with respect to console games" (Electronic arts, annual report, 2019,2020)

An interesting managerial choice is their development and publishing of a premium game in 2020, Star Wars Jedi: Fallen Order, that had none GaaS elements. It was, hence, a video game based on the old business model and was successful in revenue and consumer perspective. As Case B has gained foothold on GaaS Business model in the pc and console segment, their revenue based on GaaS is now 51%.

In 2021, the BMI in response to DBMI is gaining its new height since Case B’s revenue is now 70% based only on the GaaS Business model, meaning over two-thirds of their revenue comes from live services, games, microtransactions, free-to-play and subscriptions. Figure 9, 10 and 11 also indicates their revenue structure and growth from being their established business model to the new business model that was innovated to respond to the changing rules in the video game industry.

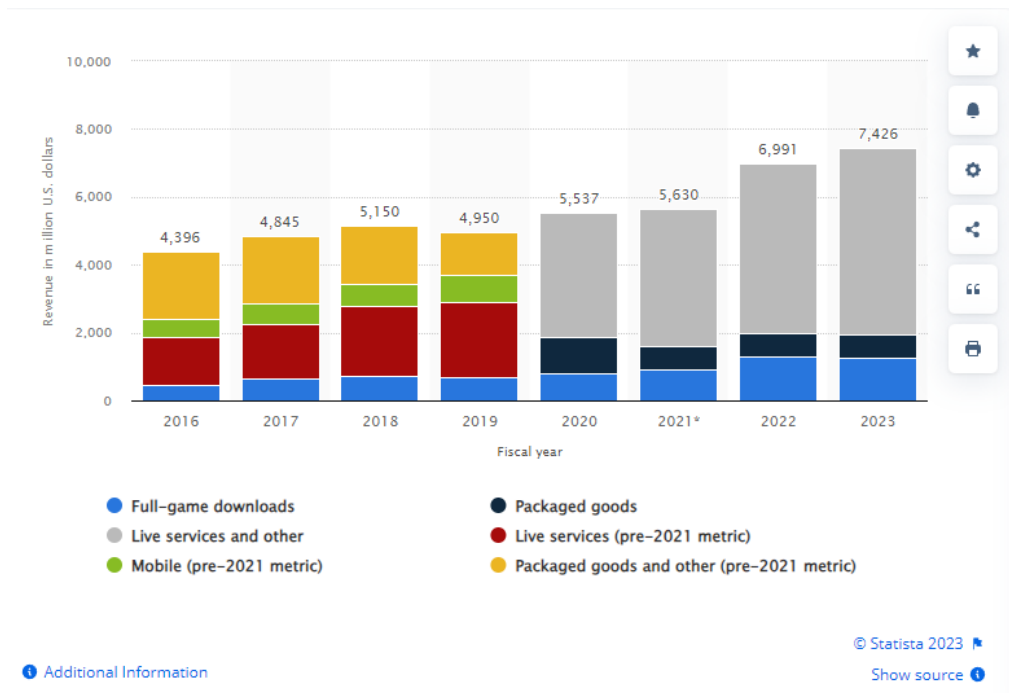


Figure 12 Net revenue generated by Electronic Arts from fiscal 2016 to 2023, by composition. Statista (2023d).

Case B states that from 2017 till now, the live service engagement model, AKA GaaS BM, has been their primary and most profitable BM. However, they include some elements of their former business model, for instance, premium games without any in-game additions. Figure 10 shows that they have tried growing in the mobile segment. Not until 2020 some growth is seen in the mobile segment. According to them, it is because of their strategic acquisition of mobile game studios and strategic alliance with Tencent.

“We are investing in our mobile business through seeking to maximize our mobile live services, meaningfully expanding key franchises on the mobile platform and through mergers and acquisitions activity” (Electronic Arts, annual report, 2021)

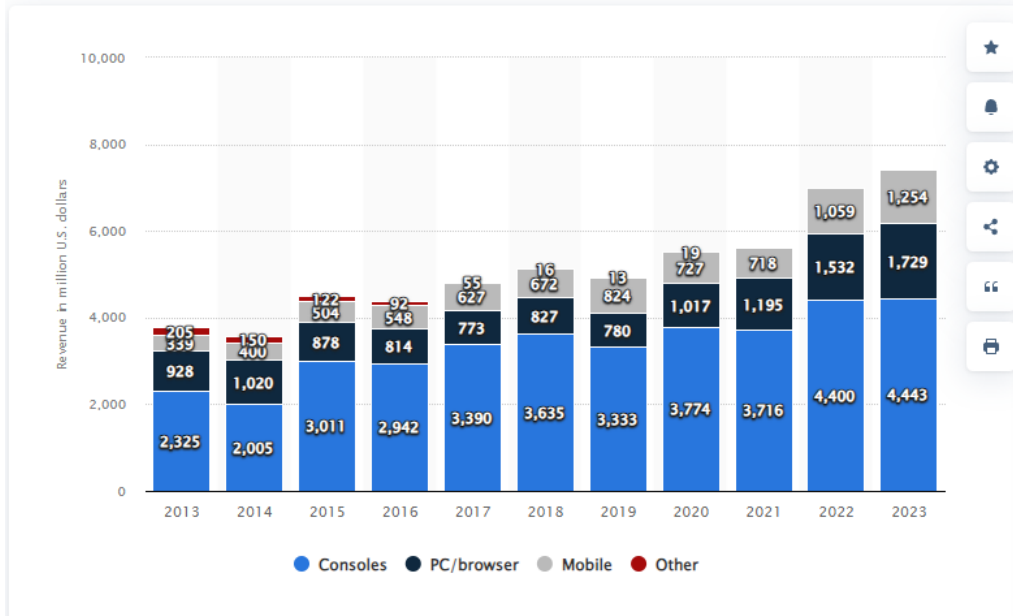


Figure 10 Net revenue generated by Electronic Arts from fiscal 2013 to 2023, by platform. Statista (2023f).

