Journal of Business Models (2021), Vol. 9, No. 1, pp. 8-12

JOURNAL OF BUSINESS MODELS

From One Context to Another: How Business Models Emerge

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Abstract

In this paper, we expose how managers within one industry leverage interorganizational collaborations to create a new business model. Based on an inductive case study of an automotive GPS navigation company, we develop an emergent theory of how organizations use interorganizational collaborations to develop new business models. Our preliminary findings suggest that organizations enact 3 practices: activation (clash between familiar and unfamiliar knowledge), combining (socially constructed projection of the future), and calibration (alignment of interests among partners). These practices enabled the co-creation of a pioneering business model involving four distinct but highly complementary partners. This study provides preliminary insights on a theory of business model innovation via interorganizational collaboration. More broadly, we help open up organization theory to a fresh conceptual lens—the business model—that highlights how organizations work and create value through collaboration.

Keywords: Business Model Innovation, interorganizational collaboration.

Please cite this paper as: DaSilva, C. M. (2021), From One Context to Another: How Business Models Emerge, Journal of Business Models, Vol. 9, No. 1, pp. 8-12

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DOI: https://doi.org/10.5278/jbm.v9i1.3691

Introduction

Interorganizational collaboration has become essential for innovation (Ahuja, 2000; Dobusch et al., 2019; Parmigiani and Rivera-Santos, 2011). It brings together knowledge, actors, and various forms of technological and financial resources to create 'collaborative advantage' (Carlile, 2002; Vangen and Huxham, 2006). Innovation often requires firms to renew their business models to match new contexts with the aim of achieving exponentially increasing returns to scale (Lund and Nielsen 2018). Existing research on business model change suggest that organizations change business models by importing analogies from other contexts (e.g., Gavetti et al., 2005). The key idea in this research is that an idea from one domain gets translated to another domain, and that successful innovation is a function of managers cognitively representing their environment in a way that reflects the "deep structure" of their business challenges.

However, many organizations operate in contexts that require a large amount of interorganizational collaboration (Carlile 2002; Roslender and Nielsen 2019; Vangen and Huxham 2006). This context of interorganizational collaboration challenges the aforementioned approaches to developing new business models (Lund and Nielsen 2018). Specifically, importing analogical business models from other domains requires organizational actors to make an analogy work through activities such as stretching, bending, and positioning (Glaser et al., 2016). These activities associated with making an analogy work are likely to be unique in contexts featuring interorganizational collaboration since the collaboration requires diverse actors with competing interests to coordinate activities; and competitive environments—particularly those environments featuring rapidly changing technologies —change over time. Consequently, in this paper, we ask the following research question: How do organizational actors create business models based on analogies in contexts featuring interorganizational collaboration?

Approach

To answer our research question, we conduct an inductive study of a corporation that sought to commercialize a pioneering business model via interorganizational collaboration. Due to the lack of theory on the phenomenon of business model change (Ahokangas and Atkova 2020) and the complexity of associated with interorganizational collaboration, our aim is to advance grounded theory (Glaser and Strauss, 1967) via an inductive method instead of a deductive one - an interpretative case study, instead of a large scale statistical analysis. We obtained unique access that included interviews of C-suite executives, managers, and detailed archival materials.

We collected data from three sources: (1) 16 interviews with Firm A`s founder, CEO, CFO, COO, lead project manager, product manager, accountant, business development consultant, software developers, testers, hardware specialist and the former facility manager, (2) 5 interviews with relevant ecosystem players and partners, and (3) Archival data comprising formal files such as proposals, presentations, agreements and informal files such as communications between the four partners. Furthermore, we sourced secondary data from private and public company documents, press releases, company website and major industry blog posts. We interviewed the former CEO of Firm B to understand the case from a partnership angle, as well as a journalists who`s focus was the navigation industry. The originator of the sponsor-based business model idea made available to us his notes and files from those early days. We re-interviewed the C level executives as well as the project and product managers for points of clarification.

Key Insights/Discussion

Through a combination of data and conceptual development, we deduced seven subprocesses that led to the novel sponsor-based business model: familiar knowledge; Unfamiliar Knowledge; Selective matching; Selective projecting; alignment; resource complementarity; and risk mitigation. Due to poor fit between existing theoretical constructs and these subprocesses, they were clustered into three aggregate processes: activation, combination and calibration.

Activation

The brain is a highly connected and interconnected organ, and the activations of those connections are

constantly shifting. Activation makes certain patterns available for use at certain times. But much of the activation process is the work of the imagination striving to find appropriate connections between inputs that can be both based on internal and external information. Some of these activations come from external real-world information that impinge upon us, others from what people say to us, others from internal configurations of our brains acquired through personal biography, culture, and, ultimately, from biological evolution.

