

**Kilian Gundlach**

# The Impact of Startup Entry on the Innovativeness of Incumbents

Evidence from the Insurance Industry

**Master's Thesis**

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**Bibliographic information published by the German National Library:**

The German National Library lists this publication in the National Bibliography; detailed bibliographic data are available on the Internet at <http://dnb.dnb.de> .

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**Imprint:**

Copyright © 2017 GRIN Verlag  
ISBN: 9783668944633

**This book at GRIN:**

<https://www.grin.com/document/468702>

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# The Impact of Startup Entry on the Innovativeness of Incumbents: Evidence from the Insurance Industry

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Dissertation submitted in partial fulfilment of requirements for the MSc in  
Management – Specialization Strategy and Entrepreneurship,  
at the Universidade Católica Portuguesa, 2<sup>nd</sup> June 2017

## Abstract

This paper investigates the relationship between startup entrants and innovation behavior of incumbents. In specific, the insurance industry is empirically analyzed, since many technology driven insurance startups have recently entered this market. After an extensive literature review on the competition-innovation relationship, hypotheses are derived. In detail, it is expected that startup entry has a positive effect on the innovativeness of incumbents, and that this effect will eventually diminish with rising competition, therewith creating an inverted-U relationship. In addition, it is assumed that the positive effect of startup entry will be more impactful for younger incumbents. To evaluate these hypotheses, an innovation score is constructed based on companies' annual reports. It measures innovation within six broad areas, ranging from organizational changes to new product launches. The population of this study incorporates 10 major insurance companies from Europe and the United States over a period from 2011 to 2015 and 244 InsurTech startups that entered the market in this observation period. In line with prior research, the evidence suggests that startup entrance has a curvilinear effect on incumbents' innovativeness. Therewith, this study finds that the inverted-U relationship between competition and innovation holds, also when considering startup entry. Lastly, the findings suggest that the positive effect of startup entry is stronger for younger incumbents. In conclusion, an extensive understanding of the given relationship between startup entry and incumbents innovativeness is crucial for practitioners in order to further shift their mindset to a more proactive innovation behavior.

Keywords: Competition, Innovation, Startups, InsurTech

## Resumo

Esta tese investiga a relação entre *startup entrants* e comportamento de inovação das incumbentes. Especificamente, a indústria de seguros é empiricamente analisada, devido à entrada de várias *technology driven insurance startups* nos últimos anos. Após uma extensa *literature review* sobre a relação concorrência-inovação, algumas hipóteses são formuladas. É esperado que a entrada de *startups* tenha um efeito positivo na inovação das incumbentes e que esse efeito diminua com o aumento da concorrência, criando uma relação *inverted-U*. É assumido, também, que o efeito positivo da entrada de *startups* terá maior impacto nas incumbentes mais recentes. Para avaliar estas hipóteses, um *score* é construído com base nos relatórios anuais das empresas. O *score* mede a inovação em seis áreas distintas, incluindo mudanças organizacionais. A população deste estudo inclui 10 grandes empresas europeias e americanas no período de observação entre 2011 e 2015, e 244 *startups InsurTech* que entram no mercado durante o mesmo intervalo. Em linha com investigação anterior, as evidências sugerem que a entrada de *startups* tem um efeito curvilíneo na inovação das incumbentes. Assim, este estudo mostra que a relação *inverted-U* entre concorrência e inovação se verifica também quando nos referimos à entrada de *startups*. Finalmente, os resultados sugerem que o efeito positivo da entrada de *startups* é mais forte em incumbentes mais recentes. Em suma, compreender a relação entre a entrada de *startups* e a inovação das incumbentes é crucial para os *practitioners*, no sentido de mudar o seu *mindset* no que toca a um comportamento inovador mais proactivo.