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**BUSINESS SYSTEM AND ORGANIZATIONAL INNOVATIONS IN
THE DIGITAL ERA**

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Abstract

The article discusses the transformation of the firms' organization and structure and designing new business models in the digital era. Today we are witnessing unprecedented changes in various areas of life activity, such as economics, politics, technology, international relations. Emerging new reality creates new challenges and opportunities for firms, to which they must adapt. An uncertain environment makes the firms take the path of survival, where the sustainability goal becomes a priority. We analyze the business environment in the digital era, its perspectives, and threats, discuss some perspectives on digital economy development in Russia. We analyze the main processes associated with the reformatting of firms. Among which we single out the processes of decentralization of management, strengthening the importance of labor resources and their involvement in the decision-making process, increasing the requirements for the quality of the workforce, and their competence. Thus, structures based on the principle of "equal to another" begin to form. Another facet of this process is the formation of customer-oriented organizations based on individual orders for each client, united in a unified network. The appearance of such business models was made possible thanks to the digital revolution. The new technological base created new opportunities and led to the interweaving of technological innovations with business model innovations.

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Keywords: Adaptive organization, business model, digital era, innovation, New Normal, management



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1. Introduction

We live in the era of a global transformation of the economic and business system. These transformations are significant in terms of their size, speed, and scope. We are at the beginning of the Fourth Industrial Revolution which is characterized not just by a set of information technologies, but by the transition to a new digital infrastructure. New information technologies are being introduced in all spheres and areas of business (Kusakina et al., 2018; Miroshnichenko et al., 2018). Moreover, the digital process poses new conditions for firms around the world with key implications for managers and various business professionals (Ahlstrom et al., 2020). So we can note the emergence of a new environment for business in digital era, so-called a “New Normal” (Ahlstrom et al., 2020; Muñoz et al., 2020; Smolka et al., 2020). The New Normal environment is a result of fatal and irreversible processes in the global economic system, the major is the 2008 financial crisis. This crisis alone with technological changes and geopolitical upheaval has been leading to significant shifts in the business environment in some countries domestic markets and the global market as well (Ahlstrom et al., 2020). Thus, the New Normal reflect radical changes in the business landscape and durable shifts in business behaviour (El-Erian, 2010; Etzioni, 2011; Muñoz et al., 2020). Moreover, the present 2020 global economy is on the verge of a new great recession, and coupled with further technical innovations they are continuing to complicate an existing business and economic environment. So nowadays firms are to perform in an ever-changing and hard to predict business landscape and look for new innovative methods and strategies for survival in the New Normal environment.

In this paper, we discuss different challenges and opportunities in New Normal correlated to the digital revolution. One of the New Normal key characteristics is the process of combining digital technological innovations and business model innovations. So, firms must respond appropriately to changes, finding solutions as adequate business models, for instance, innovative hybrid (Alberti & Varon Garrido, 2017), adaptive organization (Rosenstock et al., 2020; Toffler, 1985), prosocial cooperatives (Muñoz et al., 2020), ambidextrous organizations (Kodama, 2019) and others business models. Although certain variations of business models can be traced back in the past, with a new business landscape, they became necessary to address sustainability challenges and long-term success. For example, hybrid business models are a combination of the social and commercial sectors, profitable and non-profit practice, based on the “mitigation of a particular social or environmental issue” (Alberti & Varon Garrido, 2017, p. 4). Such organization forms can attract consumers and promote sustainability. Adaptive business models can be defined as an organization that easily adapts to changes in the business environment, embedded and responsive to the structure of the surrounding market system. Traditional firms can use such business models not only to make a profit but also reach sustainability and innovate their business model. We conclude with a view to further challenges for future research that can help us to increase our theoretical and managerial experience in business model development.

