4th INCOGITE and 2nd HOSPITOUR 2022
"Regenerative Economy, Business & Tourism: Through innovation & Sustainability"
Thursday, November 17th, 2022 – Universitas Pelita Harapan Tangerang

Exploring the Antecedent of Business Model Innovation in Creating a Sustainable Business

Herdi Qoharrudin[1], Lily Sudhartio[2*]

[1]herdi.qoharrudin@ui.ac.id, [2]lily.sudhartio@gmail.com

[1, 2] Faculty of Economics and Business, Universitas Indonesia, Jakarta, Indonesia

Abstract. This paper aims to study the relationship between business model innovation, contextual ambidexterity, entrepreneurial orientation, and knowledge absorptive capacity on a hotel's performance. In the last few years, there was increasing research interest in business model innovation (BMI), but the conclusions regarding what and how it works and factors that are affecting BMI still require more research. Ambidexterity and entrepreneurial orientation were mentioned frequently and had some positive effects on performance organization. But there have not been many subjects to do with BMI. The capacity to absorb knowledge is also often disclosed as a prerequisite capability for an organization to conduct innovation. The hotel becomes the context that is pulled to test the factors to innovation business model especially with the uncertainty of the pandemic covid affecting hotel business.

Keywords: Business model innovation; Firm performance; Contextual ambidexterity; Entrepreneurial orientation; Knowledge absorptive capacity

1. Introduction

The hospitality sector is experiencing an extraordinary and unexpected event, namely the COVID-19 pandemic which has resulted in a decrease in the number of human movements around the world which eventually led to a decrease in hotel occupancy rates. This forces the hotel to re-analyse its business model to be able to survive by relying on all the resources it has. Souto (2015) emphasizes that BMI can stimulate the creation of innovations gradually or radically in the hospitality sector. Cheach et al. (2018) found in their research that BMI mediates the relationship between volatile market conditions and the performance of the hospitality industry. Furthermore, Cheach et al. (2018) also found that BMI assists companies in the hospitality sector in creating a sustainable competitive advantage especially when they operate in highly unstable environments.

BMI usually occurs as a consequence of the existence of external causes such as globalization (Lee and Huang, 2012), changes in the competing environment (De Reuver et a., 2013), the existence of new opportunities from technology or human behaviour (Wirtz et al., 2010). In the current business environment conditions that change so quickly, the BM life cycle is getting shorter (Lindgardt, 2012) and because of the increasing economic, social, and business environment pressures, it is necessary to have adaptive and innovative capabilities in seeing existing business opportunities and using them to maintain company continuity in the long term (WCED, 1987).

The process of creating BMI is not an easy thing because it involves environmental and social aspects. This requires cross-functional cooperation in organizations and systematic ways of thinking as well as changes in business processes, products, and organizational forms (Adams et al., 2016). Therefore, many organizations develop BMI on an ad-hoc, temporary, and unsystematic basis (Stubbs & Cocklin, 2008). It takes a managerial ability to be able to exploit and at the same time explore, commonly called organizational ambidexterity (Fontana, et al., 2015; Simon, 2017 in Minatogawa et al 2020), in improving the existing business model and at the same time trying a new business model to ensure the long-term sustainability of the company (Lee & Raschke, 2020).

Although many studies have shown that organization ambidexterity offers better performance, the relationship between ambidexterity and performance is still not conclusive. Some researchers show positive effects of ambidexterity (Gibson and Birkinshaw, 2004; He and Wong, 2004; Lubatkin et al., 2006) other

researchers suggest choosing one of the alignment or adaptability strategies to avoid getting stuck in low performance due to pursuing both strategies together (Ghemawat & Ricart, 1993). Some even question the advantages derived from ambidexterity strategies (Van Looy et al., 2005).

In the New Normal, it takes a company's ability to see opportunities and threats far beyond existing markets and industries (Hamel, 2007 in Loon et al., 2020). Large companies are no longer the overlords of the New Normal era, small companies or start-ups can optimize the sophistication of technology and create new models that are competitors to established companies. As a consequence, the New Normal increases the need for BMI as a way for companies to answer challenges and continue to grow (Loon et al., 2020). The need for knowledge and mastery of new technologies requires the company's ability to absorb and then implement them in the improvement of its business model. Knowledge absorptive capacity (KAC) is the ability of a company to recognize the value of new information, from internal and external, assimilate it and then apply it at the commercial stage (Cohen & Levinthal, 1990) which then drives the creation of improvements in innovation performance (Ferraris et al., 2018). Researchers have found evidence of a strong link between a company's knowledge and innovation capabilities (Bhatti et.al., 2020).

