

2 Theoretical Foundation

Case study research requires the development of a theoretical foundation, independent of whether the case study's purpose is to build or to test theory.⁷⁰ This chapter addresses such requirement. Firstly, the concept of BMI in multi-business firms is defined (2.1). Along with the working definition, a set of measures and indicators is brought forward in the form of a BMI-identification tool that allows the concept's operationalization. The term "operationalization" can be understood as the process of deciding how to translate abstract concepts such as BMI in multi-business firms into something more concrete and directly observable.⁷¹ It constitutes an important prerequisite for the selection of cases worth being studied in order to answer the research question. Secondly, a recommendation is made to place the concept of BMI in multi-business firms, as defined in section 2.1, into the arena of Corporate Entrepreneurship (2.2). Ultimately, this leads to the suggestion that the dissertation's findings complement this broad and well-established research field. Thirdly, by working through the existing literature on BMI, activities or behaviors are identified that possibly turn out to be relevant for business unit managers to perform BMI (2.3). EISENHARDT contends that the a-priori specification of theoretical constructs helps to shape the initial design of theory-building research. In this respect, ex-ante identified activities can serve as an early orientation in the field, especially when conducting the initial interviews. However, a-priori specified constructs are only of a tentative character in theory-building research. They are not guaranteed a place in the resultant theory.⁷²

2.1 Working Definition of BMI in Multi-Business Firms

2.1.1 Motivation and Method

Overall, a common BMI language has not yet evolved. SCHNEIDER / SPIETH note that, in practice, the term "business model innovation" appears to be commonly used despite not being consciously defined.⁷³ One of the reasons is that authors often have not defined the concept of BMI at all, or not thoroughly, within their publications.⁷⁴ Another reason is that authors applied idiosyncratic definitions to suit the purpose of the particular study or paper.⁷⁵ Hence, as of this writing, a single definition scholars can draw on is not available.⁷⁶ However, with respect to the case selection it is crucial for this research to have the concept of BMI in multi-business firms defined and operationalized.

⁷⁰ See Yin (2009), p. 35.

⁷¹ See De Vaus (2002), p. 14.

⁷² See Eisenhardt (1989), p. 536; Lasinger (2011), p. 14.

⁷³ See Schneider / Spieth (2013a), p. 26.

⁷⁴ See Wirtz (2011), p. 203.

⁷⁵ See Björkdahl / Holmén (2013), p. 218.

⁷⁶ See Schneider / Spieth (2013a), p. 2; Zott et al. (2011), p. 1034.

For achieving the goal of developing and operationalizing a working definition, three steps were carried out. Firstly, existing literature on BMI was reviewed with the aim of identifying phrases that hint at a definition or an explanation of BMI. The identified phrases were then analyzed according to apparent consensus, on the one hand, and more conflicting views, on the other. The former were to be integrated into the working definition, whereas the latter required a well-grounded decision by the scholar as to which view to follow. In addition, the articles containing those phrases were examined with regard to whether and – if yes – how the BMI definition or explanation was operationalized. Secondly, an initial working definition was put forward, together with a set of criteria and indicators building a BMI-identification tool. The overall guiding question for developing this tool was: *How to identify a BMI in multi-business firms?* As suggested by HAUSCHILDT / SALOMO, the working definition was formed along the five dimensions inherent to the notion of innovation. These five dimensions include the following: content, intensity, subjective, process-related, and normative dimensions.⁷⁷ Thirdly, the BMI-identification tool was applied in the field. Pre-talks were held with senior managers in four corporations to identify cases suitable to be studied for answering the research question.⁷⁸ Out of those pre-talks – leading to the selection of nine cases from nineteen initially proposed cases – two additions to the BMI-identification tool evolved: business model experiments and M&A.

2.1.2 Review of Existing BMI Definitions or Explanations

It is commonly acknowledged that the business model is a new unit of innovation that is distinct from products (hereby used interchangeably with services) or processes.⁷⁹ The business model's degree of abstraction and its inherent complexity is higher in comparison with products or processes.⁸⁰ BMI has an overarching impact on a business and therefore requires systemic and holistic thinking.⁸¹ ZOTT et al. point out that the business model can be both a vehicle for innovation and a subject of innovation. In the first case, a new business model is understood as the means to commercialize an innovative idea or technology. In the second case, an already existing business model is being renewed.⁸² Hence, although distinct, BMI can be interrelated with other topics of innovation.⁸³ However, besides this common acknowledgement, BMI literature is diffuse and lacking in clarity. As mentioned above, no commonly accepted language and understanding of BMI has yet been reached.⁸⁴ On the other hand, the BMI concept is in an emergent phase with numerous contributing authors who are convinced of the concept's usefulness.

⁷⁷ See Hauschildt / Salomo (2011), p. 5.

⁷⁸ See section 3.1.

⁷⁹ See Bucherer et al. (2012), p. 183; Lindgardt et al. (2013), p. 292; Zott et al. (2011), p. 1038.

⁸⁰ See Wirtz (2011), p. 206.

⁸¹ See Amit / Zott (2012), p. 47.

⁸² See Zott et al. (2011), pp. 1032-1034; see also Teece (2010), p. 176.

⁸³ See Horn / Brem (2013), pp. 946-947; Wirtz (2011), p. 207.

⁸⁴ See Berglund / Sandström (2013), p. 282; Björkdahl / Holmén (2013), pp. 218-219; Schneider / Spieth (2013a), p. 5; Skarzynski / Gibson (2008), p. 111; Spieth et al. (2013), pp. 1-2.

Therefore, definitional and conceptual agreement cannot be expected at this stage.⁸⁵ Still, existing BMI definitions or explanations as well as their operationalization shall be reviewed with the aim of providing an initial theory basis for the working definition and the BMI-identification tool.

Existing business model and BMI literature – in the form of academic and practitioner-oriented management journals, books, and working papers – was searched for via the journal databases “ABI/INFORM Complete” and “EBSCOhost”, as well as the search engine “Google Scholar”. Also, the “Business Model Community” website was included in this search.⁸⁶ Library catalogs and Amazon facilitated the search for books. In addition, proceedings with reference to BMI from the EURAM conferences 2012 and 2013 were included.⁸⁷ In fact, WEBSTER / WATSON recommend adding selected conference proceedings to the source material of a literature review.⁸⁸ Most of the collected BMI literature was published in English; the remainder in French or German. In order to avoid translation issues, only the body of English literature was then scanned for phrases hinting at a definition or explanation of BMI. Table 1 illustrates the results of this scan. The 30 identified definitions are sorted chronologically by year of publication. Within one year, they are sorted alphabetically by the source’s name. The definitions presented in the conference papers can be found at the end of the table.

Apparent Consensus and Conflicting Views

Table 1 reveals that, indeed, the existing definitions or explanations provide a heterogeneous perception of BMI. Often, different aspects of BMI are being touched upon, rendering the consolidation of all of them problematic. Also, the level of detail varies among existing definitions. The statements that can be drawn from them are shown in Table 2 and listed below.

- BMI is essentially a process and should be studied as such.
- BMI leads to value enhancement for the firm.

This statement includes phrases describing BMI as a source of profit as well as a means to create and capture new, better, superior, or increased value.

- BMI is about changing an existing business model.
- BMI is about creating a new business model.
- BMI entails a new value constellation.

The term “value constellation” is drawn from the definition by YUNUS et al. Similar terms used in other definitions are “value architecture”, “value (creation) logic”, “organizing logic”, “activity (system) reconfiguration”, “new skills”, or “design of organizational structure”.

⁸⁵ See Zott et al. (2011), p. 1034.

⁸⁶ The Business Model Community is a platform for authors from any discipline to submit and exchange their studies on business models; see www.businessmodelcommunity.com, last accessed 14 July 2013.

⁸⁷ EURAM: European Academy of Management.

⁸⁸ See Webster / Watson (2002), p. xvi.

- BMI entails a new value proposition.
- BMI entails a new revenue model.

Each of the above statements occurs multiple times in the set of collected BMI definitions or explanations. Hence, these statements seem to gain broader consensus among the research community and should be integrated into the working definition.

However, other aspects are seen as being more controversial; for example, the question as to BMI should be:

- new-to-the-industry (e.g., Santos et al.), or
- new-to-the-firm (e.g., Bock et al., Björkdahl / Holmén).

Moreover, the views deviate on:

- whether BMI is manifested in stand-alone changes of one business model component such as a new value constellation, a new value proposition, a new revenue model (e.g., Abdelkafi et al., Bock et al., Santos et al., Schneider / Spieth), or
- whether BMI is manifested in a novel combination of business model components (e.g., Comes / Berniker, Matzler et al., Velamuri et al., Yunus et al.).

With regard to these more controversial aspects, a decision by the scholar is required as to which view to follow in the working definition. This decision must be well-grounded in existing theory.

Operationalization

Table 3 illustrates that, out of the 30 identified definitions, 20 have been applied in field research on BMI in established firms.⁸⁹ In summary, the main forms to operationalize the BMI concept are the following:

- Case study:
 - (CS1) Description of BMI detailing the new state compared to the former state;
 - (CS2) Description of BMI with the help of a business model framework consisting of predetermined business model components;
 - (CS3) Description of BMI based upon analyzing if activities are new or changed;
- Quantitative study (QS): Measure novelty on the level of the entire business model or, more deeply, in predetermined business model elements.

⁸⁹ See section 3.1 for a definition of the term “established firm”.

#	Source	Definition / Explanation of BMI
1	Mitchell & Coles (2004), p. 17	"By business model innovation, we mean business model replacements that provide product or service offerings to customers and end users that were not previously available. We also refer to the process of developing these novel replacements as business model innovation."
2	Markides (2006), p. 20	"Business-model innovation is the discovery of a fundamentally different business model in an existing business."
3	Giesen et al. (2007), p. 27	"[...] we first identified three main types of business model innovation, which can be used alone or in combination: innovations in industry models, in revenue models and in enterprise models."
4	Comes / Berniker (2008), p. 73	"The core of business model innovation lies in the new answers to the following two questions – the key answers that guide any business: 1. What value is the company providing to its customers? 2. How does providing this value profit the company?"
5	Skarzynski / Gibson (2008), p. 111	"[...] business model innovation is about creating fundamentally new kinds of businesses, or about bringing more strategic variety into the business you are already in – the kind of variety that is highly valued by customers."
6	Liedtka / Meyer (2009), p. 2	"Business model innovation [...] is about producing value-creating outcomes for customers."
7	Lindgardt et al. (2009), p. 2	"Innovation becomes BMI when two or more elements of a business model are reinvented to deliver value in a new way."
8	Santos et al. (2009), p. 14	"Business model innovation [...] is a reconfiguration of activities in the existing business model of a firm that is new to the product/service market in which the firm competes."
9	Aspara et al. (2010), p. 47	[Two indicators for measuring a firm's strategic emphasis on BMI:] 1. "[...] initiatives to create novel value by challenging existing industry-specific business models, roles, and relations in certain geographic market areas." 2. "[...] initiatives to provide entirely new value to certain people and/or organizations (customers)."
10	Bock et al. (2010), p. 10	"Business model innovation is new-to-the-firm changes in the design of organizational structures."
11	Gambardella / McCahan (2010), p. 263	"In this conceptualization, business-model innovation occurs when a firm adopts a novel approach to commercializing its underlying assets."
12	Jaeggi (2010), p. 39	"A business model innovation is any new business model or redesign of an existing business model that leads to superior value creation for the client, business or partner, and that enables to appropriate the value created over a longer period of time."
13	Johnson (2010), p. 13	"Seizing the white space requires new skills, new strengths, new ways to make money. It calls for the ability to innovate something more core than the core, to innovate the very theory of the business itself. I call that process business model innovation."
14	Osterwalder / Pigneur (2010), p. 5	"Ultimately, business model innovation is about creating value, for companies, for customers, and society."
15	Yunus et al. (2010), p. 312	"Business model innovation is about generating new sources of profit by finding novel value proposition / value constellation combinations."
16	Sorescu et al. (2011), p. 57	"We define a RBM [Retail Business Model] innovation as a change beyond current practice in one or more elements of a retailing business model [...] and their inter-dependencies, thereby modifying the retailer's organizing logic for value creation and appropriation."
17	Amit / Zott (2012), p. 44	"Business model innovation can occur in a number of ways: 1. by adding novel activities [...]; 2. by linking activities in novel ways [...]; 3. by changing one or more parties that perform any of the activities [...]"

Table 1: (continued)

#	Source	Definition / Explanation of BMI
18	Bucherer et al. (2012), p. 184	"We define business model innovation as a process that deliberately changes the core elements of a firm and its business logic."
19	Kaplan (2012), p. 108	"Business model innovation is a better way to create, deliver and capture value."
20	Lindgren (2012), p. 55	"BMI can [...] both be valuable and focused on BM on the way to the market (TO BE) BM and in the market (AS IS) BM [...]"
21	Abdelkafi et al. (2013), p. 13.	"A business model innovation happens when the company modifies or improves at least one of the value dimensions [value proposition, communication, creation, delivery, capture]."
22	Berglund / Sandström (2013), p. 276	"A BMI can thus be thought of as the introduction of a new business model aimed to create commercial value."
23	Björkdahl / Holmén (2013), p. 214.	"A business model innovation is the implementation of a business model that is new to the firm. [...] Specifically, the business model innovation phenomenon includes both creating value for customers and users, and capturing value for the firm."
24	Frankenberger et al. (2013), p. 253	"At root, a business model innovation can be defined as a novel way of how to create and capture value, which is achieved through a change of one or multiple components in the business model."
25	Günzel / Holm (2013), pp. 1-2.	"As a process, and not merely a management concept, business model innovation encompasses developing novel value chain architectures in different ways, from new product developments to new delivery and marketing patterns, as well as innovative re-source acquisition and application. The novelty presented by new business models can potentially result in superior value creation."
26	Matzler et al. (2013), p. 31	"Business model innovation results when a company increases customer value and simultaneously creates a new value creation and revenue model that allows the company to capture some of the value created in a new way."
27	Velamuri et al. (2013), p. 4	"[...] We define business model innovation as having a novel combination of (1) value propositions (i.e., perceived usefulness for customers), (2) value chain architectures (i.e., internal processes to deliver products or services), and (3) revenue streams (i.e., the manner incomes are generated) that are difficult to imitate."
28	Fieft (2012), p. 3 – EURAM	"Business model innovation refers to organizations rethinking their dominant value logic and coming up with new ways of creating value for their customers and themselves."
29	Klang / Hoffmann (2012), pp. 6-7 – EURAM	"In this study, we understand business model innovation as intentional changes in the specific activity system that is conducted to satisfy the perceived needs of the market and the specifications of the parties that form and conduct this activity system."
30	Rauter et al. (2012), p. 10 – EURAM	"In this paper, we treat business model innovation as an approach of changing the business model; therefore business model innovation is seen as the process itself and not as the result of the ongoing changes."
31	Schneider / Spieth (2013b), p. 17 – EURAM	"Consequently, business model innovation is defined as a conscious and significant change of at least one dimension of a firm's or a business units' business model [value offering, value creation architecture, revenue model/ logic]."
32	Mezger et al. (2013), p. 4 – EURAM	"[...] Business model innovation defines new concepts for firms to create and capture value; new business models represent new architectures and logics of conducting business, novel ways of creating revenues and defining value propositions for customers; It redefines a firm's activities within a business ecosystem of stakeholders and describes new transactions that essentially lead to increased value creation [...]"