2. Problem Statement

In the digital age, significant transformations are taking place in various fields. The formation of New Normal suggests that such a reality is difficult to predict and is characterized by various multi-vector

processes. The firms exist in the current business environment with “nonergodic changes, which are nonlinear, erratic, and hard to predict as they do not look like the recent past” (Ahlstrom et al., 2020, p. 4-5). The world is beginning to pay more attention to de-globalization and self-sufficiency. At the same time, new industries that have emerged thanks to the digital revolution are continuing to increase globalization processes. In such circumstances, many traditional companies find it difficult to compete and maintain stability in the global and domestic markets. Thus, the core problem of the study was to discuss the major challenges and opportunities for firms’ experience in the digital era of the New Normal environment.

3. Research Questions

In this paper, we provide some challenges through the study of fundamental and significant works of mainly foreign researchers in the management sphere, published in recent years and yet before. We can state that nowadays management science evolves into a discussion about innovative practices that create firms’ strategic advantage and their long-term success.

Our study is set in a managerial field and is aimed at solving strategic challenges in the field of business model designing in the digital era and in the New Normal business landscape. Thus, the main issue that we examine in our study is the following. How do firms perform in the environment of digital technology-enabled and nonergodic change that is emblematic for the New Normal business landscape?

First of all, we can discuss the main characteristics of business environment in the digital era. The Fourth Industrial Revolution changes the approaches to business model functioning and management. Subsequently, we analyse the impact of digital innovation processes on doing business, its profits, and shortcomings. The digital revolution has created the need for firms to look for new ways of profitability and long-term business success. Finally, we discuss the distinctive characteristics of innovative business models, which shed light on the opportunities for doing business including by traditional firms. Thus, information technology and digital innovation are the premises of the emergence of innovative business models.

4. Purpose of the Study

The purpose of the study is revealing the challenges and opportunities faced by firms in the current business landscape, in which digital technology-enabled entrepreneurship is the major indicator of sustainability and long-term success. The practical focus of this study is to help firms in choosing possible directions of business development and design innovative business models. We show how traditional firms can be rejuvenated to deal with the current business environment of the New Normal.

5. Research Methods

The theoretical and methodological study foundation includes the works of modern foreign and Russian researchers on the digital era challenges and New Normal environment dealing with the aspects of management and business model design. Authors studied and summarized the results of leading institutes, materials of international scientific and practical conferences. The research tools are the dialectic cognition, the categorical apparatus of philosophy, information theory, a systematic approach, conceptual modeling, comparative analysis method, and content analysis. The empirical basis of the study is the statistical and analytical materials of international information and analytical agencies and official Internet sites.

6. Findings

6.1. Business environment in the digital era

The formation and emergence of a new environment are primarily associated with changes in the technological field. So, the main facet of the digital era is technological changes, and they made a significant impact on the formation of the New Normal environment. In this regard it is interesting to determine how the firm's information technology capability affect doing business.

Nowadays information technologies may provide additional opportunities for firms, become a driver that changes all aspects of business performance (Turulja & Bajgoric, 2018). Technological improvements and innovations lead to increase productivity, quality, reduce costs for firms, that perform on global, national or domestic markets (Ahlstrom et al., 2020; Jusoh et al., 2018; McCloskey, 2016). Information technology has influenced all aspects of economic activity both at the global level and at the level of an individual in the digital era.

The mainstream of the digital era is changing the nature of innovation. One of the key characteristics is that it combines digital technologic innovations and business model innovations. With the intensification of innovative activity in the field service innovation, and strategic innovation (Birkinshaw et al., 2008). Nowadays, start-ups are becoming a popular way to enter markets. The start-up is a type of business that generates income by implementing an innovative idea, most often based on digital technology. Moreover, this form of business implies obtaining investments even at the stage of forming an idea. Thanks to this, a lot of young companies appeared on the market, which in a short time were able to achieve financial success. We can give some patterns of the most famous global start-ups, for example Groupon (collective discount service), Twitter (social network), Oculus (virtual reality) and many others. As we see all of them unite by an interesting innovative business idea and technical capabilities of a digital era. According to the Global Information Technology Report 2016 new types of innovation, such as business-model innovation, “look set to become an important part of the innovation story: business executives in almost 100 countries report increases in the perceived impact of digital technologies on business-model innovation compared with 2015” (The Global Information Technology Report, 2016, p. 8).