Research in the field of entrepreneurship increasingly reflects the strategic issues and challenges faced by companies as they recognize and want to seize opportunities in the market (Zahra et al. 2005). The company strives to continue to grow and profit by modifying its products, services, and business model to satisfy market needs (Child et al. 2017). In entrepreneurship, EO is an important construct (Miller 1983; Lumpkin and Dess 1996, 2001) because EO explores a combination of entrepreneurial behaviors such as opportunity-seeking and exploiting them, innovative, proactive, and risk-seeking behaviors (Asemokha et al., 2019). Although managerial practice and academic research have shown interest in the concept of BMI and entrepreneurial orientation (Jantunen et al. 2005; Foss and Saebi 2017), few studies examine BMI and EO together. So, the main question of this study is: "Do Ambidexterity, EO, and KAC have an important influence on business model innovation in achieving sustainable performance in the hospitality industry in Indonesia?"

2. Literature Review

The following sections will feature previous research related to BMI, contextual ambidexterity, entrepreneurial orientation, knowledge absorptive capacity, and hotel performance.

2.1 Business model innovation in the Hotel Context

BMI is defined as "significant new changes to the key elements of the business model and or connections that connect those key elements" (Foss & Saebi, 2017), as a source of innovation that complements conventional innovations in products, processes, and organizations (Zott, Amit & Massa, 2011) is still relatively new and has not been widely researched (Zhang et al., 2021).

Although Business model innovation (BMI) has been seen as a company's mechanism to achieve business continuity (Jolink, 2015), many barriers cause BMI capabilities not to be possessed by many organizations (Mezger, 2014) including cognitive (Frankenberger et al., 2013; Von den Eichen, 2015), and managerial (Täuscher, K., Abdelkafi, 2017). Furthermore, BMI is a complex process that requires a variety of specific capabilities (Loon et al., 2020).

In times of crisis such as the COVID-19 pandemic, where the future of the business becomes uncertain and the occurrence of resource scarcity due to weakening financial capabilities, company managers, including hotels, need to adopt BMI as an alternative or complement to product and process innovation (Amit and Zott, 2012) because even small BM changes can result in improved performance. Zhao et al. (2016) emphasize the need for companies in all industries to be able to reconfigure the value offered to customers as they consider changes in technology, institutions, infrastructure, and stakeholders as well as their external environment.

2.2 Contextual Ambidexterity in the Hotel Context

Ambidexterity is the ability of an organization to efficiently organize existing business needs and at the same time adapt to environmental changes (Gibson & Birkinshaw, 2004). Ambidexterity makes it easier for organizations to manage exploration and exploitation capabilities (Lee & Huang, 2012) so as not to get caught in the traps. The term "ambidexterity" refers to the ability to pursue different goals simultaneously, such as exploitation and exploration (March, 1991), efficiency and flexibility (Adler et al., 1999), or alignment and adaptability (Gibson and Birkinshaw, 2004). While previous studies have used different terms to label the dimensions underlying ambidexterity, they essentially capture the same phenomenon and thus can be used interchangeably (Raisch and Birkinshaw, 2008).

In this study, the terms "alignment" and "adaptability" were used. Alignment implies the existence of a management system that ensures coherence across the ranks of the company, with an emphasis on gradually updating the skills and capabilities of existing companies (Adler et al., 1999; Gibson and Birkinshaw, 2004). Alignment is also concerned with the company's ability to refine its current competencies to improve

operational efficiency (Ghemawat & Ricart., 1993). Instead, adaptability captures the existence of management systems aimed at reconfiguring the company's current set of activities, with an emphasis on experimentation with radical innovations (Adler et al., 1999; Gibson and Birkinshaw, 2004) - often as a means of overcoming changing external conditions (March, 1991) and challenging existing ideas, often as a means to cope with changing external conditions (March, 1991) and challenge existing ideas, such as optimally using new technologies or targeting and serving new market domains (Kyriakopoulos and Moorman, 2004).