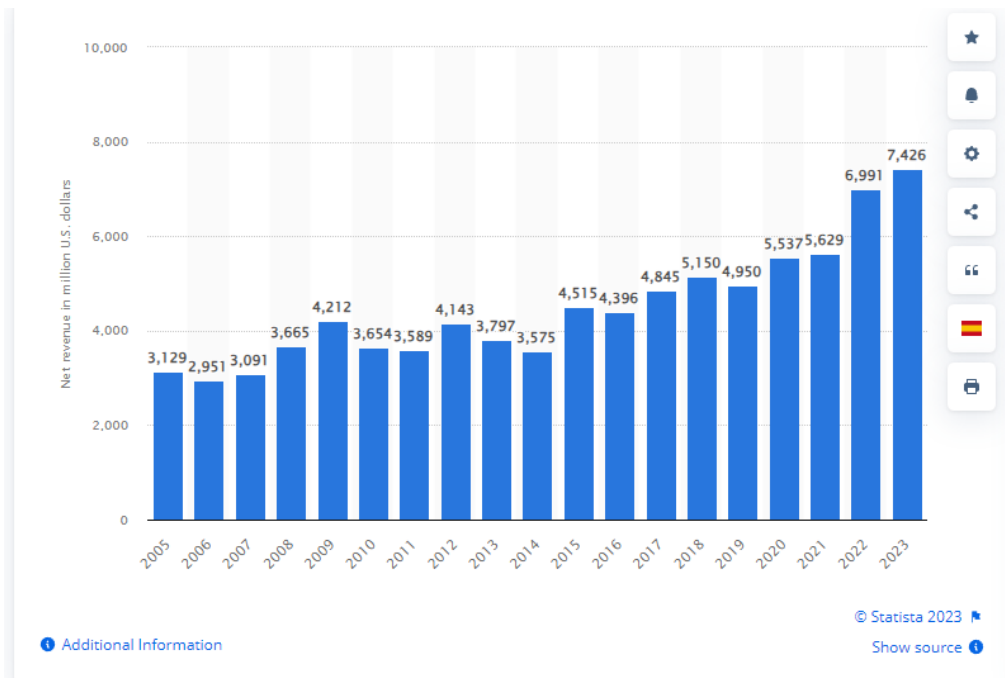


Figure 11 Net revenue generated by Electronic Arts from fiscal 2005 to 2023. Statista (2023e)

The managerial choices are mostly based on exploiting the new model case B has innovated. For instance, new value capture systems have been created, such as the battlepass system used in every free-to-play title. The lootbox value capture system has been removed because of its negative popularity and high risk of being the target of the legal system.

“We believe that our future growth will be influenced by our ability to realize the potential of our core while at the same time creating growth around that core. We aspire to create socially-connected ecosystems through which players can access amazing content, experiences, and tools that allow everyone to play, watch and create together” (Electronic arts, annual report, 2021)

“Certain of our business models could be subject to new laws or regulations or evolving interpretations of existing laws and regulations ” (Electronic Arts, annual report, 2018, 2021)

In 2018–2021, Case B did Managerial choices such as, strategic acquisitions, continuing strategic alliance and separation strategy, but integration of some video game studios, developing new complements and honing the new business model which was created in response DBMI. Case B’s BMI outcome is a new business model that highly resembles the GaaS-BM, but has some scant of their older BM.

5.2.4 Case B: Dynamic capabilities and Business model response.

The managerial choices revealed the strengths and weaknesses of their dynamic capabilities and the nature of their business model response. Compared to Case A, Case B's findings are more complex since they did a bit of everything. For instance, in 2010–2013, they sensed the DBMI but also immediately implemented seize activities.

The managerial choices, planning and development in 2010–2013 reveal that Case B did explore the new opportunity/threat the DBMI brought. They also seized essential competence required for BMI, but not much as in 2014–2017. Nonetheless, they lacked managerial choices where they would have gained external knowledge for gaining more

information about the DBMI and started early to respond to DBMI by adapting/imitating it. Thus, revealing a weak sense cluster.

In 2014–2017 the managerial choices seized crucial competencies and assets and managed to innovate their BM toward the GaaS model incrementally. They designed, refined and then innovated their established BM in a committing way, revealing their strong seize cluster. Yet Case B did already commit to transforming its BM but faced a failure with its new GaaS products. This led Case B to balance their BMI response to focusing on adaptation/imitation response and strengthening the BM response. It also led them to focus on sense activities such as exploring the DBMI even more.

In 2018–2021, Case B BMI response continued to revolve around adaptation/imitation response but also to strengthening the BM response. Case B fully transforms its business model and exploits it while simultaneously exploring. It is achieving results from BMI, investing in additional capabilities, and managing the new business model. As they successfully innovated and changed their business model, it is concluded that they have a strong transform/reconfigure cluster.

As the findings reveal, in 2010–2013, Case B managerial choices at first did more exploiting than exploring the new DBMI, and later, in 2014–2017, the choices inclined even more toward exploitation activities. In 2018–2021, Case B balanced it out by exploiting its new business model but also exploring it. The table 4 below shows the findings regarding Case B.

	2010-2013		2014-2017		2018-2021	
	Case A	Case B	Case A	Case B	Case A	Case B
BM Response		Adaptation/ Imitation		Strength. BM & Adaptation/ Imitation		Strength. BM & Adaptation/ Imitation
Dynamic capabilities		Weak Sense Cluster		Strong Seize Cluster		Strong Transform/ Reconfigure Cluster
Explore/Exploit		Explore & Exploit		Exploit		Explore & Exploit

Table 4 Electronic Arts (Case B) findings

The findings showed that the timeline was too complex to categorise into three clusters, as we did with Case A, because Case B's managerial choices were not as focused as Case A's.

5.2.5 Conclusion

Findings reveal that from 2010–2021, Case B made managerial choices based on strategy acquisition, strategic alliance, open innovation, separation, sense-giving activities, integration, and insurance strategy. The empirical data did not mention open innovation, separation and sense-giving activities, integration, and insurance strategies but the findings highly indicate it. For instance, in 2016, Case B changed the organisation's internal activities, processes, and routines to be more compatible with the GaaS-BM, hence making the BM easily integrate as many elements as possible without causing any internal conflicts between the old and the new BM and deflecting organisational inertia. This is an indication towards insurance-strategy.