Firms and individuals have the opportunities to create new and almost free types of innovations that practically do not require research and development expenditure (The Global Information Technology Report, 2016). So, new digital technologies give us many opportunities in doing business, to enter markets, which would have been closed to small firms in the past because of the scale or complexity required for research, development or market access (Ahlstrom et al., 2020). One of the well-known technical innovations opening up new markets and opportunities for different firms and individuals has become a 3D printing. Nowadays the usage of 3D printing is extensive, medicine, robotics, construction, space, etc. Small firms also get opportunities due to 3D printers, they can produce some types of goods and enter the markets with them. In addition to a 3D printer, they can use other opportunities, such as supply chain techniques or new materials to start businesses in different spheres (Ahlstrom et al., 2020). Small firms and individuals create new product-markets offering cheaper and simpler applications (Christensen et al., 2018). Thus, digital technological facilities create new competitiveness in the domestic and global markets.

At the same time, in addition to opportunities, we get some complex challenges that we must solve. So, the digitalization process has not only positive but some negative affect. Digital innovation pressures are creating problems for firms all around the world. Firms need to adapt to the constant demands of the new digital market that calls for yet more innovation. Because especially digital technologies are giving dynamics and growth for an increasing number of industries, so they became the first sources they must get. Thousands of firms had to close unable to withstand the new competition or change their format of business to survive in the new environment. According to The Global Information Technology Report, although many firms feel that they can innovate, some existing firms experience great difficulties in adapting and introducing new technologies all over the world.

Also, enough challenge for firms is working in not only digital technology-enabled, but also nonergodic-changed New Normal environment. In the last 12 years, we have faced a New Normal environment. Such an environment appeared after the financial crisis of 2008, which led to changes not only in the economic sphere, but in politics and international relations. The 2008 global financial crisis caused significant changes in economic development in many countries. So, most economies still have not returned to pre-crisis growth paths, they losses in productivity and employment and as a result, they face income inequality. Capital flows between countries and trade in goods and services retreated significantly (Sharma, 2016). According to International Monetary Fund 2018, foreign investment declined and in 2017, they were 25% lower than if the global financial crisis would not have happened. Investment has led to a decrease in capital stock and a slowdown in technology adoption. Nowadays, we are on the verge of a new great recession and coupled with further technical innovations they are continuing to complicate an existing business and economic environment to create additional difficulties for firms. The situation is aggravated by the coronavirus infection pandemic and falling oil prices. Such conditions form the more sophisticated and unstable environment of New Normal, which became nonlinear and hard to predict.

The global financial crisis also had an impact on international relations. The New Normal environment is characterized by both processes of globalization and de-globalization. Globalization of the world is replaced by waves of de-globalization, and the growing appeal of protectionism. Many countries

introduce restrictive barriers, international trade flattens out, and cross border investment declines. So firms must adapt to these processes. Has the world ever been fully open? So some research described the image of a world economy as “waves of globalization”. That said that we are witnessing a return to a more deglobalized era (Kobrin, 2017). At the same time cross border digital activity increases along with increases in born global firms and cross border merger activity, especially originating in emerging economies (Ahlstrom et al., 2020). In conditions when traditional flows of goods are declining we can note positive economic impacts from the flow of digital data across borders. For example, the United Nations Conference on Trade and Development estimates that about 50 percent of all traded services are provided through innovation related to the technology sector (The Global Information Technology Report, 2016). So, de-globalization is characteristic of traditional industrial sectors, but the process of globalization continues in new and digital areas. Therefore, it is difficult to say which of the processes is the predominant process of de-globalization or globalization.

Thus, we can summarize that New Normal makes certain demands for firms, who want to perform in global and domestic markets. They have to take into account different facets of the modern environments, such as technological progress, innovations in business models, globalization and de-globalization, and many others.