Ambidexterity can be achieved by both structural approaches, namely by creating two different units that each focus on exploitation and exploration (O'Reilly & Tushman, 2004 in Fourne et al., 2019), and contextual, namely by creating behavioral capacities that can simultaneously carry out exploitation and exploration activities at once (Gibson & Birkinshaw, 2004). Proponents of Structural ambidexterity suggest that the paradoxical challenges of exploitation and exploration can be solved by creating two different structural units (Duncan, 1976; Jansen, Tempelar, Van den Bosch & Volberda, 2009; Lavie et al., 2010 in Fourne et al., 2019). Contextual ambidexterity, on the other hand, suggests that contextual support needs to be given to team members to divide their time and effort according to their best choices in carrying out exploitation and exploration activities (Gibson & Birkinshaw, 2004; Havermans, Den Hartog, Keegan, & Uhl-Bien, 2015).

The contextual approach provides the possibility to exploit the maximum performance of an existing BM, while, at the same time, exploring the existence of new business model opportunities. From a theoretical point of view, Markides (2014) reinforces the importance of testing contextual ambidexterity for BM, since literature does not usually present proposals in this sense. The theoretical framework of BM has sought to address the problem of opposition to the limited use of two business models. Minatogawa et al., (2020) determine that contextual ambidexterity fits better into the context of medium and small-scale enterprises.

The superiority of resource availability in large enterprises may be masked by the lack of flexibility in allocating these resources to different units and the inertial forces that hinder the occurrence of complementary interactions between exploration and exploitation. Whereas in small companies, resource shortages can be treated with high flexibility and speed in allocating resources, which are limited, effectively in exploration and exploitation activities (Fourne et al., 2019).

In the context of the hospitality industry which emphasizes direct service to customers supported by a relatively small number of employees compared to the manufacturing industry, contextual ambidexterity will be a suitable method for managers to gradually improve their BM and develop it to meet changes in consumer behaviour due to environmental changes such as COVID-19. Contextual ambidexterity allows the activity of making continuous improvements aimed at building a sustainable organization and, at the same time, exploring new BM configurations, which correspond to the idea of sustainable development.

2.3 Entrepreneurial Orientation in the Hotel Context

In the domain of entrepreneurship, EO is an important construct (Miller 1983; Lumpkin and Dess 1996, 2001) because EO explores a combination of entrepreneurial behaviors such as opportunity-seeking and exploiting them, innovative, proactive and risk-seeking behaviors (Zucchella et al., 2018). EO is a strategic orientation of business regarding the practices, processes, and activities on which innovation and market decision-making are based (Lumpkin & Dess, 1996).

EO can be defined as a company's attitude towards innovation, proactivity, and risk-taking in the formulation and implementation of strategies (Covin & Lumpkin, 2011). Innovation shows the tendency of the company to look for new ideas and participate in the creative process aimed at the development of new products and services (Lumpkin & Dess, 1996). Proactivity reveals the company's tendency to detect and capitalize on promising market opportunities ahead of competitors. The risk-taking attitude represents the extent and degree of willingness of managers to use business resources aimed at the implementation of projects whose results are uncertain and the cost of failure is high (Wiklund & Shepherd, 2005). An entrepreneurial-oriented company tends to encourage its employees to make decisions independently, actively introduce innovations, assume calculated risks, act proactively and show a degree of aggressiveness in competition with competitors (Lumpkin & Dess, 1996).

Research in the field of entrepreneurship increasingly reflects the strategic issues and challenges faced by companies as they recognize and want to seize opportunities in the market (Shane and Venkataraman 2000; Zahra et al. 2005). The company strives to continue to grow and profit by modifying its products, services, and business model to satisfy market needs (Child et al. 2017).

In general, EO has a positive effect on hotel performance in Asia (Jogaratnam & Tse, 2006). Empirical research in the context of the hospitality industry shows the influence of conventional multidimensional combinations of EO, especially proactiveness, risk-taking and innovativeness (Njoroge et al., 2020), innovativeness, proactiveness, competitive aggressiveness (Olowofeso & Ale, 2019) on hotel performance.