Table 1: Identified definitions or explanations of BMI⁹⁰

BMI ...	Occurrence		Source (see Table 1)																															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32		
is a process	5x	X										X						X						X							X			
leads to value enhancement for the firm	13x								X			X	X	X					X				X	X	X	X			X					X
is about changing an existing BM	12x	X			X			X			X	X			X			X	X	X			X								X			X
is about creating a new BM	4x				X							X								X														
entails a new value constellation	16x			X			X	X	X	X	X	X	X	X	X	X	X				X				X	X	X		X				X	X
entails a new value proposition	13x	X		X		X					X				X						X		X	X	X	X	X						X	X
entails a new revenue model	5x		X																							X	X							X
is new-to-the-industry	1x							X																										
is new-to-the-firm	3x									X	X											X												

Table 2: Statements in identified definitions or explanations of BMI⁹¹

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Source: own Table.

Contains operationalization of BMI for field research				Form of operationalization for field research on BMI at established firms		
Source (see Table 1)	No: Conceptual or no own data	Yes: Not-for-profit businesses	Yes: Established firms	Description of BMI	Case studies Description of BMI via ex-ante specified framework	Quantitative study via standardized questionnaire
1			X	X		
2	X					
3			X		IBM's framework for BMI / CEO Study 2006	
4			X	X		
5			X	X		
6	X					
7			X			
8			X			
9			X			
10	X				4 forms of reconfiguration of activities	
11			X	X		
12			X	X		
13			X		Four-box business model framework	
14			X		Business model canvas (9 building blocks of a BM)	
15	X					
16			X		6 design themes for retail BMI	
17			X		3 design elements and 4 value drivers/ design themes	
18			X	X		
19			X	X		
20			X		7 building blocks of a BM	
21	X					
22	X					
23	X					
24			X	X		
25			X		Modified business model canvas	
26	X					
27			X		Novel combination of 3 business model components	
28	X					
29	X					
30	X					
31			X			X
32			X			X
Occurrence	10x	1x	21x	8x	9x	3x

Table 3: Forms of BMI concept operationalization for field research⁹²

(CS1) The most common form of operationalization is to describe the BMI in terms of what it entails and how it compares to the former state.⁹³

(CS2) JOHNSON, GÜNZEL / HOLM, LINDGREN, OSTERWALDER / PIGNEUR, and VELAMURI et al. generically define a business model as being constituted of certain building blocks or components. In order to identify and to explain the BMI, they analyze each building block of the new business model and compare it to the respective building block of the former business model. Put differently, BMI is recognized ex-post by identifying changes within predetermined business model components. According to the IBM framework, BMI can consist of one or more of the three innovation types: industry model innovation (i.e. creating or moving into new industries), revenue model innovation (i.e. a new way of revenue generation), and enterprise model innovation (i.e. a redefined role within a value chain). For BMI identification, IBM uses case summaries to assess ex-post to which degree the three innovation types occurred.⁹⁴

(CS3) AMIT / ZOTT, SANTOS et al., and SORESCU et al. perceive business models as activity systems. AMIT / ZOTT understand a business model as resulting from the design of three different elements: content, structure and governance. Change in one or more of these elements, e.g., by adding novel activities ("content"), by linking activities in new ways ("structure"), or by changing the parties that perform any of the activities ("governance") potentially represents BMI. Moreover, AMIT / ZOTT suggest four major value drivers of business models. These are called design themes because they guide the design of the activity's content, structure and governance. Summarized by the acronym "NICE", the themes are *novelty*, *lock-in*, *complementarities*, and *efficiency*.⁹⁵ SORESCU et al. relate to "NICE" when defining six design themes for retail business models. They analyze retailers' business models and classify them as BMI if one or more of the six design themes can be recognized.⁹⁶ SANTOS et al. manifest BMI in the reconfiguration of activities that can take the form of: relinking, repartitioning, relocating, or reactivating. In a case study approach, they investigate whether one or more of the four pre-defined reconfiguration types has or have been implemented in a firm's business model.⁹⁷

(QS) ASPARA et al. carry out a quantitative study wherein BMI is operationalized by two indicators that both focus on novel value creation. These indicators remain on the level of the entire business model and do not specify single business model elements more deeply.⁹⁸ Similarly, the quantitative study by MEZGER et al. presented at the EURAM 2013 conference, measures BMI by asking to what extent –

⁹³ "Description of BMI" as a method of operationalizing the definition of BMI is representatively illustrated in Bucherer et al. (2012), p. 187.

⁹⁴ See Giesen et al. (2007), pp. 27-32.

⁹⁵ See Amit / Zott (2012), pp. 44-46; see also Amit / Zott (2001).

⁹⁶ See Sorescu et al. (2011), pp. S7-S11.

⁹⁷ See Santos et al. (2009), p. 15.

⁹⁸ See Table 1.

on a five-point Likert scale – new business models have been implemented or are being developed.⁹⁹ By contrast, the quantitative study by SCHNEIDER / SPIETH, presented at the EURAM 2013 conference, uses nine business model elements from three business model dimensions to measure how strongly a firm's business model has changed. Table 4 discloses these business model dimensions and elements, as well as each corresponding item in the questionnaire.

Innovated business model dimension and element	Item in questionnaire
Value offering: target customer	Target customers have changed.
Value offering: product and service offering	The product and service offering has changed.
Value offering: firm's competitive positioning	The firm's positioning in the market has changed.
Value architecture: core competences and resources	The firm's core competencies and resources have changed.
Value architecture: internal value creation	Internal value creation activities have changed.
Value architecture: partners in value creation	Role and involvement of partners into the value creation process have changed.
Value architecture: distribution	Distribution has changed.
Revenue model: revenue mechanisms	Revenue mechanisms have changed.
Revenue model: cost mechanisms	Cost mechanisms have changed.

Table 4: Business model innovation items used by SCHNEIDER / SPIETH¹⁰⁰

2.1.3 Developing a Working Definition

Based upon (1) the collected body of literature, (2) the results from the review of existing BMI definitions or explanations, and (3) the pre-talks with senior managers in four corporations,¹⁰¹ the following subsections define the concept of BMI in multi-business firms for the purpose of this dissertation. Simultaneously, a set of criteria and indicators building the BMI-identification tool is put forward in order to operationalize the working definition. The overall guiding question for developing this tool is: *How to identify a BMI in multi-business firms?* As suggested by HAUSCHILDT / SALOMO, the working definition is formed along the five dimensions inherent to the notion of innovation, i.e. the content, intensity, subjective, process-related, and normative dimensions.¹⁰² Criteria or indicators in the BMI-identification tool, which evolved from the pre-talks, are marked as such.

⁹⁹ See Mezger et al. (2013), p. 37.

¹⁰⁰ Source: Schneider / Spieth (2013b), p. 36.

¹⁰¹ See section 3.1.

¹⁰² See Hauschildt / Salomo (2011), p. 5.

2.1.3.1 Content Dimension: What is new?

The statements drawn from the review in section 2.1.2 relating to the content dimension of BMI are listed below.

- BMI entails a new value constellation.
- BMI entails a new value proposition.
- BMI entails a new revenue model.

This subsection clarifies how they are integrated into the working definition.

As stated above, the subject of innovation in BMI is the business model. The origins of the term “business model” can be traced back to Peter Drucker’s classic 1954 book, *The Practice of Management*.¹⁰³ As a concept, the business model gained popularity in the 1990s with the upsurge of the commercial internet and advances in information and communication technology. The internet triggered the emergence of the new economy and created an array of new business models. In response, academic literature focused on explaining the characteristics of profitable e-business models. Subsequently, the business model concept has also been adopted by practitioners in the old economy and is now being applied more broadly in the corporate world.¹⁰⁴ Academics from a wide range of disciplines found a connection and contributed to the development of business model literature. However, these many different perspectives on the business model concept make it difficult to find a commonly accepted definition.¹⁰⁵ In order to visualize the current polyphony related to this term, Table 5 lists several meta-sources of business model definitions published in 2010 or later, i.e. authors who collected different, elsewhere-published definitions. In addition to the name of the source and the number of definitions, Table 5 indicates whether a meta-source also analyzes the business model components that certain definitions contain. Hereby, the term “component”¹⁰⁶ is used interchangeably with “element”¹⁰⁷, “dimension”¹⁰⁸, “domain”¹⁰⁹, or “building block”¹¹⁰.

With the aim of finding common ground across the different business model definitions, SHAFER et al. developed an affinity diagram including twelve definitions and forty-two business model components. Based on their analysis, they suggest:

“[The] business model [is] a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network.”¹¹¹

¹⁰³ See Casadesus-Masanell / Ricart (2010), p. 197; Dahan et al. (2010), p. 328.

¹⁰⁴ See Dahan et al. (2010), p. 328; Lecoq et al. (2010), p. 219; Nielsen / Bukh (2011), p. 258; Teece (2010), p. 174.

¹⁰⁵ See Brette et al. (2011), p. 240; Dahan et al. (2010), p. 328; Nenonen / Storbacka (2010), p. 44; Shafer et al. (2005), p. 200; Yunus et al. (2010), p. 311.

¹⁰⁶ See (e.g.) Skarzynski / Gibson (2008), p. 112.

¹⁰⁷ See (e.g.) Mitchell / Coles (2003), p. 16.

¹⁰⁸ See (e.g.) Bieger / Reinhold (2011), pp. 31-34

¹⁰⁹ See (e.g.) Wirtz et al. (2010), p. 274.

¹¹⁰ See (e.g.) Osterwalder / Pigneur (2010), p. 15.

¹¹¹ Source: Shafer et al. (2005), p. 202.

This definition comprises the key terms “core logic”, “strategic choices”, “creating and capturing value”, and “value network”, which deserve further explanation. Firstly, the business model is not a strategy. Business strategy refers to the choices about how the firm wishes to compete. The business model, by contrast, is a reflection of the chosen strategy.¹¹² It is through business models that firms compete in a marketplace.¹¹³ Put differently, strategy can be seen as the plan for how to move to a desired state. The business model is the comprehensive description of a state.¹¹⁴ The major cause-and-effect relationships that physically work in a business model constitute the core logic.¹¹⁵ Secondly, strategic choices are imperatively linked to value creation and value capture. For-profit firms must simultaneously create value for their customers and, monetarily, capture a part of it in order to survive.¹¹⁶ Finally, a value network can be understood as the context within which a firm establishes a cost structure and operating processes, and within which it works with suppliers and channel partners.¹¹⁷

Meta-Source	Number of Collected BM Definitions	Analysis of BM Components
Baden-Fuller / Morgan (2010), p. 158 Long Range Planning special issue on business models	9	No
Bieger / Reinhold (2011), pp. 18-19 Definitions translated into German language	12	Yes
Bucherer (2010), pp. 16-18	9	Yes
Jaeggi (2010), pp. 18-20	7	No
Moingeon / Lehmann-Ortega (2010), pp. 294-297	50	No
Nenonen / Storbacka (2010), pp. 46-47	12	Yes
Neubauer (2011), pp. 338-350 Author also provides the research context behind each definition.	24	Yes
Rauter et al. (2012), pp. 7-9 (EURAM)	9	Yes
Wirtz (2011), pp. 66-69	21	No
Zott et al. (2011), p. 1024 Authors name papers that cite a certain definition.	8	No
Sahut et al. (2013), p. 70 Authors indicate how other authors contribute to the business model concept.	20	No

Table 5: Meta-sources of business model definitions¹¹⁸

¹¹² See Casadesus-Masanell / Ricart (2010), p. 203; Casadesus-Masanell / Ricart (2011), p. 107.

¹¹³ See Nenonen / Storbacka (2010), p. 53.

¹¹⁴ See Dahan et al. (2010), p. 328.

In a similar conception, Casadesus-Masanell / Ricart (2010), p. 203, view strategy as the contingent plan as to which business model to use.

¹¹⁵ See Shafer et al. (2005), p. 202.

¹¹⁶ See ibidem.

¹¹⁷ See Christensen / Raynor (2003), p. 44.

¹¹⁸ Source: own Table.

Notably, scholars have repeatedly attached a subjective dimension to the business model concept. DOZ / KOSONEN, for example, emphasize that business models also stand as cognitive structures providing the firm's management with a theory on how the firm relates to its environment, how it creates value, and how it organizes its internal structure and governance.¹¹⁹ Likewise, the business model framework by ASPARA et al. stresses the importance of intangible, cognitive structures that exist in the minds of people at different levels of the corporation.¹²⁰ Above all, CHESBROUGH / ROSENBLOOM convincingly concluded from research on Xerox, which failed to capture the value from multiple new technologies invented at its Palo Alto Research Center (PARC), that the extant business model logic – the “dominant logic” - potentially constrains the sense-making task required to discover the most appropriate business model for a new technology.¹²¹ Eventually, CAVALCANTE et al. highlight with regard to business model dynamics, that business model changes require managers to question their mental models of how the firm does business and how it should be organized.¹²²

Discussion has evolved on the question of how to further conceptualize the core logic of a business model.¹²³ As already indicated in the review, the below two major approaches exist.

- *“Ex-ante BM framework approach”*: The first major approach consists of specifying ex-ante generic core components of a business model. Representative for this approach is the business model canvas by OSTERWALDER / PIGNEUR and the four-box business model framework by JOHNSON. Both are often-cited.¹²⁴ The business model canvas resembles a painter's canvas preformatted with nine blocks: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. These nine building blocks cover the “four main areas of a business”: customers, offer, infrastructure, and financial viability.¹²⁵ OSTERWALDER / PIGNEUR state that their tool is intuitively understandable while not oversimplifying the complexities of how enterprises function. It has been developed to facilitate the description and discussion of business models.¹²⁶ JOHNSON conceptualizes a business model through four interlocking elements:

¹¹⁹ See Doz / Kosonen (2010), p. 371.

¹²⁰ See Aspara et al. (2011), p. 623.