6.2. Facets for the development of the digital economy in Russia

Nowadays information resources and information and communication technologies become the important sources of national economic growth and competitiveness. In this regard, different countries see their further economic development strategy in the transition to the digital economy. Moreover, nowadays the process of forming a new economic system is widespread. The developed countries have made the greatest success in the formation of digital economics, particularly the USA, EU countries, and Japan. Nowadays, when we can observe digital society patterns, there is the opportunity to evaluate the degree of digital economy development in different countries. The toolkit for this estimation is the rating system on the basis of various indicators (Dondokova & Budaeva, 2012).

One of the most well-known indexes characterizing digital development is the Networked Readiness Index (NRI). According to The Global Information Technology Report 2016, 10 countries have achieved the best results in shaping the digital economy, it consists of a mix of high-income Southeast Asian (Singapore and Japan) and European countries (Finland, Sweden, Norway, the Netherlands, Switzerland, the United Kingdom, and Luxembourg) as well as the United States. The index does not change over the years and primarily depends on national income

Our country also pays much attention to the digital economy. We are not already at the beginning of the path, but we have not reached significant indicators in this area. So, the Russian Federation remains in 41st place in 2016 (The Global Information Technology Report, 2016). An important facet in the digital economy development in Russia is the adoption of the state program “Digital Economy of the Russian Federation”. At the same time, the main challenge is to create conditions and opportunities for a sharp increase in the life quality, modernization of the economy, governance, and digital infrastructure thanks to the introduction of modern digital technologies. We have some results in this field, as evidenced by the growth of digital technologies adoption due to the especially rapid spread of the Internet, which

covers 81% of the population (The Global Competitiveness Report, 2019). To increase Russia's competitiveness in this area, it is necessary to increase innovative potential. In 2018 Russia has improved its innovation capability pillar thanks to increased quality of its research institutions and constant research and development expenditure (1.1% of GDP) (The Global Competitiveness Report, 2019). However, despite some successes in shaping the digital economy, there are many problems to solve, such as weak and deteriorating regulatory environment, eroding of Russia's labor force, the lag in the quality of secondary school education from the requirements of the modern digital economy, digital inequality of Russian regions, innovations problems and development of Russian firms' competitiveness. Nowadays Russia lags far behind in the formation of innovative forms of doing business. Therefore, research in this area is important to us.

6.3. Firms and organizational innovation in the digital era

Information technology and digital innovation are the premises of the perspective business models emergence to help organizations align profit and sustainability. These processes led to the transformation of the main business unit - the firm, related to organizational and structural innovation. These include the departure from the installation for mass production, which required advanced training and increased independence of the labour force; management systems decentralization, aimed at transferring the right to make decisions to the lowest possible level in connection with the growth of the employees' creative potential; the transformation of the corporation into a social community. The process of turning a corporation into a social community is associated with providing employees with lifelong hiring, guaranteeing career advancement, improving working conditions and increasing employee satisfaction (Dondokova & Budaeva, 2007). In addition, such a social community should be based on the complete trust of employees to each other, new value orientations of social interaction should be formed in society and companies as well. Such organizational forms allow one to collaborate and make collective decisions, which lead to democratic forms of business models and involve various groups of community members in the development of innovative companies (Ashforth & Reingen, 2014).

In the New Normal environment, firms are beginning to pay more attention to sustainability than profitability. In such conditions, structures that pay attention not only to economic goals but also to social, environmental goals, become more popular (Muñoz et al., 2020). According to this concept, the influence of the firms' environmental goals significantly increases, but not only for environmental protection but also by solving the challenge of its sustainable development. Sustainable development requires satisfying the needs of current generations of consumers in such a way that subsequent generations of people will be able to satisfy their needs at the same or higher level. So, the main task of business sustainable development is to combine social and commercial sectors, profitable and non-profit practice. This leads to a resurgence of innovative hybrid business models. Hybrid business is first of all based on the "mitigation of a particular social or environmental issue" (Alberti & Varon Garrido, 2017, p. 4). However, the formation of such forms does not guarantee success for firms, but creates possible conditions for sustainability. The specialization of the company can attract the consumer and make him buy goods, because he will think, thereby helping society, nature, etc. At the same time, such a business

organization will not be able to bring high returns, hybrid organizations may serve as incubators for new practices (Alberti & Varon Garrido, 2017).