2.4 Knowledge Absorption Capacity in the Hotel Context

Cohen & Levinthal (1990) define Knowledge Absorption Capacity (KAC) as "the ability of a company to recognize new value, external information, assimilate, and apply it to commercial purposes", which has been adopted by many researchers in knowledge management research (Ardito, et. al., 2019). KAC has been considered as the capacity to recognize and view new information and knowledge for commercial purposes (Cohen & Levinthal, 1990).

Researchers have found evidence of a strong significant link between learning capability and enterprise innovation (Bhatti et al., 2020b). The acquisition of knowledge from an internal or external source of the company can lead to improved innovation performance and the way value is created and captured (Ferraris et al., 2018; Scuotto, Del Giudice, Bresciani, & Meissner, 2017). Similarly, the assimilation of external knowledge can increase momentum for solving problems and limit the development cycle of new products and services (Vrontis, Thrassou, Santoro, & Papa, 2017; Xie et al., 2018). By assimilating external knowledge, companies can avoid the repetition of work and supplement existing knowledge resources (Sandulli, Ferraris, & Bresciani, 2017).

Absorptive capacity is important to support innovation in organizations in the tourism industry (Weidenfeld et. al., 2009). There is evidence that organizations involved in the tourism industry, including hotels, depend on external sources of knowledge (King, Breen, & Whitelaw, 2014; Williams & Shaw, 2011). The creation of competitive advantages from knowledge-based resource assets does not only apply to the manufacturing and technology industries but also service industries such as hotels (Kianto et al., 2010) Therefore, KAC is important in its existence in organizations in the hotel industry.

2.5 Hotel performance

Organizational success, in the review of the field of strategic management, according to Peteraf and Barney (2003) does not depend on only one factor and the performance of the organization must be measured from various aspects. Venkatraman and Ramanujam (1986) stated that to measure organizational performance, a broader perspective and point of view are needed, where improvements in financial performance, operational performance, and market performance are three areas that are seen as more representative.

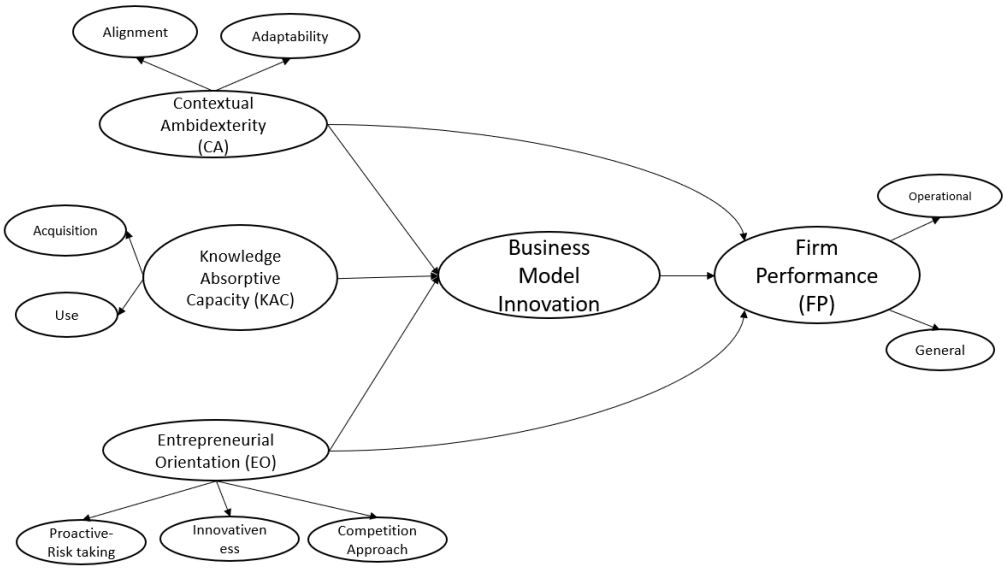
Jogaratnam (2006) developed a general performance measurement instrument of the hospitality industry based on management perceptions with criteria consisting of cash flow, sales level, ROA, net profit, market share, and sales growth. The measurement is used by Jogaratnam (2006) to measure the performance of the hotel business by taking the context of an Asian country.