¹²¹ See Chesbrough / Rosenbloom (2002), p. 550; see also Chesbrough (2010), pp. 358-359. Originally, the term “dominant general management logic” was coined by Prahalad / Bettis (1986), p. 490, and defined as “the way in which managers conceptualize the business and make critical resource allocation decisions”.

¹²² See Cavalcante et al. (2011), p. 1335.

¹²³ See Abdelkafi et al. (2013), p. 10.

¹²⁴ See (e.g.) Abraham (2013), pp. 33-36; De Reuver et al. (2013), p. 3; Günzel / Holm (2013), p. 4; Leavy (2010), pp. 5-12.

¹²⁵ See Osterwalder / Pigneur (2010), pp. 14-51.

¹²⁶ See ibidem, p. 15.

customer value proposition, profit formula, key resources, and key processes. Taken together, those elements create and deliver value.¹²⁷

- “*Activity system approach*”: The second major approach to business model conceptualization is to perceive the business model as an activity system. In particular, ZOTT / AMIT contend that the activity system should be the level of business model analysis, and the single activity should be the unit of analysis. Thereby, an activity is to be understood as the engagement of resources belonging to any party involved in the business model (e.g., the focal firm, customers, or partners), serving a specific purpose for the accomplishment of the business model's overall objective. Linking those activities leads to the activity system. The firm's activity system may exceed the focal firm's boundaries to include the involved external parties, but remains firm-centered to enable the focal firm to capture a share of the mutually created value. For managers, the identification of distinct activities can be “conceptually challenging” because activities can be repeatedly broken down, further creating a large number of potential activities. However, the definition of activities at subsequent levels of aggregation may facilitate this task.¹²⁸ Quite similarly, CAVALCANTE et al. conceptualize the business model by the core processes necessary for a firm to perform its business. A core process is “a set of related activities repeatedly carried out to meet a priori specified goals”.¹²⁹ Consequently, the authors argue that business model changes are changes in the core processes, which become visible through different working practices.¹³⁰

One of the key advantages of the “*ex-ante BM framework approach*” to business model conceptualization is that changes in those pre-defined components can be measured consistently over time and across firms. What is more, normative definitions may offer valuable guidance as to what managers should consider when designing business models. On the other hand, this approach assumes that the same components are equally core in all firms. Besides, normative definitions might indirectly impose limits on what characterizes a complete business model.¹³¹ The major advantage of the more inductive “*activity system approach*” to business model conceptualization is that it allows the unrestricted “decoding” of what a business model really is about.¹³² In contrast, comparisons of business models over time and across firms may be challenging.¹³³

As a way of combining the advantages of both approaches, DEMIL / LECOQ propose to ex-ante specify only a few core business model components. Through

¹²⁷ See Johnson (2010), pp. 21-46; Johnson et al. (2008), pp. 52-53.

¹²⁸ See Zott / Amit (2010), pp. 217-219.

¹²⁹ See Cavalcante et al. (2011), pp. 1328-1329.

¹³⁰ See ibidem, p. 1333.

¹³¹ See Casadesus-Masanell / Ricart (2010), p. 201; Demil / Lecoq (2010), p. 231.

¹³² See ibidem.

¹³³ See Mezger / Enkel (2012), p. 8.

this, business model comparisons would still be possible while within a core component the more inductive approach can be used to thoroughly analyze the particularities of a business model.¹³⁴ Indeed, several authors have promoted conceptualizing a business model with just two core components (Table 6).

COMES / BERNIKER view the fundamentals of a business model as constituted by the value a firm is providing to its customers, and by the way the firm serves those customers at a profit.¹³⁵ MCGRATH endorses a similar view on the business model. She argues that the business model results from two sets of managerial choices. Firstly, managers have to choose a particular “unit of business”. Such a unit refers to the products and services a firm offers and for which customers pay. Secondly, managers have to choose the “key metrics” standing for the activities and processes set up by the firm to profitably sell those units. In essence, the key metrics reflect the business architecture.¹³⁶ MEZGER / ENKEL as well as GÜNZEL / HOLM divide the nine building blocks into the two main categories: *front-end of the business model* – comprising of the value proposition, distribution channel, revenue model, and customer relationship; and *back-end of the business model* – including the resources, key activities, partnerships, and cost structure.¹³⁷

Authors promoting business model conceptualization with only two components	
Source	Components
Comes / Berniker (2008), p. 73	1. Value, a firm is providing to its customers 2. Way, the firm serves those customers at a profit
McGrath (2010), p. 249	1. Managers choose a “unit of business” (products/services) 2. Managers choose “key metrics” (business architecture)
a) Moingeon / Lehmann-Ortega (2010), p. 271 b) Yunus et al. (2010), p. 312	1. Value proposition made to the clients 2. Value constellation (named value architecture in a))
Mezger / Enkel (2012), p. 9 (EURAM)	1. Customer front-end of the business model 2. Back-end of the business model
Günzel / Holm (2013), pp. 4-5	1. Front-end of the business model 2. Back-end of the business model

Table 6: Authors promoting only two business model components¹³⁸

Another similar view is presented by MOINGEON / LEHMANN-ORTEGA. They conceptualize the business model through three components: the value proposition, the value constellation and the profit equation (Figure 3). The value proposition describes the offer a firm brings to its clients. The value constellation then comprises the tasks put into action by the firm to deliver the offer to the clients. This involves both the firm's own value chain and its value network with suppliers and partners.

¹³⁴ See Demil / Lecoq (2010), p. 231.

¹³⁵ See Comes / Berniker (2008), p. 73-79.

¹³⁶ See McGrath (2010), p. 249-252.

¹³⁷ See Günzel / Holm (2013), pp. 4-5.

¹³⁸ Source: own Table.

The profit equation, by contrast, is the combined result of the two previous components. Sales revenues reflect the value proposition's success with clients, whereas the cost structure and the capital employed mirror the made decisions in reference to the value constellation. In order to generate profits, the value proposition and the value constellation must be consistent with each other.¹³⁹ In a case study research, MOINGEON / LEHMANN-ORTEGA used this business model conceptualization to assess if a potentially new business model classifies (ex-post) as BMI¹⁴⁰. Since the scholar faces a similar task in this research, their conceptualization shall be incorporated into the working definition and BMI-identification tool.

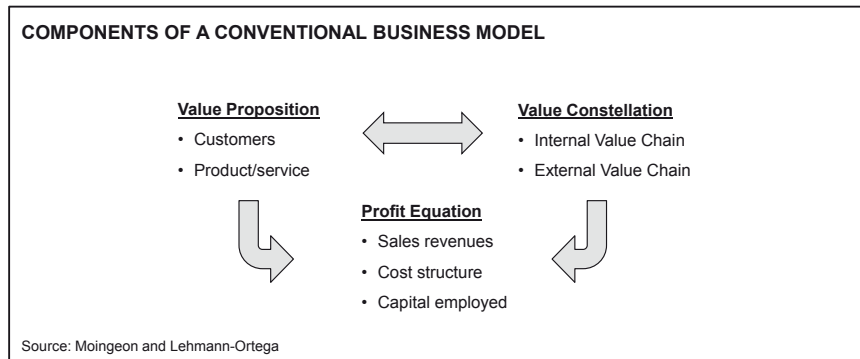


Figure 3: Components of a conventional business model¹⁴¹

Applying MOINGEON / LEHMANN-ORTEGA's business model conceptualization relates to the statements drawn from the review in section 2.1.2 as follows:

- BMI entails a new value constellation. – *integrated*
- BMI entails a new value proposition. – *integrated*
- BMI entails a new revenue model. – *not integrated*

The revenue model shall not be integrated as an additional distinct criterion for identifying BMI, because the revenue and cost mechanisms are considered to be resultant from the choices on the value proposition and the value constellation.

Table 7 illustrates the two criteria and the respective indicators in the BMI-identification tool that represent the content dimension of BMI. The first criterion emphasizes the importance of a new value proposition. By drawing on JOHNSON, a customer value proposition consists of the customer needs addressed by the firm and the offering (product and/or service) that satisfies those customer needs.¹⁴²

¹³⁹ See Moingeon / Lehmann-Ortega (2010), pp. 270-271; Yunus et al. (2010), p. 312.

¹⁴⁰ See Moingeon / Lehmann-Ortega (2010), pp. 271-275.

¹⁴¹ Source: Yunus et al. (2010), p. 312.

¹⁴² See Johnson (2010), p. 24. Johnson employs the term "job-to-be-done" instead of "customer needs addressed" because, in his opinion, "customer needs" are often defined too broadly. On the

Similar indicators were used by SCHNEIDER / SPIETH in the business model dimension “value offering”.¹⁴³ In order to meet the criterion, at least one of these two indicators must be new or changed-to-become-new. The second BMI criterion relates to the development of an innovative value constellation. MOINGEON / LEHMANN-ORTEGA argue that innovativeness of the value constellation may originate from the creation or suppression of several activities in the value chain, from changes to several activities, and/or from changes in the order of activities.¹⁴⁴ The implementation of a new set of activities leads to a new set of daily routines which become visible through different working practices.¹⁴⁵ Put differently, the criterion is met if employees, attached to the business model that potentially classifies as BMI, at some point, physically do something other than those in the traditional business model. SCHNEIDER / SPIETH employ a similar indicator in the business model dimension “value architecture”. They ask for changes in internal value creation activities.¹⁴⁶

Criteria for classifying a business model as BMI in the multi-business firm	Indicators
New or changed-to-become-new value proposition	- Customer need(s) addressed, and/or - Offering (product/service)
Innovative value constellation: New, and/or changed, and/or suppressed working practices to fulfill the value proposition	- May apply to the activities of, e.g., - product/service design - finding customers - quoting - retaining customers - sourcing - inbound logistics - product manufacturing or service provision - delivery/distribution - claim management

Table 7: BMI identification criteria: *What is new?*¹⁴⁷

2.1.3.2 Intensity Dimension: How is it new?

The major finding from the review in section 2.1.2 that relates to the intensity dimension of BMI is the need to clarify the point:

- whether BMI is manifested in stand-alone changes of one business model component, or
- whether BMI is manifested in a novel combination of business model components.

The intensity dimension covers the degree of innovativeness, i.e. the extent to which an innovation is new. It relates to the assessment of how or how much a new

other hand, the more mainstream term “customer needs addressed” is easy to understand by practitioners and shall hence be integrated into the BMI-identification tool.

¹⁴³ See Table 4.

¹⁴⁴ See Moingeon / Lehmann-Ortega (2010), p. 273.

¹⁴⁵ See Cavalcante et al. (2011), p. 1333.

¹⁴⁶ See Table 4.

¹⁴⁷ Source: own Table.

situation differs from the former one, whereby the new situation is the innovation or that which arose out of the innovation. Typically, innovations are placed on a continuum between incremental and radical. The position on this continuum can be assessed with the help of, e.g., multi-categorical scoring.¹⁴⁸ With regard to BMI, the intensity dimension raises the question of how much a business model shall differentiate itself from an existing business model in order to qualify as BMI.¹⁴⁹

SOSNA et al. answer this question by drawing on the characteristic that renders the business model concept unique: its dual focus on value creation and value capture.¹⁵⁰

*"The business model perspective is unique in one crucial respect: it embraces system wide changes that include both value creation and value exploitation [...]".*¹⁵¹

To them, a business model qualifies as BMI if it incorporates new transaction content, structure and governance configurations that lead to novel ways of both value creation and capture.¹⁵² Likewise, SORESCU et al. argue that BMI modifies the firm's organizing logic for value creation and appropriation by changes in business model elements and their interdependencies. They highlight that:

*"[...] innovations in [...] business models are system-wide changes; even though the change may originate in just one element of the business model, it also triggers changes to other parts of the system."*¹⁵³

Furthermore, TUFF / WUNKER demand that system-wide changes constitute a BMI requirement. In detail, the authors define ten types of innovation covering four major innovation categories: finance, process, offering and delivery. To qualify as BMI, a new business model must contain six or more innovation types with at least one type coming from each of the four innovation categories.¹⁵⁴ A similar statement is made by MITCHELL / COLES. They define BMI as consisting of a business model replacement plus or including new product/service offerings to customers. Thereby, a business model replacement means a change in at least four out of seven business model elements.¹⁵⁵

Hence, when transferring this line of argumentation to the working definition and BMI-identification tool, both criteria related to business model content are to be met. Put

¹⁴⁸ See Hauschildt / Salomo (2011), pp. 11-18; Jensen (2012), p. 16.

¹⁴⁹ See also Jensen (2012), p. 33.

¹⁵⁰ See Sosna et al. (2010), p. 401; see also Zott et al. (2011), p. 1037.

¹⁵¹ Source: Sosna et al. (2010), p. 401.

¹⁵² Content, structure and governance have been proposed by Zott / Amit as the design elements of a business model; see section 2.1.2.

¹⁵³ Source: Sorescu et al. (2011), p. S7.

¹⁵⁴ See Tuff / Wunker (2010), pp. 3-4.

¹⁵⁵ See Mitchell / Coles (2004), p. 17.

differently, in order to classify as BMI, the business model under examination must show a new value proposition and, simultaneously, a new value constellation. Certainly, the initial innovation idea can target just one of these two major business model components. Ex-post, however, changes in both components should be noticeable.

An argument against perceiving BMI as a system-wide change may be that such a perception would not recognize those business models as BMI that only feature either a new value proposition or a new value constellation.¹⁵⁶ Other scholars could argue that such a perception would, for example, deny that Taco Bell's "K-Minus" (Kitchen Minus) initiative in the late 1980s, which has been recognized as BMI, does not qualify as BMI anymore. As to this specific case, other scholars have so far focused on the management's decision to turn the restaurants' kitchens into a mere heating and assembly unit of pre-cooked food; this permitted smaller kitchens and more customer space in each restaurant. It enabled Taco Bell to capture more value through a different set of working practices without changing the offer to the customer.¹⁵⁷ Indeed, the offering did not change. Nonetheless, that decision was accompanied by a re-conception of the customer need addressed by Taco Bell, as evidenced in the company CEO's comment on K-Minus:

*"One of the things that struck us was, perhaps we needed to figure out a different way to go about this [...]. We're really not in the business of making food. We're in the business of feeding people."*¹⁵⁸

With this information, Taco Bell's new business model classifies as BMI even when adopting the perception of BMI as system-wide change, since it in fact contains both a new value constellation and a new value proposition.