In our case, activation was sparked by the reading of the book written by Chris Anderson entitled *"Free: The Future of a Radical Price"*. One of the CEOs interviewed mentioned the ideas written in the book opened is mind to a whole new level of understanding and had a tremendous impact in the conceptualization of the Free GPS business model.

> "It (the book) was highly influential in a lot of industries, software navigation included, where people understood that usage and millions of users should not be dependent on your ability to process logistics or having massive capital investments."

Once such connection is activated, however, it triggers the combining process we discuss next.

Combination

Combining is indispensable for intellectual work. When the CEO of the GPS navigation firm communicated with his team and later with the different stakeholders how to generate revenues without charging a cent to end users by inviting partners to imagine they are the "Google AdSense" of the navigation industry, it may look as if they were simply to incorporate a known business pattern – lead generator, but not so: Performing the exact same business pattern present in Google AdSense is impractical in the navigation industry due to the high costs associated with mobile data, map licenses and address directories. Rather, they selectively combined the business pattern of advertising (inspired from Google AdSense) with the traditional location specific advertising industry (popular business directory in France) and developed a new emergent business pattern:the free GPS navigation on a mobile phone

This might seem like a simple execution of a well-known business model – advertising, but again not so: Google advertising business model is based on publicly available data on the internet that may or may not be accurate, delivered for free on a web browser. In the free GPS navigation business model, reliable search result data was expensive (contact details and accurate address were available almost exclusively on paid databases), internet mobile data was prohibitory expensive and maps were sold on a license basis (accurate maps were sold on a per-license basis by third party suppliers).

> "Then, we started having a series of conversations. We had the technology. We had the software. We had the ability to build a product. Firm B had the brand. They had the delivery mechanism on the app stores. They had the ability to bring and service the product in market. There was one thing missing. The only thing that was missing to the model that we wanted to achieve was to persuade one of the two players that were at the time was a duopoly on the map segment, and to convince one of the two players that they would be able to make more money by giving it away for free rather than by selling a license. In other words, move towards a revenue sharing environment as opposed to having it per license fee."

The creation of combinations is guided by cognitive pressures and principles, but in the case of GPS Free, it is also guided by industry specific characteristics. Most advertising models a manager in the GPS industry can imagine are undesirable to execute. But within the conceptual blend prompted by the activation phase, and under the conditions afforded by the industry, possibilities may emerge.

The management team astutely used a hidden analogy between a small aspect of the Google AdSense advertising model and the desired GPS navigation model proposed to their stakeholders.

> "I read them about half a page of this book. One of the things that I told them, this was part of my pitch, was to explain them that the world was changing and that they had an opportunity to change with the world. And that the model

they had as a per license fee was essentially something of the past."

Independent of the combinations, however, this analogy would make little sense. Managers were not suggesting to become the "Google" of the GPS industry. It's only within the whole - when stakeholders try to mentally conceive of a sponsor-based advertising business model while operating within their own industry that the intended model emerges. Managers in our case engage in a social effort aimed at matching aspects of the Google AdSense business model with their own industry. The aim is integration of selected patterns from Google Adsense. Once such elements have been selectively integrated, the links to the search engine can be abandoned. Managers need not forever think about Google in order to conceptualize and implement their newly combined business model – but the activation phase was essential in order to guide the combination process.

"At the time, I think that it's also probably fair to say that the story was essentially "Hey, let's try something new." Right? It was new for us"."

Calibration

Calibration is a result of the combination process. This could be limited to one single company, but in our case, calibration occurs when partners align interest and join forces in the design of a pioneering business model in the GPS Navigation industry at the time.

"I was doing the calculation how long for us to build this kind of app, quite long."

The complementarity of the business model allowed each partner to mitigate their risk and commitment of resource. Complementarity was key, as was the common belief that such business model was actually "not risky" form a perspective of resource commitment.

"I need resources to build. I have so much to do in rebuilding the entire firm. I don't want to invest time and money in that. And that's where we had that idea. Okay, let's build an audience. We share the risk. And then for me it was riskless because I was not paying for that."

Conclusions

We find that business model innovation occurs as a result of 1) activation (clash between familiar and unfamiliar knowledge), 2) combination (socially constructed projection of the future) and 3) calibration (alignment of interests among partners). These practices enabled the co-creation of a pioneering business model involving four distinct but highly complementary partners.

This research is important as it answers the call made by business models scholars (see Foss and Saebi, 2017) on "the mechanisms and processes of business model innovation and change" (George and Bock, 2011: 88) and "the process and elements of business model innovation" (Schneider and Spieth, 2013: 134) and consequently form strategic conditions for interorganizational collaboration.

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