All the mentioned managerial choices were planned and implemented during 2010–2021, but the purpose of the choices varied depending on the situation the Case B organisation were in. For instance, during 2010–2013, strategic acquisition and separation strategies were implemented to explore the new DBMI and acquire its vital

elements, as in 2014–2017, it was purely to obtain the elements of DBMI in the hope of exploiting it in the future. As Case B published unsuccessful video games, they invested in analysing the DBMI and customer feedback even more, making them understand the nature of GaaS-BM slightly more.

Sense-giving managerial choices were not verbally mentioned in the findings, but Case A, illustrating and explaining their new engagement framework, is a form of sense-giving activity. Hence, Case B made sense-giving managerial choices.

Case B spotted the DBMI quickly and early since the free-to-play model and the rise of mobile games were mentioned in 2010. Case B explored the new DBMI but also early implemented managerial choices that aimed to change their established BM. In 2010–2013, Case B occasionally stated that they shifted toward the new business model and already saw the outcome of their BMI. This statement may be false since their portfolio, revenue and market at the end of 2013 is still based on premium games, hence their established model. Nonetheless, it is clear that they have perceived the DBMI and want to take this opportunity.

As mentioned in this research, we analysed managerial choices that aimed to innovate BM in response to DBMI. Nevertheless, findings reveal that Case B, compared to Case A, did not invest heavily in exploring the DBMI before responding against it. When Case B recognised the DBMI, it almost immediately responded against it. Case B later aimed to understand the DBMI slightly more when they faced a backlash between 2015–2019 with their new GaaS video games.

Case B often mentioned the nature of free-to-play titles, live service games and mobile games and how they pose huge threats or opportunities. In 2010–2013, Case B perceived the DBMI as an opportunity, but also in 2014–2017 as an opportunity and as a threat because of the controversies the model provoked in the PC and console segment. Nonetheless, after some unsuccessful GaaS products, Case B later made its consumers

more accepting of their new products. Ultimately, Case B approached the disruption as an opportunity. Eventually, when Case B obtained even more vital competencies and assets to respond to DBMI, they gained more confidence in their skill to change their core strategy entirely and hence their BM. However, based on the findings, they took it too far since it resulted in unsuccessful products such as Anthem and Battlefield 2, which were premium prices but heavily filled with GaaS features such as microtransactions. This indicates that their proposed value to their target customer failed, hence the failure of some of their notable video games. Case B initially approached the DBMI with aggression but then cautiously aimed to understand the DBMI more after some failures in managerial choices. Hence, a shift from attack approach to defend approach. Not until 2019–2021 did their business model, revenue model and market come to its final form. Consequently, they focused on fully exploiting their new business model, with their brand new video games studios, knowledge, assets and portfolio that were grounded on the GaaS- BM.

Findings reveal that the aftermath situation of Case B is that it has succeeded in responding to DBMI, based on their statements about their new BM, statistics and managerial choices. As seen from the figure 9,10,11, their revenue and profit are grounded from the GaaS model: Figure 9 depicts how the majority of the revenue is now from live service games, free-to-play games and live service games, Figure 10 their growth in the mobile game market, figure 11 their growth. These are all the signs of a successful BMI in response to DBMI, even though they had bumps along the road.

Now, to the managerial choices that were not straightforwardly stated. **First**, they leveraged too much of their established business model to respond against DBMI. Hence, they fell into the competency trap of focusing too much on finding out how to leverage their existing assets in the new market rather than exploring the DBMI with an entrepreneurial mindset. The negative effects of this managerial choice can be seen in 2015–2020 when they failed to gain consumer acceptance with their new GaaS video games. **Second**, they did not state to implement an insurance strategy. However, it can

be indicated through their choices to strengthen and adapt their business model to sustain the addition of BM elements without causing too much internal conflicts and organisational inertia. For instance, Case B developed a single video game engine, hence creating operational flexibility as their development teams code in the same language, increasing the pace of their development as content can be leveraged across franchises and allowing them to transition their products and services to new platforms quickly and cost-effectively (Electronic Arts, Annual report 2017).

Third, Case B did not verbally mention integration managerial choices, but they did implement them. For instance, Case B acquired Codemaster video game studio, which specialised in racing sports games. It was intended to integrate Codemaster closely into Case B to expand its market in the racing sports game genre. The approach to integration or separation can depend on factors like the acquired studio's size, expertise, creative vision, and the strategic goals of the acquisition. In the case of Codemasters, Case B recognised their strategic alignment, consequently integrating it. Nonetheless, the mention of integration mechanisms was not stated or proved through managerial choices.

Fourth, Case B gave their separate units an autonomous positioning. For instance, Respawn Entertainment created the highly successful PC free-to-play game Apex Legend, which is still one of the most profitable live service games. The exact same studio also developed a video game, Star Wars Jedi: Fallen order, that was not a GaaS-video game. It was a financial success, and the consumers loved it. Case B also gave their another separate unit, BioWare, an autonomous position. In a decade, it had published widely successful video games based on the older business model. Nevertheless, their first GaaS game, Anthem, developed and published in 2019, was an unsuccessful product. **Fifth**, their new business model does not differ much compared to the DBMI, the GaaS-BM. Case B almost entirely copied all the business model elements of DBMI and gradually shifted toward it.

Ultimately, Electronic Arts has responded to the emergence of GaaS in several ways from 2010–2021 by acquiring companies specialising in GaaS, experimenting with the GaaS model and development of GAAS platforms, such as Origins, development and implementation of GaaS features in games. Electronic Arts, hence, responded to the DBMI by strengthening and evolving its business model and embracing new trends and technologies. Case A's responses can be categorised as strengthening the BM response and imitation/adoption disruptive BMI response. Case A did not respond to DBMI by innovating a novel BM.