Besides, an emphasis on just one of these two business model components makes it more difficult to draw the line between BMI on the one side and product or process innovation on the other. Likewise, SCHNEIDER / SPIETH propose to differentiate in this context business model innovation from business model development:

*"While business model development emphasizes the status quo of a firm's current business model and focuses on adjustments and incremental innovations within the established business model framework, business model innovation removes itself from the status quo [...]."*¹⁵⁹

Table 8 depicts that a yes or no assessment is sufficient to meet a criterion incorporated into the BMI-identification tool. Admittedly, this evaluation method

¹⁵⁶ Wirtz (2011), p. 206, classifies a business model as BMI if it features either a new value proposition or a new value constellation.

¹⁵⁷ See Amit / Zott (2010), p. 8; Santos et al. (2009), pp. 16-17, 21.

¹⁵⁸ Source: Delong et al. (2001), p. 3 [HBS Case: Taco Bell Inc. (1983-1994)].

¹⁵⁹ Source: Schneider / Spieth (2013a), p. 26.

inhibits a gradual judgment process of whether the business model represents an incremental or radical BMI. TARAN actually developed a three-dimensional business model innovation scale to measure a BMI's radicality.¹⁶⁰ The latter is a function of the number of affected building blocks and the type of change within each affected building block. As for the type of change, TARAN offers these two options: existing/familiar vs. new/unfamiliar. However, TARAN conceptualizes a business model through seven building blocks and considers any change in one of them as BMI, which obviously makes further judgment on radicality desirable. By contrast, in this dissertation BMI is already understood as a system-wide change. With this in mind, the main purpose of the here-developed BMI-identification tool is to help in assessing whether or not a business model qualifies as BMI, rather than whether the BMI is incremental or radical.

Criteria for classifying a business model as BMI in the multi-business firm	Indicators	Assessment (Yes/No)
New or changed-to-become-new value proposition	- Customer need(s) addressed, and/or - Offering (product/service)	Yes
Innovative value constellation: New, and/or changed, and/or suppressed working practices to fulfill the value proposition	May apply to the activities of, e.g., - product/service design - finding customers - quoting - retaining customers - sourcing - inbound logistics - product manufacturing or service provision - delivery/distribution - claim management	Yes

Table 8: BMI identification criteria: *How is it new?*¹⁶¹

2.1.3.3 Subjective Dimension: New to whom?

The major finding from the review in section 2.1.2 that relates to the subjective dimension of BMI is the need to clarify the point:

- whether BMI must be new-to-the-industry, or
- whether BMI must be new-to-the-firm.

One of the prerequisites for dealing with innovation is determining on what terms something is considered innovative. In the corporate world, management defines what is seen as innovation from the firm's perspective. Typically, it has to decide whether innovation is something that is new-to-the-firm or new-to-the-industry.¹⁶²

¹⁶⁰ See Taran (2012), pp. 84-85, 90-93; see also Taran et al. (2009), p. 8.

¹⁶¹ Source: own Table.

¹⁶² See Hauschildt / Salomo (2011), pp. 18-20.

Such a decision must be made for product and process innovation as well as for BMI. Hence, the BMI-identification tool must clarify on this choice.

Scholars see this particular aspect of BMI as rather controversial. SANTOS et al., for example, underline that a firm's new business model can be imported from another industry but it must be new-to-the-focal-industry to qualify as BMI.¹⁶³ MARKIDES embodies the same opinion when stating that BMI redefines an existing industry, although to him, BMI is synonymous with strategic innovation.¹⁶⁴ JOHNSON et al. even argue that instituting a new business model, which is not in some way game-changing to the industry, would be a waste of time and money.¹⁶⁵ ABDELKAFI et al. mention that among start-ups the business model's level of newness within the industry determines whether it qualifies as BMI.¹⁶⁶

AMIT / ZOTT, on the other hand, emphasize that a new business model does not need to disrupt an industry to be classified as BMI. What is important is that it yields substantial benefits to the focal firm. Taco Bell's K-Minus program was not game-changing for the fast-food industry, but it allowed the restaurant chain to improve its bottom-line.¹⁶⁷ And since this dissertation's aim is to support managers in achieving profitable growth through BMI, the new-to-the-firm perspective, rather than the new-to-the-industry perspective, shall be adopted. With respect to multi-business firms, the new-to-the-firm criterion disallows those business models used by the firm in the past from being classified as BMI, as well as those currently existing in other business units (Table 9).

Another argument for adopting the new-to-the-firm perspective on BMI is that replicating another firm's business model is not a trivial task. Copying a novel product or process is relatively easier.¹⁶⁸ Of course, at a superficial level it may be simple to copy the basic "idea" behind a business model. But it is difficult for outsiders to understand in sufficient detail how a business model is implemented, and how activities are linked both within the firm and between the firm and its environment.¹⁶⁹ The numerous failures of established airlines to replicate the business model of Southwest Airlines illustrate the challenge of copying business models.¹⁷⁰ In this regard, WINTER / SZULANSKI found that even attempts to replicate business models from within a firm often fail:

¹⁶³ See Santos et al. (2009), p. 14.

¹⁶⁴ See Markides (2006), pp. 19-20.

Section 2.2.4 indicates how strategic innovation differs from BMI.

¹⁶⁵ See Johnson et al. (2008), p. 57.

¹⁶⁶ See Abdelkafi et al. (2013), p. 13.

¹⁶⁷ See Amit / Zott (2010), p. 8.

¹⁶⁸ See Amit / Zott (2010), p. 5.

¹⁶⁹ See Matzler et al. (2013), p. 36; Teece (2010), pp. 181-182.

Sosna et al. (2010), p. 401, use the term "meta-model" in this context.

¹⁷⁰ See Chatterjee (2013), p. 109; Santos et al. (2009), p. 9.

"Growth by replicating [a business model] requires the capability to recreate complex, imperfectly understood, and partly tacit productive processes in carefully selected sites, with different human resources every time, facing in many cases resistance from proud, locally autonomous agents."¹⁷¹

Replicating a business model takes time and effort because its complex interdependencies can only be discovered by "doing".¹⁷² Hence, replicators usually try to copy the best parts of a number of different activities with the goal of creating something better.¹⁷³

Criteria for classifying a business model as BMI in the multi-business firm		Indicators	Assessment (Yes/No)
Established firms	New-to-the-firm (corporation)	As opposed to: - copied from what the firm did in the past - copied from one of the firm's other business units	Yes
Start-ups	New-to-the industry		

Table 9: BMI identification criterion: *New-to-whom?*¹⁷⁴

2.1.3.4 Process-related Dimension: Where does BMI end?

The statements drawn from the review in section 2.1.2 relating to the process-related dimension of BMI are listed below.

- BMI is essentially a process and should be studied as such.
- BMI is about changing an existing business model.
- BMI is about creating a new business model.

Innovation is perceived as the process of turning ideas into reality and capturing value from them. This process begins with the more or less deliberate resolution to further pursue an idea that can come from, e.g., R&D, copying, regulations, competitor behavior, market signals, or "Eureka" moments. The trigger idea's potential must then be translated into something new and launched in an internal or external market. The process ends when the innovation is transferred to operational management and thus becomes part of the daily routine.¹⁷⁵ Hence, for a new business model to classify as BMI it must be integrated into the firm.

¹⁷¹ Source: Winter / Szulanski (2001), p. 731.

¹⁷² See ibidem.

¹⁷³ See Szulanski / Winter (2002), p. 64.

¹⁷⁴ Source: own Table.

¹⁷⁵ See Hauschildt / Salomo (2011), pp. 20-21; Tidd / Bessant (2009), p. 19.

Figure 1 by ASPARA et al. indicates that one business unit operates one business model.¹⁷⁶ In fact, JOHNSON argues that a business unit should not adopt and operate more than one business model at a time.¹⁷⁷ However, MARKIDES / OYON point out that firms have succeeded in playing “two games” at once in the same market without separating the business models into two units. They recommend analyzing on the activity level the extent to which separation is required.¹⁷⁸ Building on this recommendation, HARREN conducted simulation studies which show that the organizational structure for managing two business models depends on the type of interdependencies between them. Only in case of independence, separation into two different organizational units leads to superior long-term performance.¹⁷⁹ Moreover, SCHALLMO emphasizes that some products or services marketed by the focal business unit may require a different business model.¹⁸⁰

Bearing this in mind, there are four different generic options for realizing BMI (Figure 4), whereas only three of them are considered as relevant for this dissertation. Firstly, the new business model can be integrated by a new business unit – and legal entity – that adds to those already existing. Secondly, BMI can be integrated by the redesign of an existing unit’s traditional business model. Thirdly, the new business model can be integrated within an existing unit where it adds to the unit’s traditional business model, i.e. the business model established before the BMI. In this case, the business unit would operate more than one business model. Similar to corporate functions, such a business unit could set up activities shared by its business models, for instance, controlling, purchasing or maintenance. Nevertheless, revenues and a certain cost structure must be allocable to each business model.¹⁸¹ The arrows in Figure 4 symbolize the fact that knowledge about potentially value-creating BMI resides within the business units as opposed to within the corporation’s headquarters.¹⁸² The fourth option – foundation of a new firm by a third party outside of the corporation’s larger scope of financial consolidation – is another way to implement BMI. For example, firms such as 3Com or Adobe were founded by former Xerox employees outside of Xerox. Those firms’ business models represented BMIs. However, apart from license fees, Xerox did not capture the greater value from those BMIs, although its investments enabled the underlying technological inventions.¹⁸³ Therefore, in this dissertation, such a scenario is not considered as BMI in multi-business firms.

¹⁷⁶ See Figure 1.

¹⁷⁷ See Johnson (2010), p. 167.

¹⁷⁸ See Markides / Oyon (2010), pp. 26-27, 29; see also Harren (2012).

¹⁷⁹ See Harren (2012), pp. 145-149.

¹⁸⁰ See Schallmo (2013), pp. 31-33.

¹⁸¹ See section 2.1.3.5.

¹⁸² See section 1.2.

¹⁸³ See Chesbrough / Rosenbloom (2002), pp. 542-545.

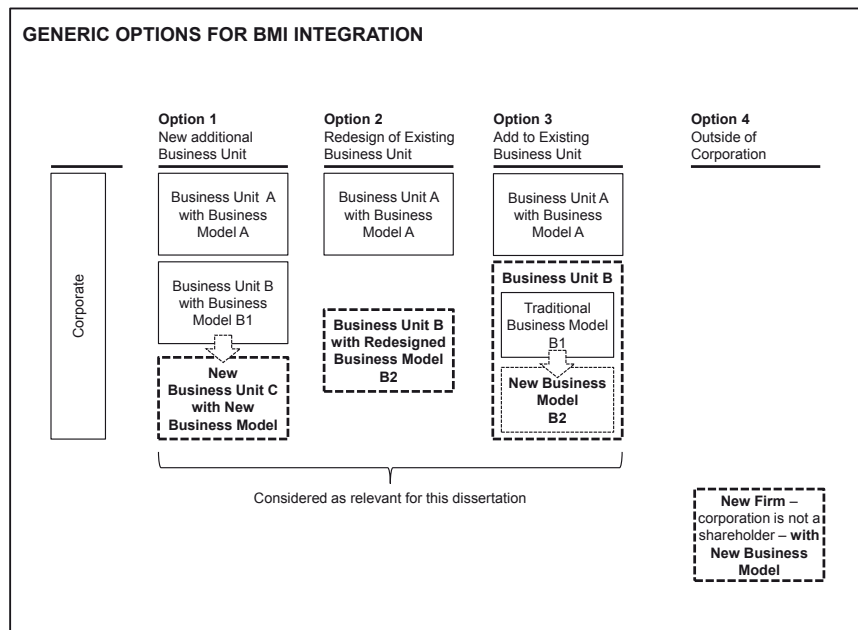


Figure 4: Generic options for BMI integration¹⁸⁴

Additional indicator for BMI identification evolved out of the pre-talks

The criterion that a new business model must be integrated into the firm excludes business experiments to qualify as BMI. If a new business model is still in the trial phase, if it does not have some kind of profit and loss statement, and/or if a special status is still attached to it; for the purpose of this dissertation it will not be considered as an idea converted into reality. Table 10 illustrates the process-related BMI identification criterion.

Criteria for classifying a business model as BMI in the multi-business firm	Indicators	Assessment (Yes/No)
Integrated into the firm	As opposed to: - business experiment (in trial phase)	Yes

Table 10: BMI identification criterion: *Where does BMI end?*¹⁸⁵

2.1.3.5 Normative Dimension: Is BMI successful?

The statement from the review in section 2.1.2 relating to the normative dimension of BMI is listed below:

- BMI leads to value enhancement for the firm.

¹⁸⁴ Source: own Figure.

¹⁸⁵ Source: own Table.

One of the constitutive characteristics of innovation is success. From the assessor's point of view, for inventions to become innovations, they must be successful in the markets in which they were launched.¹⁸⁶ The review of existing BMI definitions has shown that, similar to product or process innovation, a new business model must be value enhancing to qualify as BMI.¹⁸⁷ However, the extant literature on BMI does not provide a clear guideline on which measures to use for determining the success of new business models in multi-business firms. Notably, one measure of success to consider according to JOHNSON et al. is the payback time of the investment in a new business model.¹⁸⁸ Besides, the success and failure (S/F) measures applied in the context of *new product development* may also be relevant in BMI since new business models encompass new value propositions. GRIFFIN / PAGE identified the sixteen most appropriate S/F measures in product development. They were drawn out of a total of seventy-five measures used by academics and firms, and assigned to four different dimensions. These are:

- *Financial Performance Measures*: break-even time (from start of project), attain margin goals, attain profitability goals, IRR/ROI;
- *Customer Acceptance Measures*: customer acceptance, customer satisfaction, met revenue goals, revenue growth, met market share goals, met unit sales goals;
- *Product-Level Measures*: development cost, launched on time, product performance level, met quality guidelines, speed to market; and
- *Firm-Level Measures*: % of sales by new product.¹⁸⁹

Nonetheless, the task of determining the success of a new business model is not straightforward. Essentially, measuring success should not be conducted based upon one single criterion. It is recommended to use a combination of measures ideally from different dimensions.¹⁹⁰ The benchmark for assessing the financial success of a new business model could be the firm's or the business unit's current and expected overall financial performance. Most likely, shareholders of multi-business firms would classify a new business model with margins above the firm's average as successful. The financial results of industry competitors might also be a suitable benchmark.¹⁹¹ With respect to the business model's lifecycle, success could be determined three to five years after the model's integration.¹⁹² Another issue related to innovation success concerns the possible influence of other factors.¹⁹³ In fact, the business model is a rather holistic construct. Still, unpredictable exogenous events beyond a

¹⁸⁶ See Hauschildt / Salomo (2011), pp. 21-22; Tidd / Bessant (2009), p. 76.

¹⁸⁷ See section 2.1.2.