Ubeda-Garcia (2021) uses eight indicator items divided into two dimensions, referring to previous studies (Úbeda-García, Claver-Cort´es, Marco-Lajara, Zaragoza-S´aez, and García-Lillo, 2018; Longoni et al., 2018), to measure the performance of hotels in their research with the context of the Spanish state. The two dimensions used to try to capture, on the one hand, a general performance criterion consisting of 1. market share growth, 2. brand recognition, 3. the company's market image, 4. sales growth; and, on the other hand, the performance dimensions are more appropriate to the hotel sector companies which consist of 1. revenue per room, 2. average occupancy, 3. the level of customer satisfaction and employee satisfaction.

3. Hypothesis development

The following sections will present arguments from previous research that led to the development of a research hypothesis. This research model is shown in **Figure 1**.

Figure 1
Research Conceptual Model



3.1 Business model innovation as a Mediator between Contextual ambidexterity and Hotel's Performance

Many studies have shown that ambidexterity is a dynamic capability that is critical to a company's long-term growth (Michelino et al., 2019) and has long been proven to be a determining component of organizational success (March, 1991; Tushman & O'Reilly, 1996). Ambidexterity is positively and significantly related to organizational performance (Gibson & Birkinshaw, 2004). More specifically, contextual ambidexterity has a positive and significant effect on the achievement of business performance (De Clercq, et al., 2013) and this influence is mediated by BMI (Minatogawa et al., 2020). Continuing the findings of previous research, we assume that contextual ambidexterity positively affects the company's performance and there is a role for BMI as a mediator in the relationship.

H1a: Contextual ambidexterity positively influences Hotel's performance

H1b: Business model innovation mediates the relationship between Contextual ambidexterity and Hotel's performance

3.2 Business model innovation as a Mediator between Entrepreneurial Orientation and Hotel's Performance

One of the supporters of opportunity-seeking behaviour is the entrepreneurial orientation (EO). EO is a willingness to be proactive to market opportunities, competition, and the ability to innovate as well as a commitment to making risky business decisions in uncertainty to achieve competitive advantage (Wiklund & Sheperd, 2005). The main objectives of EO are closely associated with business strategy (Zhao et al. 2016), organizational change (Wang, 2008), and the creation of new business units (Asemokha et. al., 2019).

A business mentality that is significantly oriented towards entrepreneurship is a determining factor of success for BMI (Foss & Saebi, 2018) because it allows companies to enhance their collaborative networks with various stakeholders, and exchange resources, competencies, and knowledge with them, thereby facilitating the possibility of innovation (Genc et al., 2019). According to Amit and Zott (2012), entrepreneurial-oriented companies even consider BMI to be a better alternative to mere product and service innovation, especially in the presence of scarce resources and uncertain market conditions.

Some empirical studies find or assume the existence of a positive relationship between EO and BMI. Kollmann and Stockmann (2010) found that the EO mindset favours a proactive attitude, a tendency to innovate, and a risk appetite, thus stimulating ambidextrous organizations to experiment with new BMs and exploit existing BMs. Adopting the DC view, Bouncken et al. (2016) interpreted EO as DC and found that it can influence new value generation and value proposition formulas, thus positively impacting BMI. Mütterlein & Kunz (2017) found that EO gives companies the ability to develop different dimensions of BM, such as value creation, value proposition, and value acquisition.

Thus, in a competitive and unpredictable environment, managers who improve their strategies by incorporating BMI and redesigning programs aimed at developing organizational capabilities and processes can

drive competitive advantage (Morris, 2009). Previous studies have reported positive relationships between EO with BMI (Asemokha et al.,2019; Ciampi et al., 2021) and the role of BMI mediation in the relationship between EO and company performance (Asemokha et al.,2019).

H2a: Entrepreneurial Orientation positively influences Hotel's performance

H2b: Business model innovation mediates the relationship between Entrepreneurial Orientation and Hotel's performance

3.3 Business model innovation as a Mediator between KAC and Hotel's Performance

In the last decade, knowledge absorptive capacity has been recognized as a key factor in various types of innovations, such as process products, marketing, and management innovation (Santoro, Quaglia, Pellicelli, & De Bernardi, 2020). Many researchers have concluded that KAC is significantly related to innovation performance (Ferraris, Santoro, Bresciani, & Carayannis, 2018; Tseng, Chang Pai, & Hung, 2011).