5.3 Conclusion

Table 5 and 6 depicts the findings of the empirical data. Table 5 indicates three things. **First**, the managerial choices planned and implemented reveals what kind of BM response case organisation did, in response to manage the DBMI. For instance, in 2010–2013 Case A incrementally innovated their established business model, hence strengthening their BM, but also did adaptation/imitation response. In 2014–2021 Case A managerial choices fully focused on adaptation/imitation response. **Second**, managerial choices revealed the characteristics of their dynamic capabilities. Case organisations had either strong or weak sense, seize and transform/reconfigure clusters. For instance, Case B in 2010–2013 sensed the DBMI, but did not explore it or scanned it enough to understand it. Instead, they immediately aimed to adapt/imitate the unknown disruptor, hence facing negative consequents in years to come. Their sense

	2010-2013		2014-2017		2018-2021	
	Case A	Case B	Case A	Case B	Case A	Case B
BM Response	Strength. BM & Adaptation/ Imitation	Adaptation/ Imitation	Adaptation/ Imitation	Strength. BM & Adaptation/ Imitation	Adaptation/ Imitation	Strength. BM & Adaptation/ Imitation
Dynamic capabilities	Strong Sense Cluster	Weak Sense Cluster	Strong Seize Cluster	Strong Seize Cluster	Strong Transform/ Reconfigure Cluster	Strong Transform/ Reconfigure Cluster
Explore/Exploit	Explore	Explore & Exploit	Explore & Exploit	Exploit	Exploit	Explore & Exploit

Table 5 Activision Blizzard (Case A) and Electronic Arts (Case B) findings

cluster thus has some weaknesses. **Three**, findings reveal that managerial choices falls into new categories, Explore/Exploit. The case organisation did managerial choices that inclined to explore and/or exploit activities depending on the specific timeline.

Table 6 depicts all detected managerial choices from the empirical data. Findings reveals new and important managerial choices that were not part of the research framework but were discussed in theory chapter. The new findings are competency trap, scan and testing activities, differentiation of BM, attack and defence approach. The lack of differentiation of BM was noticed in the empirical data, hence added to the list since it has strong theory and evidence on its effects on BMI in response DBMI.

	2010-2013		2014-2017		2018-2021	
	Case A	Case B	Case A	Case B	Case A	Case B
Strategic Acquisition	x	x	x	x	x	x
Strategic Alliance	x		x	x	x	x
Separation Strategy	x	x	x	x	x	x
Integration				x	x	x
Insurance Strategy				x		x
Sense-Giving Activities	x	x	x	x		
Open-Innovation	x		x	x	x	x
Competency trap		x		x		
Scan & Testing activities	x	x	x		x	x
Differentiation of BM						
Attack approach		x	x		x	x
Defence approach	x			x		

Table 6 Findings: the detected managerial choices

To conclude this chapter aimed to explained what managerial choices incumbent organisations implemented when innovating their business model in response to a DBMI,

and to convey information about case organisations dynamic capabilities. Consequently, providing a bridge to topic of *“Were the managerial choices in business model innovation successful or not. If the business model innovation in response to DBMI was successful or failure, why? Did managerial choices convey any information about the incumbent dynamic capabilities?”* Additional findings were revealed that will support in answering the research question. In the next chapter this research will finally aim to answer to the research question *“Why do incumbent organisations fail or succeed in innovating their business model in response to a disruptive BMI?”*, through these findings, research framework and the theory discussed.

6 Discussion and interpretations.

A question remains: *why the incumbent was successful in their BMI in response to DBMI?* Findings and theories provide results regarding dynamic capabilities and managerial choices. The importance of dynamic capabilities was proven in theories and empirical data. Ultimately, dynamic capabilities are the key aspects of determining the quality of managerial choices, the processes, and routines that all together affect the success or failure of BMI in response to DBMI. The research framework, figure 4, is used to answer the research question. The focus is on Dynamic capabilities (Level I) and on Managerial choices (Level III). The empirical data and theory reveal numerous reasons why incumbents succeed or fail in BMI in response to DBMI. However, in this chapter, we discuss the most notable ones.

Activision Blizzard beholds strong dynamic capabilities in all three clusters: sense, seize, and transform. This is seen through their process of how they handled the DBMI through BMI. Activision not only sensed the rise of the GaaS-model but first implemented managerial choices that revolved around understanding the disruption: What business model elements it consists of, what are its impacts on the market, what are its opportunities and threats, and will it serve the company's strategy, and will it conflict with the established business model. Empirical data and theories reveal that open innovation and strategic alliance are perfect managerial choices for answering these questions. Open innovation reveals to the incumbent firms how to use and innovate their business model by leveraging internal and external sources of ideas, especially when the incumbent does not have the required technology, information, assets and competencies that DBMI has (Yang et al., 2022, p.19; Benazzouz,2019, p.115–116; Chesbrough, 2007). If an organization is over-reliant on exploiting its current business model, open innovation is a perfect solution. Strategic alliance provides almost the same benefit as open innovation (Yang et al.,2022, p.5; Mao et al.,2020, p.3; Benazzouz,2019, p.113–114). For instance, incumbents can learn and eventually possess the dynamic capabilities, competencies, and resources that are inevitable for innovating their BM and testing the new elements of DBMI without it causing conflict with established BM.

Consequently, strategic alliances buy time for innovating the BM (Yang et al., 2022, p.19). An organisation must be, hence, externally focused, especially on the early times of DBMI, just as Activision Blizzard was. An organisation that is too internally focused easily misses several opportunities, as seen in Electronic Arts when they first sensed the DBMI (Yang et al., 2022, p.19; Chesbrough, 2007).

So successful incumbent organisations recognize that internal capabilities are usually no longer valuable or practical when innovating their BM in response to DBMI. Consequently, implementing managerial choices such as open innovation, strategic alliances, and strategic acquisitions to promote collaboration with external knowledge and experience. Results reveal that managerial choices based on exploration highly influence the success of BMI if done foremost at the beginning of the DBMI process. To notice and to quickly explore the DBMI, requires a strong sense cluster.