¹⁸⁸ See Johnson et al. (2008), p. 59.

¹⁸⁹ See Griffin / Page (1993), pp. 307-308.

¹⁹⁰ See ibidem, p. 295.

¹⁹¹ See Schneider / Spieth (2013b), p. 14.

¹⁹² With reference to product development success, Griffin / Page (1993), p. 307, propose the measure "percentage of sales/profits provided by products less than 5 years old". Skarzynski / Gibson (2008), p. 218, suggest as a measure for innovation output: "percentage of revenue coming from products or services introduced in the last three years".

¹⁹³ See Tidd / Bessant (2009), p. 76.

firm's control might have a financial impact that must be considered when classifying business models as BMI. Moreover, measuring the success of a new business model depends on the data that, on the one hand, the firm generates and that, on the other hand, the firm agrees to make available (especially less aggregated financial figures firms may want to hold back).¹⁹⁴ Table 11 visualizes the criterion related to the normative dimension of innovation which is to be incorporated into the BMI-identification tool.

Criteria for classifying a business model as BMI in the multi-business firm	Indicators	Assessment (Yes/No)
Financial success	Benchmark against, e.g., - shareholder expectation - firm/business unit's average financial performance - industry competitors	Yes

Table 11: BMI identification criterion: *Is BMI successful?*¹⁹⁵

2.1.3.6 M&A dimension: Is BMI created via M&A?

Additional criterion for BMI identification evolved out of the pre-talks

Both JOHNSON and ZOLLENKOP consider the acquisition of other companies as a means to achieving BMI. Without regard to the dangers of a too high takeover premium or cultural clashes hindering integration, acquisitions allow a corporation to quickly gain access to new business models. Firms such as General Electric, Procter & Gamble, Johnson & Johnson or Cisco make extensive use of M&A to acquire new technologies and to enlarge their business model portfolio.¹⁹⁶ In contrast, SINFIELD et al. view acquisitions and BMI as two different growth paths.¹⁹⁷ Therefore, the working definition and BMI-identification tool must state whether or not acquisitions can be accepted as a form of BMI.

As a matter of fact, some of the most often-cited cases of BMI did not involve M&A. Dow Corning, for example, the chemical manufacturer and global leader in silicone-based products launched a new self-service business model in 2002 without the help of acquisitions. The firm's traditional business model was intended for high margin products sold together with extensive technical support. After it realized that many customers no longer needed technical services, but commodity products at low prices, Dow Corning created in-house a web-based business model, which it branded Xiameter. Price reductions were achieved through strict product and

¹⁹⁴ See Griffin / Page (1993), p. 304.

¹⁹⁵ Source: own Table.

¹⁹⁶ See Johnson (2010), pp. 150-154; Zollenkop (2011), p. 209.

Moreover, Doz / Kosonen (2010), p. 380 mention acquisitions as a means to business model transformation.

¹⁹⁷ See Sinfield et al. (2012), p. 85.

process standardization.¹⁹⁸ Another often-cited BMI is Hilti's internally developed fleet-management program. The Lichtenstein-headquartered company is a manufacturer of high-end power tools for the construction industry. Interaction with customers showed Hilti that construction crews found it difficult to manage the tools by themselves. In times of tools being increasingly commoditized, Hilti seized the chance and became the industry's first manufacturer to offer this form of tool leasing.¹⁹⁹ Furthermore, Nespresso represents a BMI conducted by Nestlé without involving acquisitions. The food giant built this new business model that is more typical of a luxury goods manufacturer than a provider of fast-moving consumer goods internally.²⁰⁰ Therefore, the view of SINFIELD et al. is adopted here. New-to-the-firm business models acquired through M&A will not be included in the scope of this dissertation (Table 12).

Criteria for classifying a business model as BMI in the multi-business firm		Indicators	Assessment (Yes/No)
This dissertation	Created without M&A	As opposed to: - acquiring an externally existing business - acquiring a share in an externally existing business	Yes

Table 12: BMI identification criterion: *Is BMI created via M&A?*²⁰¹

2.1.4 Summary of the Working Definition

This chapter's first purpose is to develop a working definition of the concept of BMI in multi-business firms. This task is obligatory considering that neither a common BMI language nor a single definition scholars can draw on has yet evolved. The overall guiding question for this task was: *How to identify a BMI in multi-business firms?*

Based upon (1) the collected body of literature, (2) the results from the review of existing BMI definitions or explanations, and (3) the pre-talks with senior managers in four corporations, the working definition and the corresponding BMI-identification tool were built along the five dimensions inherent to the notion of innovation as suggested by HAUSCHILDT / SALOMO, i.e. the content, intensity, subjective, process-related and normative dimension. In addition, an M&A-related criterion was embraced.

The working definition reads as follows:

¹⁹⁸ See (e.g.) Bucherer (2010), p. 43; Comes / Berniker (2008), pp. 74-75; Johnson et al. (2008), pp. 58-59; Koen et al. (2011), pp. 54-55.

¹⁹⁹ See (e.g.) Björkdahl / Holmén (2013), p. 213; Bucherer (2010), p. 44; Johnson et al. (2008), pp. 54-57; Johnson (2010), pp. 64-69; Löwer (2011), p. 59.

²⁰⁰ See (e.g.) Koen et al. (2011), pp. 54-57; Markides / Charitou (2004), p. 25; Matzler et al. (2013), pp. 34-36; Skarzynski / Gibson (2008), pp. 181-183; Zollenkop (2011), p. 207.

²⁰¹ Source: own Table.

Business model innovation is the process for the integration of a value enhancing, new-to-the-firm business model comprising a new value proposition and value constellation – here: without involving M&A.

The criteria and indicators in the BMI-identification tool allow assessing whether or not a business model qualifies as BMI in multi-business firms (Table 13). This tool renders it possible to select those cases worth studying to appropriately answer the research question. For presentation purposes, the “Financial success” criterion is placed at the end. If a business model meets all criteria, it classifies as BMI success.

Criteria for classifying a business model as BMI in the multi-business firm		Indicators	Assessment (Yes/No)
1	New or changed-to-become-new value proposition	- Customer need(s) addressed, and/or - Offering (product/service)	Yes
2	Innovative value constellation: New, and/or changed, and/or suppressed working practices to fulfill the value proposition	May apply to the activities of, e.g., - product/service design - finding customers - quoting - retaining customers - sourcing - inbound logistics - product manufacturing or service provision - delivery/distribution - claim management	Yes
3	New-to-the-firm (corporation)	As opposed to: - copied from what the firm did in the past - copied from one of the firm's other business units	Yes
4	Integrated into the firm	As opposed to: - business experiment (in trial phase)	Yes
5	Created without M&A	As opposed to: - acquiring an externally existing business - acquiring a share in an externally existing business	Yes
6	Financial success	Benchmark against, e.g., - shareholder expectation - firm/business unit's average financial performance - industry competitors	Yes

Table 13: BMI-identification tool²⁰²

²⁰² Source: own Table.

2.2 Placing BMI into the Arena of Corporate Entrepreneurship

2.2.1 Motivation and Method

TEECE remarks that the study of business models is an interdisciplinary topic, but – despite its importance – the concept itself lacks an “intellectual home” in economics or business studies. Mainstream textbook economics conclude from such theoretical assumptions as fully developed spot and forward markets, strong property rights, costless information transfer and perfect arbitrage; that markets are problem-solving. In consequence, economic science considers the step of figuring out business models for a new or existing product to be unnecessary. Strategic or marketing science has explored topics that somehow relate to business models, in particular the topics of competitive advantage and new organizational forms such as the modern corporation. However, business models have only recently appeared as a distinct research area in business studies.²⁰³ The same difficulty exists for the currently emerging research on BMI. SOSNA et al. state:

“While dynamic business model evolution has been recognized by several scholars, it lacks theoretical grounding in the established literature which would [...] move the still shaky conceptual frameworks of business model development and innovation to more solid theoretical ground.”²⁰⁴

Equally, SCHNEIDER / SPIETH assert that an appropriate underlying theoretical grounding of BMI has not yet been determined.²⁰⁵ Since such grounding would help academics to advance their understanding of BMI, SCHNEIDER / SPIETH discuss the explanatory support of three extant theoretical streams for research on BMI: (1) the resource-based view – “How to employ extant resources and competencies?”; (2) the dynamic capabilities view – “How to develop extant resources and competencies?”; and (3) strategic entrepreneurship – “How to explore and exploit opportunities?”. Firstly, they distinguish BMI from business model development. The latter embraces improvements and continuous adjustments to a firm’s established business model, whereas BMI emphasizes a firm’s removal from the status quo. Secondly, they propose that the resource-based and, in extension thereof, the dynamic capabilities view provide appropriate theoretical grounds for business model development, while strategic entrepreneurship appears to be the suitable theoretical ground for BMI. However, they declare their theoretical framework to be of tentative character only.

Continuing this discussion, this section shows links between the here-studied concept of BMI in multi-business firms, as defined in section 2.1, and Corporate Entrepreneurship (CE). By comparing theory on BMI and CE, this section indicates that the arena of CE might be an “intellectual home” for the concept of BMI in multi-

²⁰³ See Teece (2010), pp. 175-176.

²⁰⁴ Source: Sosna et al. (2010), p. 385.

²⁰⁵ See Schneider / Spieth (2013a), pp. 2, 15-21.

business firms, and that the dissertation's findings may complement this broad and well-established research field. In the following subsections, the arena of CE is shortly introduced before aspects linking BMI in multi-business firms with CE are explained.

2.2.2 The Arena of Corporate Entrepreneurship

Scholars started to research CE about four decades ago.²⁰⁶ Importantly, "corporate entrepreneurship" must be differentiated from "independent entrepreneurship", which is not undertaken within the context of an existing organization.²⁰⁷ Over time, the way of depicting CE has varied considerably and so far, a universally agreed-upon definition of the term does not exist.²⁰⁸ In an effort to reconcile the confusing terminology, SHARMA / CHRISMAN propose to view CE quite broadly as

"[...] the process whereby an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within that organization".²⁰⁹

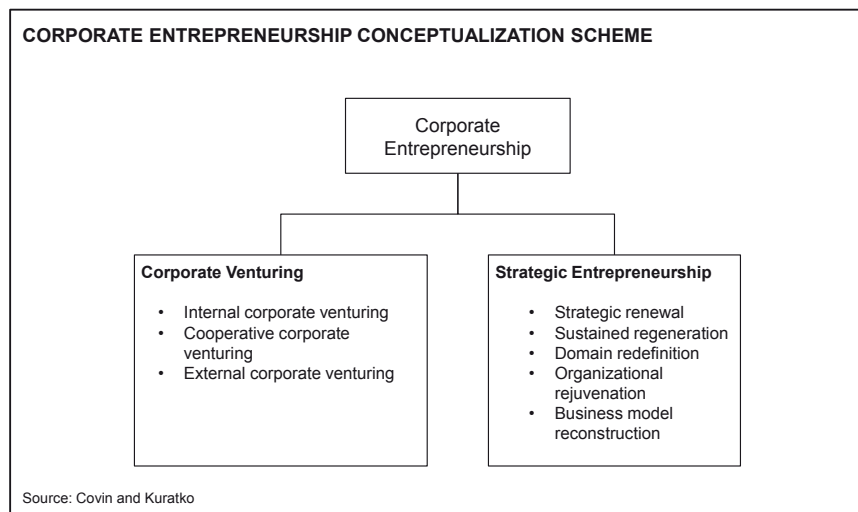


Figure 5: CE conceptualization scheme²¹⁰

Such a view promotes the idea that CE does not only exist in the form of corporate venturing, but also includes organizational renewal. ZESCHKY points out that a common theme underlying the numerous different definitions of CE is that they all

²⁰⁶ See Covin / Kuratko (2009), p. 207.

²⁰⁷ See Sharma / Chrisman (1999), p. 18.

²⁰⁸ See Covin / Duratko (2009), p. 207.

²⁰⁹ Source: Sharma / Chrisman (1999), p. 18.

²¹⁰ Source: Covin / Kuratko (2009), p. 208; see also Morris et al. (2011), p. 88.

link to innovative behavior by the established firm.²¹¹ COVIN / KURATKO argue that it is less important to establish an objectively “correct” meaning of the term. It is more important to have a “CE conceptualization scheme” that captures the essence of the CE arena as currently discussed within the literature, and is one that CE scholars and practitioners implicitly agree with. In this sense, COVIN / KURATKO promote two domains as currently constituting the CE conceptualization scheme: corporate venturing and strategic entrepreneurship (Figure 5).

The first domain, Corporate Venturing, refers to the entrepreneurial act by which an established firm enters into a new business that adds to the existing businesses. Internal corporate venturing means to create a new business within the corporation, whereas external corporate venturing implies the acquisition of a new business that was created outside of the corporation. Cooperative corporate venturing denotes the joint creation of a new business together with external development parties. Usually, cooperative ventures exist outside of the organizational boundaries of the founding partners. Whether a venture can be labeled “new business” depends on the novelty degree of its product/market combination.²¹²

The second domain, Strategic Entrepreneurship, is a young field that has existed as a relatively concerted research effort for only about a decade or so.²¹³ This research field was officially introduced with the *Strategic Management Journal*’s 2001 special issue on “strategic entrepreneurship”.²¹⁴ Its central idea is to merge the opportunity-seeking perspective in entrepreneurship with the advantage-seeking perspective in strategic management. Accordingly, firms must, in order to maximize wealth creation, continuously discover new opportunities (entrepreneurship), but they must pursue only the best opportunities and pursue these with discipline (strategic management).²¹⁵ Thereby, wealth creation can stem from discovering and exploiting a few massive, but short-lived opportunities or from many small, long-lived (“sustainable”) opportunities.²¹⁶ COVIN / KURATKO note that, in comparison to corporate venturing, strategic entrepreneurship involves a broader array of entrepreneurial initiatives that “can happen anywhere and everywhere in the company”. They can take one of the following five forms:²¹⁷

- *Strategic renewal*: Adoption of a new strategy resulting in a fundamental repositioning of the firm within its competitive space.

²¹¹ See Zeschky (2010), p. 6. An overview of existing CE definitions is provided by (e.g.) Sharma / Chrisman (1999), pp. 14-15.

²¹² See Covin / Kuratko (2009), pp. 208-209.

²¹³ See Foss / Lyngsie (2011), p. 1.

²¹⁴ See Hitt et al. (2001).

²¹⁵ See Foss / Lyngsie (2011), p. 8; Hitt et al. (2001), p. 488.

²¹⁶ See Foss / Lyngsie (2011), p. 8.

²¹⁷ See Covin / Kuratko (2009), pp. 210-211.

