

Understanding Business Model Innovation from a Practitioner Perspective

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Abstract

While business model innovations are critical to a company's long-term survival, they are still poorly understood compared to other kinds of innovations. This paper investigates prior research and reframes business model innovation through a practitioner lens. Reporting on a content analysis of interviews with CEOs of small and medium enterprises in the technology industry, this research investigates their definition of business model innovation. This research intends to contribute to a better understanding of the meaning of business model innovation from a practitioners' perspective. These findings open new directions for theory development and empirical studies in the business model and innovation management literature.

Introduction

Although the literature agrees business model innovations are key to a firms' long term survival, they are still poorly understood compared to other kinds of innovations such as process or product innovations. In this manuscript, we investigate prior research and reframe business model innovation through a practitioner lens. We report on a content analysis of 63 interviews with the top management of small and medium size

enterprises in the technology industry, with the aim of recording their definition of business model innovation. This research intends to contribute to a better understanding of the meaning of business model innovation from a practitioners' perspective. These findings open new directions for theory development and empirical studies in the business model and innovation management literature.

Keywords: Business Model Innovation, CEOs, Innovation

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Business model innovation (BMI) is increasingly relevant to practitioners as companies look for alternative ways to compete beyond product or process innovations (Henry Chesbrough, 2007; IBM, 2016). Whereas products and processes can often be easily copied by competitors, the dynamic and complex nature of BMI makes it harder to do so (Amit and Zott, 2012; Schneider and Spieth, 2014). Despite clear advantages, BMI tools and processes are deficient (Zott et al., 2011). One reason may be due to the lack of empirical and theoretical research to support BMI within organizations (Venkatraman and Henderson, 1998). In order to promote the establishment of adequate management frameworks and mechanisms that lead to BMI, more empirical foundations are necessary. Theory development should evolve toward a construct that best approaches “the hypothesized course of [observed] events” (Weber, 1949, p. 44) aimed at rigorous theory building (George and Bock, 2011). By elaborating a review and presenting findings from an inductive study of practitioner perspectives, our aim is to better understand BMI in order to advance scholarly knowledge and research. In a nutshell, to provide a preliminary bridge from the phenomenon in managerial practice to the literature. The findings of the analysis are discussed and implications are drawn in the conclusion. Finally, the limitations are stated and recommendations for future research presented.

Approach

Given the lack of a consistent framework and the limited empirical studies on BMI, we took an alternative approach by asking practitioners about their understanding and application of BMI. Following the content analysis methodology and steps taken by (George and Bock, 2011), we proceeded to interview the CEOs of small and medium size companies from the high-tech industry.

Key Insights

Based on an inductive study of practitioner perceptions, our research reveals that practitioners perceive BMI more as a way of orchestrating a new approach in order to reach new customers and markets with innovative products, than about engineering new revenue

possibilities or maintaining existing ones. It is more about reaching new (market and products) than reconfiguring existing resources and capabilities to generate supra returns. It is not about optimization of the existing, but creation of the new. It is not a vehicle for facing existing challenges or constraints, nor for keeping the existing business sustainable, but a way to explore new possibilities in an outward manner.

Discussion and Conclusions

Research on BMI based on rigorous inductive or deductive logic is limited. This content analysis research presents an integrative framework for understanding BMI in the practitioner context. Our analysis of the language of BMI used in practice provides specific clues for understanding BMI in the broader management context. Our results reveal a lack of convergence on the meaning and definition of BMI. This research shows practitioners' general perception of BMI is fragmented. The following section will contrast the findings of our research with extended literature on BMI.

Novel Orchestration. A large number of respondents agree that BMI represents a novel approach to doing business. The category comprises five subcategories (New way of doing business, Change, Adaptation, Evolution and New solutions). Practitioners seem to clearly see BMI as an alteration of the existing status quo into a novel one. It is thus not a current state, but a process of transformation from one stage to another. In order to reach the new state, a firm has to master several processes and activities – both existing and new. These processes and activities, alongside resources (Hedman and Kalling, 2003) and capabilities (Morris et al., 2005), plus their orchestration may lead to the design of an innovative business model (Gassmann et al., 2015). BMI may therefore change the internal organizational structure and control, and possibly the company culture (Foss and Saebi, 2015). Business model changes towards a new way are almost by definition strategic issues for which the top management team is accountable.