The abovementioned results also align with Markides's theory, which states that unsuccessful incumbents easily fall into the trap of focusing too much on finding out how to leverage their existing assets, which results in low BM performance (Markides, 2015, p.134). This is called the competency trap, which Electronic Arts stepped on in 2010–2013 and 2014–2017. This resulted in unsuccessful products, such as Anthem and Battlefield 2 (Gordon, 2018; Kain,2019). Competency traps, hence, hinder the success of BMI in response to DBMI. Nonetheless, Electronic Arts fixed the issue through open innovation and strategic alliance, but rather late compared to Activision Blizzard. This result also suggests that even if one of the three clusters is not as strong as the other clusters, the BMI in response to DBMI will not automatically fail, but the process of BMI may slow down or hinder, as the Electronic Arts example shows. As in the case of Electronic Arts, they recognised their flaw, fixed it, and resulted in positive outcomes. Nonetheless, if compared to other incumbents, Electronic Arts BM's performance was not as strong as Activision Blizzard's.

The empirical data and theory confirm that acquiring key competencies of DBMI is crucial to innovating a new BM (Habtay and Holmen, 2014, p.301; Ferrary, 2011, p.181–183, 189–190; Malmström & Wincent, 2012, p.132–133, 152–153; Benazzous, 2019, p.114–115; Bogers et al., 2014, p.19–20). The most common managerial choices were strategic acquisition and separating or integrating the acquired unit. The challenge lies in that the acquired DBMI competencies conflict with the incumbent's established business model, hence disrupting it from the inside out (Markides, 2006, p.20–22; Christensen et al. 2018, p.1047–1050). In the case of Activision Blizzard and Electronic Arts, it was revealed that one of the reasons for their success was handling this conflict between the established BM and the DBMI. At the beginning of the DBMI process, the case organisations first incrementally innovated parts of their business model while simultaneously acquiring competencies through strategic acquisition. The strategic acquisition focused primarily on video game studios specialising in DBMI. This provided the case organisations with a situation where they gradually innovated their established business model to withstand new DBMI elements while simultaneously acquiring the conflicting key competencies that resided in separated units. Hence, the incumbent gradually integrated the DBMI elements into the incumbent's established model while strengthening the BM, which resulted in a new business model that could withstand disruptive BM elements.

Ultimately, results indicate that successful incumbents managed to acquire key DBMI competencies, gradually leading to either integrating them or separating them. Nonetheless, empirical data explicated that almost all strategic acquisitions at first were separate units, and only some of them were later integrated into an incumbent new business model. In the end, empirical data and theory align that a successful incumbent acquires external competencies through strategic acquisitions while at the same time leveraging internal prior experiences, assets, and competencies (Habtay & Holmen, 2014, p.294).

However, as findings reveal, leaning heavily on one choice and activity does not result in a successful BMI. These results also indicate the importance of the ambidexterity theory of exploring and exploiting activity in a successful BMI response to DBMI. For an incumbent to adapt to the changing needs of the market, it is central for organisations to exploit the existing business model in a profit-producing way while simultaneously exploring new business models, technologies, and markets (O'Reilly & Tushman, 2008, p.189; Teece,2006, p.1319–1323). As the case organisations did, this involves configuring and reconfiguring incumbent BM, dynamic capabilities, and assets to capture existing and new opportunities (O'Reilly & Tushman, 2008, p.189; Teece,2006, p.1319–1323). Exploitation involves optimising efficiency, boosting productivity, exercising control, ensuring predictability, and reducing variability. On the other hand, exploration entails seeking, uncovering, asserting autonomy, and fostering innovation. Ambidexterity encapsulates the art of simultaneously engaging in both aspects (O'Reilly & Tushman, 2008, p.189; O'Reilly & Tushman, 2011, p.5–7). Empirical data and theory suggest that ambidextrous activities are a key solution for responding to DBMI (Wallin et al.,2021, p.33; Leah et al.,2015, p.10–11). For instance, the managerial choices of Electronic Arts indicate that at the beginning of DBMI, they strongly leaned on exploitation, hence the competency trap, and why they responded too early to DBMI without profoundly analysing it first. Not only later, Electronic Arts faced the negative results and changed its approach to be more explorative.

The empirical data and theory confirm how the separation strategy hugely impacts incumbents to succeed in their BMI in response to DBMI (Markides,2006, p.22; Christensen, 2013, p.95,136,141). First, the acquired video game studios are foremost separated at first. This allows the case organisations to analyse the elements of DBMI at a safe distance without causing any conflict to the established BM. Case organisations proceeded this way and resulted in enforcing the success of BMI. Nonetheless, as theory and empirical data reveal, separation strategy is not straightforward. For such findings indicated that being patient with the separate unit in stages over time, remaining committed to the separated unit over a long period, and granting significantly greater

operational and financial autonomy to separate units resulted in the success of newly released GaaS-products (Markides, 2015, p.124,127–128; Gulati & Garino, 2000, p. 110; Gilbert,2003;Cooper & Smith,1992, p.61–61,67–68). For instance, Activision Blizzard acquired and separated King video game organisation specialised in mobile game GaaS. As King's Strategy was to grow in the mobile gaming market, so was Activision Blizzard. Hence Activision Blizzard provided King operational and financial autonomy while remaining committed to them. Figure 12 indicates the King's growth. Another example is also seen in Electronic Arts.