- *Sustained regeneration*: Introduction of a new product into a pre-existing product category or introduction of an existing product into a new-to-the-firm but pre-existing market.
- *Domain redefinition*: Creation of new or reconfiguration of existing product categories or market space.
- *Organizational rejuvenation*: Enactment of a major, internally focused innovation, such as business process reengineering, aimed at improving strategy implementation.
- *Business model reconstruction*: Design of a new or redesign of an existing business model in order to improve operational efficiencies or to be otherwise differentiated from industry competitors.

In the case of multi-business firms, the entrepreneurial event can happen in one or more of the firm's businesses.²¹⁸

2.2.3 Link to Internal Corporate Venturing

Internal corporate venturing refers to the internal creation of a new business that resides within the corporate structure and adds to the existing businesses.²¹⁹ SANTOS et al. contend that BMI is not synonymous with internal corporate venturing. For them, the essence of entrepreneurialism is to match new products or new technologies with opportunities in the marketplace. Internal corporate venturing could only potentially lead to BMI. In order to exemplify their argumentation, SANTOS et al. mention an act of internal corporate venturing within Mars. The firm's R&D matched a new printing technology with an existing product, M&M candies, to create a new product, M&M candies printed with personalized messages. Marketing this new product at a profit required a new business model, entailing customized, small batch production and direct distribution. The authors conclude that BMI only followed internal corporate venturing.²²⁰ However, the idea of personalized M&Ms could not have been realized without BMI. If the goal of internal corporate venturing is to implement a profitable new business into the firm (here in the sense of a new product/market combination), and if this goal involves the creation of not only a new-to-the-firm value proposition but also a new-to-the-firm value constellation, BMI would then become an integral part of the internal corporate venturing process.

A similar conclusion can be drawn from CHESBROUGH's research on several technology companies spun off from the Xerox Corporation in the 1980s. Xerox funded significant R&D activity at its own Palo Alto Research Center (PARC) on man-machine interfaces and other technologies later used in the personal computer industry. In cooperation with Xerox's CTO, CHESBROUGH looked at 35 R&D projects that the company had stopped supporting, and found that some of these

²¹⁸ See Covin / Kuratko (2009), p. 211.

²¹⁹ See section 2.2.1.

²²⁰ See Santos et al. (2009), p. 21.

projects became very valuable outside of Xerox: namely, 3Com, Adobe and SynOptics. Remarkably, none of these valuable projects used a business model similar to that of Xerox. At the time, Xerox's business model fostered technologies that allowed for faster copiers, the handling of very high copy volumes and maximum machine availability. Xerox stopped funding those new technologies it could not profit from within the boundaries of its existing business model.²²¹ In other words, Xerox was not willing or capable of designing new business models that would have enabled it to successfully exploit several of its new, in-house-developed technologies. Therefore, it can be concluded that BMI, in some cases, must be integrated into the process of internal corporate venturing in order to add a profitable new business to the firm. In consequence, this dissertation's findings on management practices supporting business unit managers in successfully realizing BMI may complement research on internal corporate venturing.

2.2.4 Link to Strategic Entrepreneurship

Strategic Entrepreneurship does not necessarily entail new businesses being added to the firm. Nonetheless, BMI, as the process towards a new-to-the-firm value proposition and value constellation, can be achieved by redesigning an existing business model.²²² Hence, there are also aspects that link BMI with strategic entrepreneurship, in particular with the following two forms: business model reconstruction and strategic renewal.

Business model reconstruction is perceived as the redesign of an existing business model aimed at improving operational efficiencies. Common activities within business model reconstruction include outsourcing and, to a lesser extent, vertical integration.²²³ By definition, business model reconstruction is clearly not BMI. However, the fact that such an activity may lead to a new-to-the-firm value constellation constitutes a point of contact between both phenomena.

Strategic renewal is purposely defined broadly by AGARWAL / HELFAT as:

*"[...] includ[ing] the process, content, and outcome of refreshment or replacement of attributes of an organization that have the potential to substantially affect its long-term prospects."*²²⁴

This definition emphasizes refreshment and replacement as opposed to other types of change and focuses on a firm's long-term prospects. As for the types of strategic renewal, AGARWAL / HELFAT distinguish between discontinuous strategic transformation, which encompasses the fundamental alteration of a firm's strategy; and incremental renewal, which, if pursued on a regular and proactive basis, reduces

²²¹ See Chesbrough (2010), pp. 355-356; see also Chesbrough / Rosenbloom (2002).

²²² See section 2.1.

²²³ See Covin / Kuratko (2009), p. 212.

²²⁴ Source: Agarwal / Helfat, p. 282.

the need for a much larger transformation later on.²²⁵ The authors mention IBM as a company that successfully underwent strategic renewal twice: first, when it moved from electromechanical accounting equipment to electronic computing during the period 1940 to 1965; and second, when it moved to business computing services in the 1990s.²²⁶

In contrast, COVIN / KURATKO promote a narrower view of strategic renewal. They argue that firms only undergo strategic renewal if the newly adopted strategy represents a fundamental repositioning of the firm within its competitive space that deviates from accepted industry standards. These firms are then “playing new strategic games”, also referred to as the outcome of “strategic innovation”.²²⁷ In their seminal 2001 paper on the topic of strategic innovation, GOVINDARAJAN / GUPTA conceive it as a change in “the rules of the game” by finding new answers to at least one of the three questions:

1. *Who are my target customers?*
2. *What value do I want to deliver to them?*
3. *How will I create it?*

Thereby, changes to one of these three “business model arenas” may have implications for the other two.²²⁸ Indeed, some authors, e.g., BUZZAVO, GEBAUER et al., or MARKIDES, deem “strategic innovation” synonymous with “business model innovation”.²²⁹ Nevertheless, it is essential to note that three important aspects distinguish the phenomenon described as strategic innovation from BMI as defined in section 2.1. Firstly, strategic innovation by definition can only happen in an existing industry.²³⁰ Secondly, a newly introduced business model is only considered strategic innovation if it is new-to-the industry as opposed to new-to-the-firm.²³¹ Third, a newly introduced business model only qualifies as strategic innovation if it enlarges the market by either encouraging existing customers to consume more, or by attracting new customers into the market.²³² Hence, Dell’s direct sales approach in the personal computer industry or Amazon’s e-business approach in the book retail industry, for instance, are considered as strategic innovations; whereas the above mentioned transformation of IBM in the 1990s is not.²³³ Nevertheless, there is overlap between strategic innovation and BMI in multi-business firms. Both research streams have a business model focus and may therefore, to a certain extent, cross-fertilize each other. With specific regard to AGARWAL / HELFAT’s broader conception of strategic renewal, MOINGEON / LEHMANN-ORTEGA point out that

²²⁵ See *ibidem*, p. 283.

²²⁶ See *ibidem*, pp. 285-288.

²²⁷ See Covin / Kuratko (2009), p. 211.

²²⁸ See Govindarajan / Gupta (2001), pp. 3-4.

²²⁹ See Buzzavo (2012); Gebauer et al. (2011), Markides (2006).

²³⁰ See Markides (2006), p. 20; Schlegelmilch et al. (2003), p. 118.

²³¹ See Buzzavo (2012), p. 28; Markides (2006), p. 20.

²³² See Markides (2006), p. 20.

²³³ See *ibidem*.

research on BMI may contribute to the knowledge of strategic renewal, which still remains largely to be acquired.²³⁴

2.2.5 Summarizing Remarks

This chapter's second purpose consists of the determination of whether to place the concept of BMI in multi-business firms, as defined in section 2.1, into the arena of CE. This undertaking has been motivated by the implicit need to place research of BMI in established firms into a broader, already recognized research field. In summary, this section demonstrates links of BMI in multi-business firms with three forms of CE: internal corporate venturing, business model reconstruction and strategic renewal. These three forms cover both of CE's currently constituting domains: corporate venturing and strategic entrepreneurship. Thus, it is suggested that this dissertation's findings on management practices supporting business unit managers in successfully realizing BMI complement the research on CE.

2.3 Literature Review on Performing BMI in Established Firms

2.3.1 Motivation and Method

EISENHARDT suggests that the a-priori specification of "constructs" is a valuable step before engaging into fieldwork. Derived from extant literature, those "constructs", or theoretical perspectives, add to the research question and help to shape the initial research design.²³⁵ In her theory-building case study research, LASINGER experienced that a-priori specified theory served as an early orientation when conducting the first interviews with managers.²³⁶ Likewise, with respect to generating grounded theory, STRAUSS / CORBIN point out that reading through existing literature may help scholars create questions they might want to ask respondents.²³⁷ Consequently, the existing literature on BMI in established firms was reviewed, with the aim of identifying activities or behaviors authors recommend as possibly relevant to managers for performing BMI. Thereby, the term managers does not relate to a specific group of managers, such as business unit managers, but to all managers acting in for-profit organizations. Section 2.1.2 describes how the body of literature was collected. Importantly, academic or practitioner-oriented articles, working papers, or books were only integrated in the review if the text contains the phrase "business model innovation".

Without claiming mutual exclusivity, the identified activities have been subsumed into the following five "principles": (1) proactiveness, (2) experimentation, (3) autonomy, (4) conflict management, (5) leadership commitment and alignment. The term "principle" is used by COMES / BERNIKER in the very context of conducting BMI and

²³⁴ See Moingeon / Lehmann-Ortega (2010), pp. 285-286.

²³⁵ See Eisenhardt (1989), p. 536.

²³⁶ See Lasinger (2011), p. 14.

²³⁷ See Strauss / Corbin (1990), p. 51.

shall therefore be adopted here.²³⁸ However, research on BMI is in its early stages and has not yet established any sort of fundamental truths.²³⁹ Many literature-mentioned managerial activities or behaviors may be categorized as rather general suggestions and do not stem from formal studies.²⁴⁰ That is why the term “principle” shall be put in quotation marks throughout this section. Furthermore, the activities identified in this literature review are not assured a place in the resultant theory. They are only of a tentative and preliminary character. Most importantly, it is notable that preordained theoretical perspectives should neither bias nor limit the findings of the fieldwork.²⁴¹ In the following subsections, the five “principles” containing the identified activities shall be described.

2.3.2 Proactiveness

Proactiveness refers to a firm’s effort to anticipate new opportunities and to act upon them ahead of the competition. Proactive firms adopt a forward-looking perspective when searching for new possibilities for profitable growth and development.²⁴² With respect to BMI, MCGRATH emphasizes that managers must recognize threats to a business model before the model’s ability to generate value is completely eroded. Managers must then mobilize resources to address the new situation by, e.g., BMI. In reality, leaders easily overlook how environmental changes undermine the viability of a successful business model. As a means for managers to notice in time whether a particular business model is under threat of erosion, MCGRATH proposes “critical conversations”. Firstly, these conversations can include leading technologists in- or outside the firm, whose job it is to think about future possibilities. Secondly, they can involve “oblique-competitors”, i.e. firms that are competing only indirectly with a focal firm for customers. Thirdly, such conversations can address potential future customers.²⁴³ Likewise, DOZ / KOSONEN point out that anticipation and foresight give managers the time for deliberate reforms of business models. Besides applying standard forecasting tools to monitor known risks, managers may actively explore future usage concepts to anticipate how end-users would deploy a firm’s future products.²⁴⁴ Similarly, CHESBROUGH finds it important to undertake active tests to probe nascent markets with potential configurations of new business models as they allow a firm to learn ahead of the competition.²⁴⁵

Moreover, LINDGARDT et al. note that BMI, when approached proactively to explore new growth avenues, is more powerful than BMI, when pursued defensively to protect a dying business.²⁴⁶ Correspondingly, TEECE argues that it is preferable for a

²³⁸ See Comes / Berniker (2008), p. 79.

²³⁹ See section 2.1.

²⁴⁰ See Holm et al. (2013), p. 328.

²⁴¹ See Eisenhardt (1989), p. 536; Yin (2009), p. 69.

²⁴² See Dess et al. (2008), pp. 434-435.

²⁴³ See McGrath (2010), pp. 256-258.

²⁴⁴ See Doz / Kosonen (2010), pp. 371-372.

²⁴⁵ See Chesbrough (2010), p. 359.

²⁴⁶ See Lindgardt et al. (2013), p. 293.

firm to initiate business model changes itself, instead of it becoming necessitated by external events. During the late 2000s financial crisis, for example, those U.S. investment banks that did not disappear entirely were forced to convert themselves into federally chartered commercial banks if wishing to survive, which caused significant business model changes and presumed lower profitability.²⁴⁷ Furthermore, NUNES / BREENE firmly advocate the “principle” of proactiveness in BMI. Managers need to take action towards reinvention while revenues and profits from the current business model are still robust. Firms do not fail to generate new growth because they are bad at fixing what is broken, but because they wait too long before fixing it. In this sense, the authors state:

“[Successful firms] turn conventional wisdom on its head and learn to focus on fixing what doesn’t yet appear to be broken.”²⁴⁸

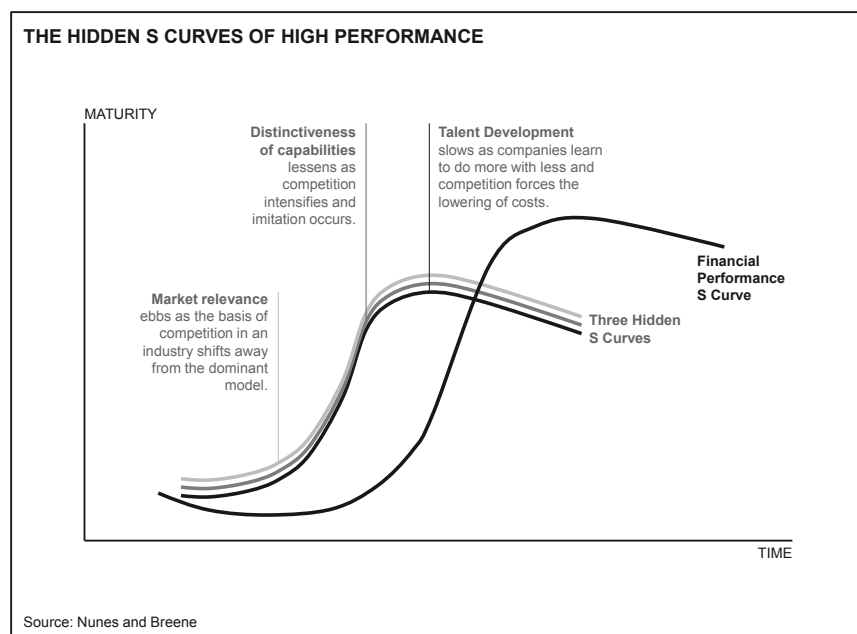


Figure 6: The hidden S curves of high performance²⁴⁹

NUNES / BREENE explain their argument by presenting three S curves – tracking the basis of competition in an industry, the renewal of capabilities and the nurturing of talent - hidden behind the financial S curve that displays to managers the profits

²⁴⁷ See Teece (2010), pp. 177-178, 187.