Customer Centric. The second most cited category is stakeholders. Of the five subcategories, one clearly stands out: customers. A total of 41% of the respondents mentioned the term customers in their definition of BMI. The CEOs in our study seem particularly

concerned about their customers when defining BMI. Congruently, the literature reveals that every business model should serve certain customer groups (Chesbrough and Rosenbloom, 2002) and must answer the fundamental question “Who is the customer?” (Magretta, 2002). Further, Morris and colleagues (2005) argue that failure to adequately identify the right customer market is a key factor associated with venture failure. An approach commonly referred to as the customer value proposition (Johnson et al., 2008) is where organizations focus their activities on best serving their customers (Barnes et al., 2009). It addresses a customer’s problem, the solution to it, and value from the customer’s perspective (Chesbrough and Rosenbloom, 2002). A discussion that matches our data and is congruent with the research is undertaken by (Gassmann et al., 2015), who identifies customers as a central dimension when designing a new business model.

Product Innovation. The category Product/Service was the third most cited by practitioners. In fact, it is the second most cited in terms of total frequencies. Its subcategory, market, is the predominant term referred to in the interviews with an absolute frequency of 17 times, accounting for 27% of the practitioners’ mentions. They are clearly aware that BMI allows companies to deploy products in a specific market. From the respondents’ perspective, BMI seems intrinsically connected with new markets rather than existing markets in which they already operate. The word product is often joined with the word new or innovation, again revealing the practitioners’ perception that BMI mainly deals with the development of new products and new markets, rather than existing ones. BMI is clearly different from product and process innovation. Whereas products can often be easily copied, the dynamic nature of BMI means it cannot (Schneider and Spieth, 2014). New business models are hard to follow and copy given their complexity (Bucherer et al., 2012). Yet, new products and associated technologies can also be facilitators to shape new business models or readapt existing ones. For example, Apple’s iPod was not revolutionary per se since several companies had already offered devices using mp3 technology. However, combining the iPod with the innovative iTunes business model led the company to become the market leader and disrupt the music industry (Abel, 2008).

Revenue. The category value was the fourth most cited in our study. Its subcategory, revenue and profit, was important to the respondents when considering BMI, but not fundamental. The financial viability of a business model rests on its revenue model (Amit and Zott, 2001). It is an essential dimension of the business model as it represents the means by which a firm captures value (Zott and Amit, 2008). The interviews revealed respondents perceived revenue and profit as a consequence of BMI, not as its driver. New revenues versus maintaining existing ones were predominant in the responses. In fact, no respondent perceived BMI as a mechanism to prevent the loss of profitability. Chesbrough and Rosenbloom (2002) highlight the importance of BMI for sustaining profits in the long run: a notion that is clearly missing from our sample of responses. A possible reason for the lack of concern for maintaining the existing revenues might be that the interviewed CEOs were not from large corporations, but from more agile SMEs where chance and adaptation are more common. To sum up, our respondents consider BMI as a means to secure new revenues and profits, and less as a vehicle for sustaining existing ones.

Exogenous. In contrast, few respondents considered opportunity (subcategories: competitive advantage, rupture, differentiation, uniqueness, sustainability, attractability) as relevant to BMI. The results of our research contrast sharply with those of (George and Bock, 2011) study based on E-MBA students’ description of business model terminology. The authors build their research argument from the notion that “business models are opportunity-centric” and that the “business model is the organization’s configurational enactment of a specific opportunity”. Further, they justify firm formation as a decision “based on the enactment of an opportunity through an explicit or implicit business model”. The authors then define business model as “the design of organizational structures to enact a commercial opportunity. Fewer words that were used related to optimization (maximization, combination of resources, best practices, improvements), in contrast with scholars in the field who advocate the leverage and re-combination of existing resources within the firm in order to create new business models (McGrath, 2010). The least popular terms used relate to challenge (subcategories: challenge, threat, constrains, anticipation). This is not to say that BMI cannot be a

solution to a company's challenges, nor that threats play no role in BMI, but that practitioners do not perceive BMI as a tool to confront challenges or threats. This result is particularly interesting given that large corporations usually resolve to innovate their business models as a result of serious challenges (Chesbrough, 2007). Few companies resolve to innovate their business models before they are forced to do so by external events (Chesbrough, 2010). The reason might lie in the limited research on BMI and its application. Indeed, to date concrete solutions that support BMI, like they do with product innovation, are limited. Hence, the list of companies that failed innovate their business model is extensive. Kodak, for example, ignored digital photography and filed for bankruptcy in 2012 (Waters, 2012). Blockbuster ignored the innovative revenue models of its competitor and was forced out of the market by Netflix (Peers and Ramachandran, 2013). Siebel saw its CRM market share shrink as Salesforce brought in an innovative revenue model (DaSilva et al., 2013). Further examples abound, and the literature is clear in asserting it is critical for managers to recognize when to change their business model (Johnson et al., 2008).

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