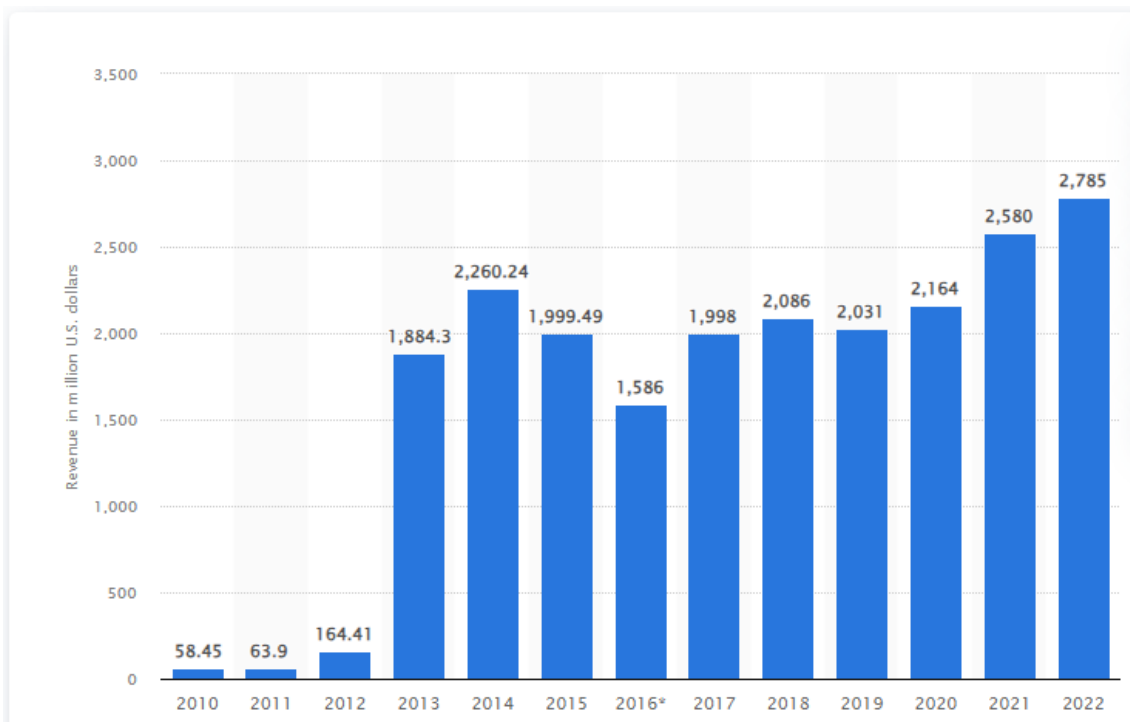


Figure 12 Net revenue generated by King from 2010 to 2022. On 23 February 2016, Activision Blizzard closed its acquisition of King. Statista (2023g).

Electronic Arts also acquired and separated different video game companies specializing in DBMI, but the most notable one is Respawn Entertainment Company, which, at that moment, was not specialized in DBMI. Nevertheless, as Electronic Arts committed to the separated unit through constant financing and support, Respawn Entertainment published one of the most successful free-to-play games, Apex Legends, which is still generating significant amounts of revenue. As the GaaS product was successful, EA gave Respawn Entertainment even more of an autonomous position.

Nonetheless results reveals that failure can still occur even if the incumbent is committed to a separate unit and provides financial and operational freedom. BioWare video game studio, which is EA's separate unit, has released successful premium and traditional video games year after year. Not until when Bioware released their first live service game, Anthem, which failed. The reasons for this are unknown. However, it may be because BioWare's talent, assets, and competencies were based on the old model for years, and not on the DBMI. Hence, the immediate integration of DBMI elements into BioWare resulted in mixed outcomes. BioWare may have lacked the talents to produce a GaaS based products compared to separated units that already had the requirements for producing GaaS products. Ultimately, successful incumbents provided policies to separated units with their adopted or novel BM the essential freedom and independence to cater to their respective markets in the most suitable manner. Nonetheless, it is not always successful. Incumbents need to be careful with their older separated units and not force the new and conflicting elements of DBMI into the separate units, except if the separate unit is already based upon the DBMI BM.

The empirical data reveals that timing and understanding the nature of DBMI is vital for the success of BMI. Responding against the DBMI requires understanding it through scanning, searching, and exploring (Leih et al., 2015, p.6–9). As Habtay and Holmens (2014, p.301–302) mention, managing the disruption requires a correct response depending on the nature of DBMI. The theory claims that if DBMI is a double threat(High conflict), but the incumbent organisation would respond against it as it would be a single threat(Low conflict) by leveraging its own assets and competencies while at the same time integrating conflicting DBMI elements to the incumbent BM, it leads to failure since DBMI is highly conflicting, meaning that its elements are in its nature disruptive to incumbents BM(Markides,2006, p.20–22; Christensen et al. 2018, p.1047–1050; Habtay & Holmen, 2014,s.301–302). Hence deeming the incumbent to fail BMI in response to DBMI. For instance, if Electronic Arts had invested more in exploring the DBMI, they would have noticed that the GaaS-model elements are highly conflicting with their

established business model. Hence, Electronic Arts would have avoided managerial choices where they too quickly integrated conflicting DBMI elements to some of their separated units and their established BM. Only later, when the DBMI is sensed and explored, and the required competencies have been acquired, it is safe to assume to either integrate the separate unit or keep the separate unit, separated.

Empirical data reveals that even if the incumbents responded to the DBMI by copying and adopting some of its elements, the BMI was successful. This reveal does not align with Markides's findings. Markides's findings highlight that successful incumbents respond to DBMI through developing a differentiated BM, such as in the example of Nintendo, mentioned in the Introductory chapter (Markides, 2015, p.130–134,138). To put it simply, there is still no clear answer if the outcome of successful BMI is rooted from a differentiated BM.

Additionally, theories state that the perception of DBMI influences on how to approach the situation (Markides, 2015, p.137–139; Gilbert, 2003; Gilbert & Bower, 2002, p.95–97). The empirical data reveals that if the DBMI is seen as an opportunity, incumbents lean on an aggressive/attack approach. If seen as a threat, incumbents lean on defensive approaches. Empirical data indicates that when incumbent perceives the DBMI as an opportunity, they are approaching the DBMI as attacking it and ready to seize the opportunity. When the incumbents perceive the DBMI as an unknown entity or a high-risk disruption, they approach it more defensively. Theories and findings confirm that the perception of DBMI influences the approach and hence the success of BMI, but do not agree which perception and approach is the best for responding to DBMI (Markides, 2015, p.137–139; Gilbert, 2003; Gilbert & Bower, 2002, p.95–97). This research did not reveal any connection between the approach and the success of BMI in response DBMI. It is important to note that this reveal does not mean that the perception and approach does not have any influence on the success of BMI, since this research empirical data's purpose is to provide information about managerial choices and dynamic capabilities.