Successful knowledge transformation can accelerate the assimilation of new knowledge and result in better innovation performance as well as superior company performance (Xie et al., 2018). Researchers have shown that the exploitation of knowledge can affect a company's innovation performance (Ferraris, Santoro, & Bresciani, 2017). The recombination and integration of internal and external capabilities essentially play an important role in improving the basic components of BM (Bogers & Jensen, 2017). Modifications and reinventions of enterprise business models are strongly linked to the dynamic capabilities of enterprises and their ability to reconfigure their resources (Ritter & Lettl, 2018).

Researchers have adopted a dynamic conceptual view on BMI and conceptualized it as a process of organizational change that requires capabilities, leadership and learning mechanisms (Cavalcante, Kesting, & Ulhøi, 2011; Foss & Saebi, 2017). In the same vein, Pedersen, et al., (2018) propose that there is a continuum between incremental and radical changes in BM. Specifically, Bhatti et al., (2021) found a positive relationship between KAC to business performance through the role of BMI mediation in the IT industry. We hypothesize that KAC plays a positive role in hotel performance through BMI mediation.

H3: Business model innovation mediates the relationship between Knowledge Absorption Capacity and Hotel's performance

3.4 Business model innovation and Hotel's Performance

Innovation has been associated with a variety of positive outcomes for organizations, including adaptation to market uncertainty (Vrontis & Christofi, 2019) and improved stakeholder relationships (Leonidou et al., 2018). Focusing on the process of capturing corporate value, Afuah (2004 in Bhatti, et al., 2021) presents a framework in which he proposes that the business model corresponds to the profitability of the company. While most research on business models is still conceptual (Hedman & Kalling, 2003), some research has tried to investigate the impact of business models through empirical analysis. In recent years, researchers have also sought to investigate the impact of BMI on business performance e.g., Bouwman, Nikou, Molina-Castillo, & de Reuver, (2018). BMI is a key factor that significantly contributes to competitive advantage and performance (Aspara et al., 2010; Henry Chesbrough, 2010 in Zhang et al., (2021). Giesen et al. (2007) investigated the impact of BMI and company performance and found that market-leading companies pay twice as much attention to BMI as underperforming companies.

According to the findings of most studies, BMI shows a positive relationship with performance (Foss & Saebi, 2017), financial performance in the IBM 2006 Global CEO Study (Pohle & Chapman, 2006), in entrepreneur companies (Zott & Amit, 2007), in small companies (Aspara et al., 2010) and large companies (Cucculelli & Bettinelli, 2015).

H4: Business model innovation has a positive effect on Hotel's performance

4. Research methodology

The research in this study will be carried out in a quantitative empirical way. The process is to answer research questions through the conceptual framework of the model that has been submitted. The research will be conducted in the context of the hotel industry in several major cities in Indonesia, with hotels as the unit of analysis and general managers as respondents. Hotels that will be the object of research are 4- and 5-star hotels that have national and international networks or individual hotels that are predicted to have more ability to absorb knowledge to support proactive and innovative attitudes in running their business models that are exploitative and exploratory.

5. Conclusion

This study examines various factors that can affect hotel performance, especially through business model innovation and antecedents. Based on literature studies, business model innovation is a relatively new concept, and it is wide open to research about supporting factors and their influence on organizational performance in sharing the industry context. To explore the BMI construction, this study uses three variables, namely contextual ambidexterity, entrepreneurial orientation, and knowledge absorptive capacity. Research on ambidexterity also still shows a diverse influence on organizational performance. In the context of the hotel industry that emphasizes excellent service for customers with employees as the front line, contextual ambidexterity can be an important capability for business continuity.

In this study, two concepts that are relevant to BMI were also added, namely knowledge management represented by variable Knowledge absorptive capacity, and the concept of entrepreneurship represented by entrepreneurial orientation. These two variables allow for the acquisition of new knowledge and its use in organizations such as optimization of collaborative networks taken by prioritizing a proactive attitude and daring to take risks so that they can support the improvement or innovation of business processes in line with customer demands and technological developments.

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