The company' organization and structure transformation is largely associated with a change in the mode of production. The reason for the transformations taking place in society is the fundamental contradiction between the level of development of human needs and productive forces. Human needs are a more dynamic category than productive forces. As a result, the constant process of increasing needs moves the business system to change, especially in the production. The increasing complexity and individuality of human needs change firms' business strategy. This strategy involves the tracking of the most diverse and rapidly changing needs and organization of production in order to quickly meet them. The result was a transition from mass-production technology to small-batch and highly diversified production technology.

We can say that there is a certain return to the production of handmade goods, which are of high quality and focus on the customers' individual needs, which means a rather high price. But at the same time, the mass-production advantages as its high labour capacity and modern technology are used. Toffler noted that as large volumes of work begin to depend on personal efforts and manipulations with symbols, huge industrial associations begin to crumble, and new forms of handicrafts based on cutting-edge technology become dominant (Toffler, 1985). Firms become customer-oriented, building long-term relationships with customers based on social interaction and trust. They create Internet forums, unite in network structures to have a direct impact on customers, and receive direct consumer offers. Such produce-customer relations also are the facets of the firm's' sustainable development.

Also, the company's sustainability depends on changing relationships between employees of the company and the leader and subordinate. Nowadays "person-human" way as an organization structure is becoming increasingly important. The core of a modern company is its employees, who are vested with significant authority in making certain decisions. Such a company mainly managed by the founder and a smaller entrepreneurial group. Most new companies owe their phenomenal take-off to the work of persons - their founders and owners. For example, the creation and development of Microsoft are associated with the name of Gates; Apple – with the name of Steven Jobs. Higher demands are being made on workers concerning their qualifications, competencies, and creativity. Just in a constantly changing economic reality, the ability to make creative decisions is almost the only way to the company's survival and sustainability. In such conditions, there is a need for a creative work in droves, which, in our opinion, is the peculiarity of the labor organizing in the digital economy. In this regard, we would like to highlight the emergence of the so-called ambidextrous organizations (Kodama, 2019). This is a form of organization, which is based on visionary leadership involving of all firm' employees and bring disruptive innovations.

Accelerating processes from production to final consumption are also important facets of firms' sustainability. Ideas and products begin to spread at an increasing rate throughout the world. The life cycle of goods and ideas is shortened, and less time is devoted to their production. The company seeks to speed up the entire production process as much as possible, from the development of a new product to its delivery to the consumer. Under the influence of these trends, new requirements in terms of increasing innovative potential begin to be imposed not only on labour, but also on production equipment. In

conditions of accelerating the production process, equipment is needed that can also participate in the development of models and models for future products. The shift of modern production towards solving primarily intellectual problems can be well illustrated by the example of creating CAD (automatic design systems), which, thanks to the use of computers, can greatly accelerate the design and construction of new products in all industries.

An important facet of sustainability is the further process of decentralization of management in the firm. This process is characterized by the transferring of a wide range of powers to individual units. As a result, based on divisional organizational structures began to be created so-called “cellular organizational structure”. Such structures are characterized by a small number of levels. They imply the presence of small self-governing teams, as well as a certain number of supervisors who manage these teams and are responsible for their work. Each unit becomes independent with significant operational autonomy, serving as the center of costs, profits, and responsibilities. Units are calculated with each other in value-form, participate in the competition, and ensure their survival at the expense of profit. Despite the corporations' structural unity, it often allowed one to buy goods and services “on the side”, if it is more profitable than inside. This kind of structure is backed up by internal single prices and standards.