To conclude, this research seeks to answer our research question: Why do incumbent organisations fail or succeed in innovating their business model in response to a disruptive BMI? This research aimed to answer this research question through managerial choices and dynamic capabilities. What excellent and poor managerial choices impacted the BMI and did strong or weak DC influence the quality of managerial choices and incumbents' ability to adapt to the changing rules? In the end, this research reveals, based on the interpretations above and discussion, seven reasons why incumbents succeeded in their BMI in response to DBMI: **First**, strong dynamic capability, especially in sense cluster; **Second**, focus on exploration of managerial choices at the beginning of the DBMI process; **Third**, focusing on acquiring external knowledge and competencies; **Fourth**, minimising the conflict between the established BM and the new BM; **Fifth**, an ambidexterity organisation which balances the managerial choices between explore and exploit, depending on the situation; **Sixth**, well-implemented separation strategy through allowing operational and financial freedom to separate units and being long term committed investing in them; **Seventh**, Understanding the DBMI before implementing any managerial choices.

Research reveals four reasons why incumbents fail in their BMI in response to DBMI: **First**, they focus too much on exploitation activities, especially at the beginning of the DBMI process. Usually, incumbents lean on too much exploitation since customer demand and profits produce positive feedback, encouraging the incumbent to continue the path (O'Reilly & Tushman, 2008, p.190). Hence, most incumbent organisations tend to be short-term biased and will always be specialised in exploitation. If the incumbent focuses too much on exploitation managerial choices, it leads to a competency trap, meaning that its' existing competencies and core capabilities become resistant to change or adaptation (O'Reilly & Tushman, 2008, p.189–190; Yang et al., 2022, p.5). This competency trap can be identified as incumbents that are bound to their established routines and thus highly focuses on incrementally developing their existing competencies, which results in incumbent incapable of sensing the need or urgency to innovate their business model in response to DBMI (Wallin et al. 2021, p.21; Gans,2016).

Hence, the same business model and the competencies that made the incumbent successful in the past will hinder the business model change. The business model, which was the cause of success, is now a disadvantage because of the DBMI presence.

Second, as either focusing too much on exploitation or exploration. Incumbents need the agility to change their approach depending on at what stage the DBMI process is and in what situation the incumbent is. **Third**, responding too early without adequately exploring the DBMI. **Fourth**, establishing too close the organisational linkages between the established BM and the new BM, primarily if the new BM consists of highly conflicting BM elements.

These reasons are the most revealing in empirical findings and theory. It is vital to notice that these reasons are not the only interpretations from the empirical findings and theory. Hence, there may be countless answers to why some incumbents succeed or fail to BMI in response to DBMI. Nonetheless, this research aimed to answer through our research framework, mainly focusing on Dynamic capabilities (Level I) and managerial choices (Level III). As empirical findings revealed new aspects, the research framework is redefined to reflect an even more in-depth and grounded perspective regarding BMI in response to DBMI.

The table depicts the refined research framework. The aspect of ambidexterity theory was added because the empirical data revealed the significance of explore/and exploit activities. With the new refined research framework, it possible to stay in track whether any Dynamic capabilities, business model responses and managerial choices are either too heavily leaning on exploiting or exploit activities. Ultimately the ambidexterity theory either emphasises that every aspect at a certain level is either exploratory or exploitative in nature. The purpose is to provide depth, allowing the firm to recognize if decisions lean too heavily toward either the explore or exploit side and hence give clarification to incumbent to change their course.

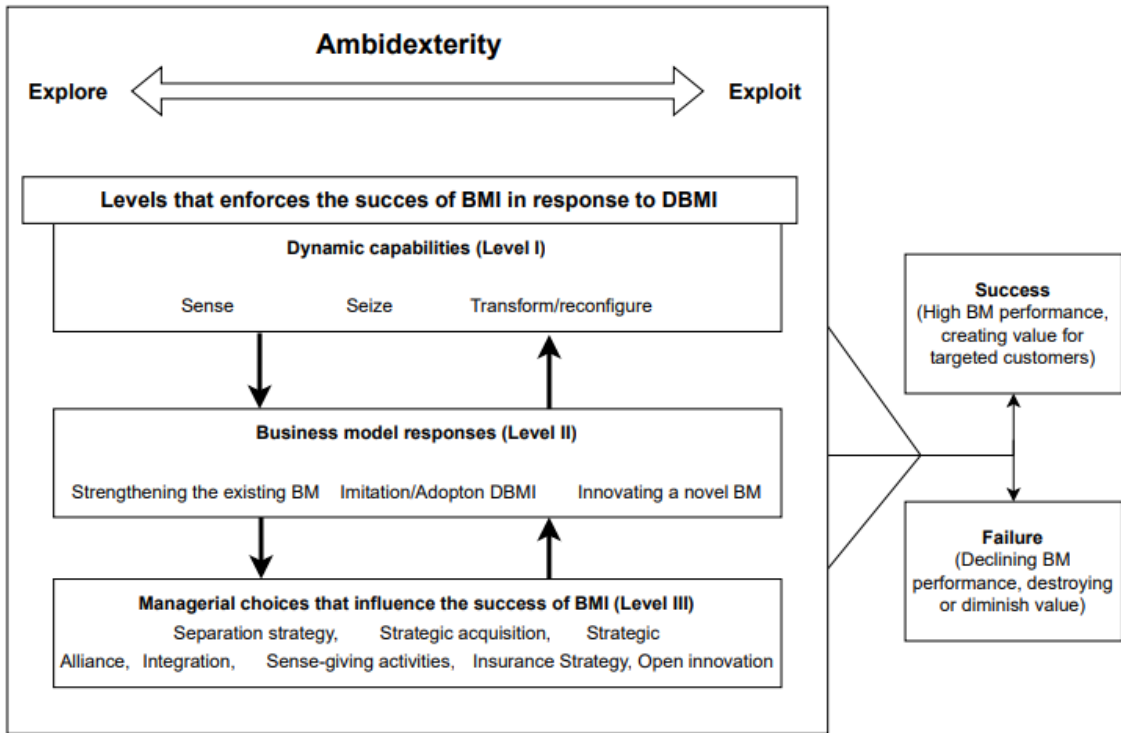


Table 7 Refined research framework.