²⁴⁸ Source: Nunes / Breene (2011), p. 82.

²⁴⁹ Source: Nunes / Breene (2011), p. 84.

generated by a particular business model (Figure 6).²⁵⁰ These three curves visualize business aspects that decline earlier than financial performance and hence require particular management attention. Accordingly, successful firms anticipate changes in customer needs and create a new basis of competition in their industry before existing businesses have peaked. In the cell phone industry, for instance, the basis of competition has changed from that of price to that of network coverage, design, branding and apps. High performers also consider that the distinctiveness of capabilities linked to genuine offerings vanishes before it becomes apparent by the financial S curve. Building the capabilities needed for new distinct offerings may take years. What is more, successful firms understand that they need to develop the talent that drives new growth. Efforts to make existing operations leaner and less costly should not turn those people away, which the firm could rely on for reinvention.²⁵¹

A seemingly different view is brought forward by SOSNA et al. From analyzing the single case of Naturehouse, they conclude that established firms initiate BMI as a *reaction* to difficulties.²⁵² Naturehouse is the brand name of a chain of franchised retail outlets that offer dietary and beauty products; it belongs to the Spanish family-owned Kiluva Group founded in 1986. Initially, Kiluva operated a wholesale business model typical of distributors of dietary products in Spain. The authors stress that only after the competitive intensity heightened due to domestic market liberalization in 1991, did Kiluva's owner-manager begin to experiment with the new Naturehouse business model. However, it took Kiluva five years, from 1992 to 1997, to explore and fine-tune the business model until it was rolled out on a larger scale. Throughout this period, sales revenues from the existing wholesale business only slightly decreased from € 5.5 m in 1992 to € 4.8 m in 1997,²⁵³ which presumably, as profit numbers have not been disclosed, allowed Kiluva to experiment over such a long time.²⁵⁴ Put differently, the creation of Naturehouse does not represent a drastic business model change in the short term dictated by external events to avoid immediate extinction. Kiluva actually started experimentation early enough to finally integrate a fine-tuned and well-tested, new successful business model. Therefore, it is also possible to classify Naturehouse as *proactive* BMI.

2.3.3 Experimentation

MCGRATH perceives experimentation as central for performing BMI successfully. She argues that existing business models are effective within the boundaries set by particular constraints. At the time of one of these constraints being lifted, due to, e.g., the emergence of a new technology, shifting customer preferences or regulatory

²⁵⁰ The S curve refers to the lifecycle of a product, business model, or industry typically entailing the stages of introduction, growth, maturity and decline; see (e.g.) Dess et al. (2008), pp. 176-183; Zollenkop (2006), pp. 167-203.

²⁵¹ See Nunes / Breene (2011), pp. 83-84.

²⁵² See Sosna et al. (2010), pp. 388-391.

²⁵³ This sales development translates into a Compound Annual Growth Rate (CAGR) of -2.7%; see *ibidem*, p. 389.

²⁵⁴ See also *ibidem*, p. 402.

changes, new business models emerge. It may be possible to detect such trends or changes, but it is hard to figure out ex-ante how to best take advantage of them via BMI. In many cases, the new constraints, or at least some of them, are not yet known when critical resource allocation decisions need to be made. In those cases, marketplace experimentation can be valuable to resolve the uncertainty.²⁵⁵ As CHESBROUGH highlights, experimentation can create the data necessary to justify an investment decision. While it might be clear to managers that the old model cannot be applied, it is often far from clear what the new business model will turn out to be.²⁵⁶

TEECE adds that entrepreneurial managers may, to a certain extent, be able to intuit a new model, especially when understanding some “deep truths” about what customers want. However, the likely existence of “tacit components” prevents the ability to fully rationalize the new model upfront, which in turn requires learning by, e.g., experimentation. In other words, a business model draft cannot be assessed in the abstract, but must be assessed against a particular business environment or context. Assumptions about costs, customers, competitors, distributors or suppliers have to be validated or adapted by testing them in a real business context.²⁵⁷ Felix Revuelta, for example, Kiluva Group’s owner-manager, designed the first draft of the Naturehouse business model based on his professional experience in the Spanish dietary industry, as well as on some ideas he had collected from the industries in the U.S. and Europe. As those ideas had been previously untested in Spain, he engaged in a long period of trial-and-error experimentation accompanied by constant business model adaptation to eventually eliminate uncertainty about the outcomes of introducing Naturehouse.²⁵⁸

Similarly, YUNUS et al. understand experimentation as the preferable route towards the required learning if other sources of information are non-existent or unavailable. Because of the “fundamental nature” of BMI, simple market studies or client surveys might be ineffective for determining whether a new business model will work out. Instead, a series of small business model experiments would then allow for maximum learning at minimal risk.²⁵⁹ Likewise, DOZ / KOSONEN view experiments as useful when performing BMI, especially if important insights cannot be generated via forecasting tools or scenario planning. Besides validating core business assumptions, experiments may also pilot change in established firms.²⁶⁰ By functioning as a form of “early action”, business model experiments may ease the cognitive act of reframing a firm’s dominant logic.²⁶¹ Moreover, KAPLAN strongly

²⁵⁵ See McGrath (2010), p. 253.

²⁵⁶ See Chesbrough (2010), p. 357.

²⁵⁷ See Teece (2010), pp. 187-188, 191.

²⁵⁸ See Sosna et al. (2010), pp. 391-393.

²⁵⁹ See Yunus et al. (2010), pp. 315-316.

²⁶⁰ See Doz / Kosonen (2010), p. 373.

²⁶¹ See Chesbrough (2010), p. 361.

promotes real world experiments as crucial to the BMI process. He strikingly formulates:

*"We spend far too much time thinking and planning and nowhere near enough time experimenting in the real world to see what works. We need to try more stuff."*²⁶²

In his opinion, leading organizations should have several business model experiments going on at all times.²⁶³

With respect to effective experimentation, CHESBROUGH underlines the importance of an experiment's fidelity. Highest fidelity can be achieved if a new business model is tested on real customers in real economic transactions. Other important parameters for planning experiments include the cost of conducting them, the time until the learning occurs and, essentially, the amount of information learned. Even failed experiments are valuable as long as they yield some new knowledge that might help to distinguish between what works and what does not work. On the other hand, experiments teaching nothing new are considered "mistakes" since they were either poorly planned or badly conducted.²⁶⁴

CHESBROUGH further suggests that managers construct business model maps before committing to specific investments in reality. Visualization may help to clarify the configuring elements as well as the core processes of new business model proposals. Therefore, maps may facilitate simulation and, after adding initial experimental results, may support the design of new experiments.²⁶⁵ With regard to business model ideation, HOFFMANN et al. found that groups using the business model canvas²⁶⁶ generated ideas of higher quality and were able to select the best idea, whereas groups using brainstorming formulated ideas of lower quality and were not able to select the best idea they had generated. However, brainstorming led to higher group satisfaction and a bigger number of ideas.²⁶⁷ EPPLER et al. conclude that, in practice, a combination of creativity triggering methods with more structured methods such as the business model canvas could be best when trying to find novel business model ideas.²⁶⁸

Another significant aspect relating to experimentation in the course of BMI concerns the financial valuation of investment decisions. According to MCGRATH, decisions on investing in business model experiments should be based on real options reasoning as opposed to more deterministic approaches such as economic value

²⁶² Source: Kaplan (2012), p. xvii.

²⁶³ See ibidem.

²⁶⁴ See Chesbrough (2010), p. 360; Sosna et al. (2010), p. 392.

²⁶⁵ See Chesbrough (2010), p. 359.

²⁶⁶ See section 2.1.3.1.

²⁶⁷ See Hoffmann et al. (2012), p. 4; see also Eppler et al. (2011), p. 1334.

²⁶⁸ See Eppler et al. (2011), p. 1336.

added or net present value (NPV).²⁶⁹ Real options analysis (ROA) transfers the valuation techniques of financial options to the assessing of investment opportunities in real assets that entail embedded options. Real assets include, for instance, land, buildings, plant or equipment. If an opportunity to invest in a real asset can be seen as a series of sequential steps, whereby at each step the investor has the option to expand, reduce, abandon or defer the investment, ROA potentially can be employed. These embedded options reflect the investor's flexibility and may add significant value that the standard NPV approach, which uses a single, risk-adjusted discount rate, can hardly take into account. Therefore, applying ROA may turn a previously unattractive business model experiment into an attractive one.²⁷⁰ What is more, ROA may foster many smaller investments with a deliberately limited downside risk, but still with the chance of accumulating significantly positive returns over time, instead of putting all financial resources into the one project with the highest NPV. The latter approach typically depicts a pattern of high negative cumulated cash flow in the short term, on the hopeful assumption that the project will unfold as planned. This pattern is often referred to as the "hockey stick" approach, whereas an options-oriented investment strategy depicts a pattern of several "little hockey sticks" (Figure 7).²⁷¹

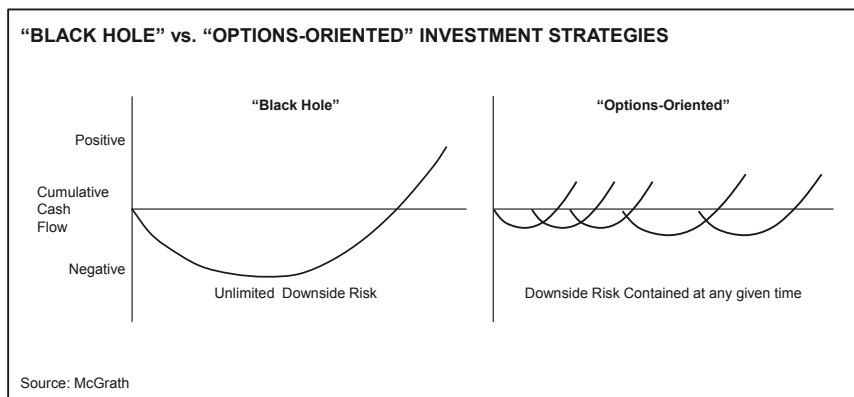


Figure 7: "Black Hole" vs. "Options-Oriented" investment strategies²⁷²

2.3.4 Autonomy

COMES / BERNIKER view autonomy as a "guiding principle" of BMI.²⁷³ In essence, autonomy represents a type of empowerment. It refers to the authorization of individuals or teams to act independently, with the aim of carrying a business opportunity forward.²⁷⁴ Thereby, independence relates to the situation in which the

²⁶⁹ See McGrath (2010), pp. 255-256.

²⁷⁰ See Dess et al. (2008), pp. 428-429; Hull (2006), pp. 713-727.

²⁷¹ See McGrath (2010), p. 256.

²⁷² Source: ibidem.

²⁷³ See Comes / Berniker (2008), p. 79.

²⁷⁴ See also Dess et al. (2008), pp. 432-433.

team charged with developing the new business model is not bound by the rules, metrics or notions of an existing model. TEECE emphasizes that adopting a neutral perspective is critical for shaping a new business model.²⁷⁵ As indicated above, firstly, the value proposition should be designed in a way aimed at truly satisfying specific customer needs. Secondly, the value constellation must be composed so as to deliver the value proposition at a profit for the firm.²⁷⁶ As a means to gaining a neutral perspective when creating new business models, DOZ / KOSONEN advise firms to integrate people from the outside, e.g., independent external directors or new hires among senior managers, consultants, or academic researchers.²⁷⁷

In fact, not keeping BMI efforts free of interference from the existing business may cause the new business model to be adapted to the existing one. In this case, a new opportunity's full potential might not be exploited.²⁷⁸ Managers who keep the existing business model going daily and who are simultaneously charged with advancing a BMI initiative often try to leverage core capabilities whether or not these serve the new model.²⁷⁹ Eastman Kodak, for instance, initially tried to “cram” digital photography into its established chemical film business model focused on having high quality pictures developed in retail stores; whereas other entrants in the digital imaging business such as Hewlett-Packard, Canon or Sony created completely new products that enabled consumers to print images at home.²⁸⁰ On the contrary, Nestlé granted operational independence to the team charged with developing Nespresso and benefited from it. Remarkably, the team found that Nespresso needed other coffee beans than those used for Nescafé to optimize the new value proposition. This finding was pursued although it inhibited cost synergies in the area of purchasing.²⁸¹

Another aspect related to the autonomy “principle” touches the budgeting process imposed on the BMI initiative. COMES / BERNIKER cite the example of a BMI team that was expected by corporate headquarters to present and justify its numbers on a quarterly basis, as with every other business unit. Headquarters then compared those numbers with the performance of the team's peer established business units. The pressure to constantly defend investment requests swallowed a considerable part of the team's time and energy and also led to wrong investment decisions. As a result, the BMI initiative was abandoned. This is why different evaluation metrics than those for established businesses should be applied to BMI initiatives.²⁸² JOHNSON notes that new business models should show their ability to generate profits rather quickly. However, an overeager push for scale and lack of patience with a process

²⁷⁵ See Teece (2010), p. 190.

²⁷⁶ See Johnson et al. (2008), pp. 54-55.

²⁷⁷ See Doz / Kosonen (2010), p. 374; see also Comes / Berniker (2008), p. 81.

²⁷⁸ See Cavalcante et al. (2011), p. 1336.

²⁷⁹ See Johnson (2010), p. 164.

²⁸⁰ See *ibidem*, p. 158; see also Gilbert (2001), pp. 3-4; König (2009), pp. 35-36.

²⁸¹ See Comes / Berniker (2010), pp. 80-81.