Nowadays become popular an idea of a company based on the "equal to another" principle. This principle reflects the process of transition from vertical hierarchical structures to new social communities with predominantly lateral connections, giving each employee certain powers and freedom of action. Such firm is rather dynamic, consists of many temporary work cells and mobile individuals. Toffler called it an adaptive corporation, i.e. an organization that easily adapts to changes in the economic environment (Toffler, 1985). The study of adaptive business models can be traced in more modern literature. For instance, in the paper (Rosenstock et al., 2020) we can find the definition of the adaptive business model as the structure and processes that change effectively over time in response to internal or external indignation. Thus, adaptive organizations can maintain their sustainability for a long time.

Another direction for getting sustainability in the New Normal environment is the process of transferring part of the production cycles to third parties based on a contract system. Traditional for developed countries manufacturing industries began to lose their profitability due to growing competition from emerging countries. Under the influence of modern production requirements, many large companies are forced to transfer production to emerging countries to maintain their competitiveness. Therefore, some large organizations are turning into small firms whose main function is the design of goods, the development of new technologies for doing business, the creation of so-called “new products”, marketing, i.e. the company gets the opportunity to focus on its core competency. The production of goods is carried out on a contractual basis in emerging countries. Otherwise, such products will become too expensive and uncompetitive. In this case, the company solves economic and social problems: saving on production costs and creating additional workplaces in emerging countries. The apotheosis of the use of the contract system is "hollow firms." The wealth of such a company consists of a set of intangibles: ideas, brands, management skills, intuition. At the same time, they cannot exist without traditional organizations responsible for certain parts of the technological chain for goods production.

We can summarise that New Normal environment and digital era create new opportunities and challenges for firms, make new demands on the organization and structure of the company. So they have to adapt to reaching sustainability and long-term success.

7. Conclusion

The digital era and the New Normal environment create for firms some challenges and opportunities as well. Firms are faced with the challenges of the New Normal environment such as the sophistication of the new economic environment associated with global crises and a growing recession; strengthening the influence of technological innovation on the business models designing; reformatting the international economic relations with the strengthening of the de-globalization trends in traditional areas of the global economy, with the growth of digital processes as well. At the same time, the New Normal environment in digital era creates enormous opportunities for companies that are ready for innovation. Digital technologies create many opportunities to innovate a business model by accessing new markets, producing new goods and creating ways to sell them. Digital technological facilities create new competitiveness in the domestic and global markets.

The New Normal environment challenges and the digitalization of the economy are affecting Russia. In this regard, we analysed the development of the digital economy in Russia, which showed that despite certain successes in this process, Russia still has many problems that need to be solved. Among which can be distinguished such as weak and deteriorating regulatory environment, eroding of Russia's labor force, the lag in the quality of secondary school education from the requirements of the modern digital economy, digital inequality of Russian regions, innovations problems and development of Russian firms' competitiveness. Nowadays Russia lags far behind in the formation of innovative forms of doing business. Therefore, research in this area is important to us.

In an unstable and hard to predict New Normal environment, sustainability and long-term success goals become the priority. The firm's sustainability strategy assumes its sustainable development in the broadest sense. Sustainable development requires satisfying the needs of current generations of consumers in such a way that subsequent generations of people will be able to satisfy their needs at the same or higher level. These processes force a modern company to adapt to them, transforming its structure and innovating its business model.

Gaining a firm's adaptability leads to its decentralization processes. The process of transition occurs from vertical hierarchical structures to new communication associations with predominantly lateral connections, giving each employee certain powers and freedom of action. Such a company is quite dynamic, consists of many temporary working cells and exclusively mobile individuals. The company is based on small-scale, highly-differentiated production, intangible assets become dominant. Some firms transform into a social community, providing employees with lifelong hiring, guaranteeing career advancement, improving working conditions and increasing employee satisfaction. They must attract a consumer by the way of solving social or environmental issues. Moreover, the firm should be customer-oriented and aimed at forming long-term relationships with the consumer, united in a unified network based on trust and guarantees. Thus, the modern firm is at the stage of transition to forms adapted to the New Normal environment and digital era. Some traditional firms can get a theoretical background to

make experiments in business modelling and rejuvenating to deal with the current business environment of the New Normal.

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