7 Conclusions

This research aimed to answer the question: "*Why do incumbent organisations succeed or fail in innovating their business model in response to a disruptive BMI?*". This occurred through three research objectives, which the first and second objectives formed the research framework. The research framework was then used to collect, analyse, and interpret empirical data from two incumbent organisations. The first research objective is: "*How and why incumbent organisations respond to disruptive BMI?*". The importance of BM and BMI were discussed in the context disruption. In order to understand "*Why*" incumbents succeeded or failed to BMI in response to DBMI, an in-depth analysis of the connection between the incumbent BMI and the DBMI was required. The first research hence concluded the definition and analysis of BM, BMI, BMI responses, and DBMI.

The first research objective is a perfect link to dive deeper to understand the factors that influence the success or failure of BMI in response to DBMI. Therefore, the second research objective was created: "*How dynamic capabilities and what managerial choices contribute to incumbent success or failure in innovating their BM in response to a DBMI.*" It was found that dynamic capabilities were critical for the success of BMI. It was also found that dynamic capabilities affect the quality of managerial choices, which, in fact, were another essential factor that directly influenced the success of BMI. In the BMI and DBMI theory, the most discussed managerial choices were picked and then analysed. The chosen managerial choices are separation strategy, strategic acquisition, integration, sense-giving activities, insurance strategy, strategic alliances, and open innovation. As a culmination of the first and second research objectives, a research framework was created that depicts three levels (Dynamic capability, BM responses, and managerial choices) that influence the success of BMI.

The third research objective, "*What video game organisation did (Managerial choices) when innovating their business model against a disruptive business model innovation and what are their aftermath situation?*", aimed to answer the research question by finding data about incumbents' managerial choices, and through them some information

about their dynamic capabilities. This led to findings in the form of text and matrixes (table 5, table 6). The findings revealed new information regarding dynamic capabilities, BM responses, managerial choices, and ambidexterity. This research paper used qualitative content analysis in case study research. Hence, the nature of the data constructs a holistic perspective on the phenomena of BMI in response to DBMI.

The research culminated in a discussion and interpretation chapter, in which the empirical data, findings, and theories are combined in order to answer the research question. Consequently, this research proposed seven reasons why incumbents succeeded and four reasons why they failed. These results are interpreted; hence, they may vary, but the findings about incumbents' managerial choices, dynamic capabilities, BM responses, and ambidexterity activities will not. The refined research framework makes it possible to find more answers to our research question.

This research has several theoretical implications. **First**, it provides a complex set of theories and findings that shed light on factors, especially on managerial choices and dynamic capabilities, that influence the success of BMI in response to disruption. **Second**, it combines the disruption and BMI theory to create in-depth explanations of the whole process DBMI and BMI process. **Third**, as other theories focus on indicating what the incumbent needs to succeed in BMI in response to DBMI, this research provides information regarding the role of managerial choices in the BMI process. Analysing managerial choices can provide insights into the incumbents' strategic direction, decision-making processes, and mindset, helping identify potential barriers or shortcomings in their approach to business model innovation. **Fourth**, the creation of a research framework and refined research framework that aims to depict a simple yet complex explanation of factors that influence the success of BMI in response to DBMI.

This research also has managerial implications that may serve incumbent organisations. **First**, incumbents better understand the role of business model innovation in a dynamic market, especially as an essential BM decision to survive the threat of DBMI or exploit

the opportunity of DBMI. **Second**, incumbents now better understand that there is no one way to respond against the DBMI and that the BMI is a process that, in time, requires a change of pace in managerial choices, depending on the nature of the DBMI. **Third**, exploring the DBMI at first is essential for understanding its nature in order to choose the proper corresponding response. **Fourth**, the importance of specific managerial choices, such as strategic acquisition and alliance. Nonetheless, leaning too heavily on particular managerial choice does not result in positive outcomes. Hence, this research provides information regarding the importance of the explore/exploit nature of managerial choices. Results indicate that successful incumbents recognize to balance managerial choices between explore and exploit activities depending on the situation they are in and of what stage (Early, Middle, Late) the DBMI is in.

This research poses research limitations, especially regarding gathering empirical data and its relevance in answering the research question. This research chose annual reports as the primary source of empirical data, which is why the data in annual reports may be false and hence affect the research findings. Additionally, this research aimed to find managers to interview them. However, with the limited resources, annual reports were the second-best source for gaining information about their managerial choices in BMI. Also, as this topic revolved around BMI in response to the DBMI context, some findings and results may not be transferable to different contexts. For instance, factors that influence the success of BMI in response to DBMI revolves around incumbents, which operate differently from new-time organisations implementing a BMI. This research had two case organisations. Hence, the sampling size poses some research limitations. For such, if there were two more case organisations that failed to respond to DBMI, this research would provide even more results regarding the reasons why incumbents failed their BMI in response to DBMI.

As for future research, it would be beneficial to analyse the same topic with different empirical data and methods in order to solidify the understanding of how and why dynamic capabilities, business model responses, and managerial choices affect the

success or failure of BMI. Also, as this research chose only a handful of managerial choices, future research could choose different managerial choices and analyse its impact on BMI in response to DBMI. As this research revealed the importance of ambidexterity, future research could figure out when is the perfect time for incumbents to explore or/and exploit. Future research could also thoroughly analyse what specific BMI response is needed depending on the nature of the DBMI.

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