²⁸² See *ibidem*, pp. 79-80.

that needs time can put an end to the best-conceived BMI initiatives.²⁸³ This “credo” for measuring success can be summarized with

*“patien[ce] for growth, but impatien[ce] for profits”.*²⁸⁴

One of the firms used by JOHNSON to exemplify the autonomy “principle” for performing BMI is Dow Corning. In June 2001, the firm’s Executive Committee gave Don Sheets a certain amount of financial resources, a title and a deadline, to build a team whose purpose was to turn the idea of a low-cost, web-based business model into a reality. Sheets was a member of the task force of mid-level executives requested to come up with new ideas to stimulate growth.²⁸⁵ This autonomy allowed Sheets and his team to figure out which conditions would permit such a model to be profitable. Substantially differing from Dow Corning’s established business, these conditions included highly standardized products and lead times, more risk-taking salespeople, a new brand (Xiameter) and a very low overhead structure.²⁸⁶ Initially, Xiameter’s operation was limited to a small scale. Still, after going live in March 2002, it paid back Dow Corning’s investment within three months, proving the new business model’s profitability.²⁸⁷

2.3.5 Conflict Management

In the BMI process, conflicts can arise from employees and middle managers who are affected by a business model redesign, or who are supposed to support a new additional business model with the aim of exploiting synergies. CAVALCANTE et al. underline that employees who are asked to change their working practices try to make sense of it, which may be interpreted as resistance to change.²⁸⁸ Typically, the knowledge about the BMI and its potential positive impact is known at first to only a small group of people, usually including top management. This knowledge must be integrated into the organization and involve people at all levels. In short, managers should establish a collectively shared understanding about the BMI’s content and effects when implementing it.²⁸⁹ As a way to achieve that, OSTERWALDER / PIGNEUR suggest conducting a highly visible, multi-channel internal communication campaign announcing and explaining the new business model. Such a campaign should make use of stories and visualizations to help people understand the BMI’s rationale.²⁹⁰

²⁸³ See Johnson (2010), p. 142.

²⁸⁴ Source: Comes / Berniker (2010), p. 80.

²⁸⁵ See Kashani / Francis (2011), p. 7 (IMD Case: Xiameter: The Past and Future of a “Disruptive Innovation”); Johnson (2010), pp. 54-55.

²⁸⁶ See Johnson (2010), pp. 58-62.

²⁸⁷ See Johnson et al. (2008), p. 59.

²⁸⁸ See Cavalcante et al. (2011), pp. 1333-1334.

²⁸⁹ See Sosna et al. (2011), p. 393.

²⁹⁰ See Osterwalder / Pigneur (2010), p. 257.

One specific source of resistance is rooted in employees' fear of not having the skills required to execute the new working practices.²⁹¹ For instance, Hilti's sales force was used to selling power tools on the spot to the purchasing manager of construction sites. With the introduction of Hilti's fleet-management program, the sales force was asked to build partnerships with their customers' top management, which is indeed a completely different task. Hilti noticed its sales force's fear and committed significant resources to training and instruction.²⁹² Moreover, resistance may stem from employees being worried that the BMI renders their existing skill-set entirely obsolete. In this regard, CHESBROUGH notes that the vice president of a field sales organization might take strong exception to introducing online sales of the same products, regardless of the possible positive impact on the firm.²⁹³ Such a conflict constitutes a barrier to BMI, unless it is addressed.

What is more, resistance to BMI may also be caused by cannibalization concerns of the established distribution channels, including the firm's internal sales force.²⁹⁴ COMES / BERNIKER rank the latter as the most rigid of all corporate groups because sales people could see any effort to change the revenue structure as a threat to reaching their respective personal target agreement, especially if the current best customers are not those addressed by the new business model. In effect, failure to persuade the existing distribution channels to pursue the new business model might put an end to the BMI efforts.²⁹⁵ Bearing this in mind, Dow Corning's management, when integrating Xiameter, adjusted the individual targets and performance incentives of its sales force so as to reflect total company performance and not just that of Dow Corning's brand.²⁹⁶

Before actually integrating the BMI, JOHNSON recommends identifying potential points of conflict by comparing the blueprint of the new business model with that of the existing one. Conflicts may arise at those places where the expectations and entrenched habits of the existing business model interfere with the success of BMI efforts.²⁹⁷ Similarly, MARKIDES / OYON contend that an established firm intending to introduce a new business model should ask itself which activities it can operate together against the background of potential synergies, and which activities it must separate or redesign. In essence, separation should be considered if conflict seems inevitable.²⁹⁸ Consequently, managers should also have a thorough understanding of

²⁹¹ See Bucherer et al. (2012), p. 191. The authors discuss a "lack of willingness" and "a lack of knowledge".

²⁹² See Johnson (2010), p. 67.

²⁹³ See Chesbrough (2010), p. 358.

²⁹⁴ See Comes / Berniker (2008), pp. 81-83; Johnson (2010), p. 160; Kaplan (2012), pp. 44-45; Teece (2010), p. 182; Zollenkop (2011), p. 206.

²⁹⁵ See Comes / Berniker (2008), pp. 81-83.

²⁹⁶ See Kashani / Francis (2011), p. 9 (IMD Case: Xiameter: The Past and Future of a "Disruptive Innovation").

²⁹⁷ See Johnson (2010), p. 134.

²⁹⁸ See Markides / Oyon (2010), p. 30.

the current business model(s). Otherwise, the extent of the BMI's impact cannot be determined.²⁹⁹

"We must first peel away the veneer of everyday operations and come to understand the [existing] business model at the core of our efforts – how it works, what it enables, and what it inhibits."³⁰⁰

With respect to conflict management, TUFF / WUNKER add that focused pilots enable managers to test existing employees' flexibility.³⁰¹ In exactly this sense, Don Sheets conducted an experimental war game to test how Dow Corning's staff and systems would react to the requirements of Xiameter's business model.³⁰² Beyond that, OSTERWALDER / PIGNEUR propose to have people from throughout the organization participating in the BMI process long before the actual integration. Such a participatory approach may uncover conflicts before the new model's integration is even planned.³⁰³ On the other hand, such an approach may contradict the benefits of the autonomy "principle".

2.3.6 Leadership Commitment and Alignment

In general, leadership refers to the act of transforming an organization from what it is to what the leader(s) would have it become. This definition implies that leadership is more than custodial management to keep the organization afloat. Rather, leadership is about improving the status quo through the design and implementation of a creative vision.³⁰⁴ And as BMI is understood as the process of introducing a value enhancing new business model, several authors emphasize that performing BMI requires leadership.

KAPLAN, for example, clearly states that BMI must be led from the top because it requires the authority to act outside of the interests of the current business model.³⁰⁵ BMI will not happen if senior leaders are satisfied with the existing business model and therefore want employees to solely focus on refining it. Likewise, DOZ / KOSONEN argue that BMI would not be possible without a top management team committed to taking the risks necessary to advance into new or redesigned business models.³⁰⁶ Moreover, SOSNA et al. stress that the commitment and the resilience of the owner-manager and the top management team of Kiluva Group to repeatedly engage in business model experiments were critical to the success of Naturehouse. If leaders with significant decision power are obstructive to BMI, it would be almost

²⁹⁹ See Cavalcante et al. (2011), p. 1338; Santos et al. (2009), p. 44.

³⁰⁰ Source: Johnson (2010), p. 150.

³⁰¹ See Tuff / Wunker (2010), p. 7.

³⁰² See Johnson et al. (2008), p. 58.

³⁰³ See Osterwalder / Pigneur (2010), p. 257.

³⁰⁴ See Dess et al. (2008), pp. 378-379.

³⁰⁵ See Kaplan (2012), pp. 40, 131.

³⁰⁶ See Doz / Kosonen (2010), p. 376.

impossible for other managers to perform BMI.³⁰⁷ JOHNSON similarly asks how leaders can expect anyone else in the company to engage in BMI when they themselves feel uncomfortable pursuing ideas for new business models.³⁰⁸ What is more, from analyzing data of the IBM CEO Study 2006, BOCK et al. found that CEO responsibility for innovation is positively associated with an organization's engagement in BMI ($b=0.36$). This correlation proved significant at the 99% confidence level.³⁰⁹

With specific reference to multi-business firms, CHESBROUGH presumes that the general managers of business units are ideally suited to the task of leading BMI, unless they are being rotated to another position every 2-3 years. Unlike functional heads, business unit managers typically have the authority across all of the business unit's functions including, e.g., product design, manufacturing, marketing or sales, which is necessary for conducting business model experiments.³¹⁰ Besides, business unit managers possess a greater extent of knowledge behind the current business models and of potential value enhancing BMI; this is because, in contrast with corporate headquarters and central services, they continuously interrelate with customers and are deeply involved in daily operations.³¹¹

Nevertheless, as SANTOS et al. point out, BMI may require corporate approval, since such initiatives potentially alter the scope and risk profile of the corporation. Furthermore, it may be the case that BMI in one business unit impacts the strategic operations of other business units, leading to potential conflicts that may require corporate direction.³¹² Beyond that, business unit managers who do not have sufficient financial resources to pursue a BMI idea will have to involve corporate headquarters anyway. And with reference to this kind of situation, a number of authors request firms to create a context of openness, trust and organizational justice. DOZ / KOSONEN indicate that business unit managers should be given the feeling of "personal safety"; otherwise they may not reveal their deeper motives and concerns.³¹³ Equally, SANTOS et al. note that business unit managers need "psychological safety" in which they can offer BMI ideas to corporate managers without the fear of punishment or personal rejection in case an idea is not approved.³¹⁴ KAPLAN adds that CEOs and their senior leadership teams should make explicit to the organization whether they are open to BMI – and, if so,

³⁰⁷ See Sosna et al. (2010), p. 400.

³⁰⁸ See Johnson (2010), p. 168.

³⁰⁹ See Bock et al. (2012), p. 297.

³¹⁰ See Chesbrough (2010), p. 361.

³¹¹ See Santos et al. (2009), pp. 33-34.

In the context of "strategic innovation", Berghman (2012), pp. 21-22, emphasizes that the people who are interwoven with current business activities are also those who detect promising customer needs. Section 2.2.4 discusses the relationship between BMI and strategic innovation.

³¹² See Santos et al. (2009), p. 30.

³¹³ See Doz / Kosonen (2010), p. 377.

³¹⁴ See Santos et al. (2009), p. 36.

encourage ideas – or whether they want the organization to solely focus on optimizing current business models.³¹⁵

Another aspect in regard to the relationship between corporate and business unit managers when performing BMI concerns the alignment of incentives. Business unit heads who are charged with advancing a BMI initiative should feel that it is both in their personal and their organization's best interest to embrace the new business model. Often, BMI projects carry differing expectations concerning growth and profitability than the existing business models do; a fact that should be reflected in managers' compensation packages, bonuses and promotions. Thereby, incentives targeting the near-term success of the broader firm may be counterproductive since BMI can take years to reach fruition.³¹⁶ Furthermore, alignment and consensus on the limitations, freedoms and financial targets of the business unit pursuing a BMI should be reached very early, in order not to divert managers' efforts on these struggles.³¹⁷ Next to pure financial incentives, a compelling mission and values statement shared by all managers to provide an inner cultural compass can be deployed to promote BMI.³¹⁸

Moreover, OSTERWALDER / PIGNEUR argue for a strong, sustained and visible commitment by the board and/or top management for BMI efforts in the form of project sponsorship. Such project sponsorship signals the importance and legitimacy of the BMI and should be in place from the beginning.³¹⁹ Likewise, COMES / BERNIKER contend that each BMI initiative should be "spearheaded" by at least one member of senior management to infuse enthusiasm (although the authors do not exactly specify senior management).³²⁰ At Nestlé, Camillo Pagano, the then senior executive vice president in charge of several world-wide strategic product divisions and business units, strongly supported the Nespresso initiative. He commented:

*"People thought I was a 'nut' to spend so much time on this small thing and to support the idea. Nespresso is so different from what the company does in its day-to-day business. [...] You need champions at the top for a new idea. You need to give an idea support against criticism."*³²¹

Business units, on the other hand, should regularly demonstrate to senior managers the BMI's progress in order to not lose their support due to a perceived lack of productivity.³²²

³¹⁵ See Kaplan (2012), p. 40.

³¹⁶ See Johnson (2010), pp. 165-166.

³¹⁷ See Comes / Berniker (2008), p. 81.

³¹⁸ See Doz / Kosonen (2010), p. 378.

³¹⁹ See Osterwalder / Pigneur (2010), pp. 251, 257.

³²⁰ See Comes / Berniker (2008), p. 81.

³²¹ Source: Kashani / Miller (2003), p. 5 (IMD Case: [...] The Nespresso Story).

³²² See Osterwalder / Pigneur (2010), p. 253.

2.3.7 Summarizing the Results

This chapter's third purpose is to review the existing literature on BMI in established firms with the aim of identifying activities or behaviors that may turn out to be relevant for business unit managers to perform BMI. Without claiming mutual exclusivity, the identified activities have been subsumed into five "principles" and described accordingly. It is important to mention that numerous recommendations within the literature reviewed do not stem from formal studies, and not all recommendations are free of inconsistencies.³²³ Nonetheless, the activities add to the research question and provide early orientation for initial interviews with managers. Notably, they are only of a tentative and preliminary character and not guaranteed to occur in the results of this theory-building, case study research. Moreover, it is to be mentioned that preordained theoretical perspectives may neither bias nor limit the findings of the fieldwork. Figure 8 summarizes the outcome of the literature review.

LITERATURE-MENTIONED ACTIVITIES OR BEHAVIORS FOR PERFORMING BMI IN ESTABLISHED FIRMS				
Proactiveness	Experimentation	Autonomy	Conflict Management	Leadership Commitment and Alignment
• Take BMI action when revenues and profits are still robust. • Seek "critical conversations" to find out about erosion of the current BM. • Be aware of the three "hidden S curves" declining earlier than the financial S curve. • Actively conduct tests to probe new BMs in nascent markets. • Self-initiate BMI instead of having it dictated by external events.	• Experiment to find out how to best take advantage of detected trends and changes. • Experiment to collect data that justifies investment decisions if other information sources are not available. • Experiment in the "real world" as a new BM cannot be assessed abstractly. • Experiment because "early action" eases the act of reframing the dominant logic. • Use real options analysis.	• Adopt a neutral perspective when shaping a new BM. • Keep the BMI initiative free of interference from the existing BM to avoid inappropriate adaption. • Authorize teams charged with pursuing a BMI to act independently. • Leverage existing competencies only if they serve the new BM. • Apply different evaluation metrics: "patience for growth, but impatience for profits".	• Transfer knowledge about the BMI to people at all levels. • Establish a shared understanding about the BMI's content and effects. • Identify points of conflict before the implementation by comparing the activities of the new BM to the existing BM. • Provide training to employees anxious about not having the right skill set. • Resolve cannibalization concerns of existing sales channels.	• As a senior leader, clearly state your openness for BMI. • As a senior leader, provide a context of "personal safety" for managers to offer BMI ideas. • Devise a mission promoting BMI. • As a senior leader, grant authority to act outside the interests of the current BM. • Align the personal incentives of managers pursuing a BMI initiative. • As a senior leader, act as project sponsor of BMI initiatives.

Figure 8: Summary of the literature-mentioned activities or behaviors³²⁴

³²³ See sections 2.3.1 and 2.3.5 (e.g., the recommendation to involve employees from throughout the organization early in the BMI process to uncover conflicts vs. the autonomy principle).

³²⁴ Source: own Figure.

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