

## Editorial

# Business Model Innovation – A Concept Between Organizational Renewal and Industry Transformation

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### THE GENERAL SETTING

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With the new millennium and the hype of electronic business a new movement was created that still gains momentum: business model innovations. Deeply influenced by business informatics in the early years, business models and business model innovations became a pervasive part of our business life. Particularly business model innovations opened the door for a thinking far beyond product and process innovations. By considering new ways of designing value propositions, value-added architectures and sales modes (e.g. Timmers, 1998), business model innovations became an attractive option of recent innovation management and strategic management of the entrepreneurial kind as well. Especially small- and medium-sized entities (SMEs) found a new way to innovate without spending too much resources in uncertain investments.

Once successfully implemented, business model innovations on the micro level drive organizational renewal and/or help in developing new businesses. More than that, business model innovations may change the 'rules of the game' in markets and trigger processes of industry transformation (Porter & Rivkin, 2000) on the macro level.

Despite the considerable power of business model innovations, not every innovative business model is a 'home-run'. Empirical evidence suggests (e.g. Freiling & Dressel, 2014) that sophisticated new business models promise

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‘win-win’ constellations for both customers and suppliers, but face the problem of limited adoption in target markets. Insofar, the implementation goes along with numerous obstacles. Little is said about the root causes of these obstacles and the ways how to cope with these challenges.

Many of the articles of this special issue address the background of business model innovations and open the door to new debates. This illuminates the rather inter-disciplinary nature of business model innovations that deal with different kinds of novelties for both suppliers and customers. Based on Schumpeter (1934), innovations may relate to products, processes, organizational modes as well as novel purchasing and distribution modes. These novelties are often interrelated and call for an over-arching frame. If well designed, business models can be such umbrellas and are, thus, useful elements of innovation and strategic management. More than that, they push forward the notion of systemic innovation as a core challenge for both strategic decision-making and innovation.

The papers deal with both customers and suppliers, as innovation cannot be separated from adoption processes in markets. In this regard, some former background issues come to the fore in this special issue, such as the still under-researched role of emotions (cf. Straker and Wrigley, 2015) and the role of diversity of people (particularly in the light of different cultural backgrounds – cf. Harima and Vemuri, 2015).

Innovating business models is among the priorities of leading companies in most recent times to keep a certain balance of value creation and value capture (Teece, 2010; Zott et al. 2011). While business model innovations require particular capabilities to develop new industry architectures (Jacobides et al., 2006; Freiling et al., 2008), business model innovation is a challenge that often returns to top positions of the management agenda. To change from one business model to another, however, is a different and often even more demanding challenge that is based on dynamic capabilities (Teece, 2007). By dynamic capabilities companies are able to sense and seize new business opportunities and to reconfigure the company. The bare existence of dynamic capabilities allows changing business models more proficiently and, thus, tapping the potential of new business opportunities (Müller and Vorbach, 2015).

However, while business model innovations have played a role in the entire economy in recent years, there are contexts where these innovative moves find a very fertile background. Without necessarily excluding other companies, particularly young firms seem to belong to these settings. Insofar, entrepreneurship and business model innovations are closely linked. One reason for this may be that incumbents are locked in their everyday business, reinforced by specific investments, and do not find enough time

to go substantially beyond that. Thus, they are prone to attacks based on innovative business models of start-ups that are in need of doing something new and different to start launching their solutions in target markets. Entrepreneurship practice is full of examples where new ventures translated a basic innovation into a business model innovation to ‘make’ a market (e.g. Facebook, Amazon, Cirque du Soleil). The multitude of different ventures is hard to describe exhaustively, if it is possible at all. In this regard, it makes a difference whether the ventures are profit-oriented or non-profit ones. Papers of this special issue deal especially with this question (Jokela and Elo, 2015; Balboni and Bortoluzzi, 2015).

On a more pragmatic level, the question arises how to visualize the real nature of business models and how to plan and implement them. In literature, there is a huge variety of understandings – like Timmers’ (1998) model of three business model components, the Morris et al. (2005) six-element approach or the nine-component ‘business model canvas’ framework of Osterwalder and Pigneur (2010). In this special issue, many articles adopted the more fine-grained business model canvas approach that already penetrated business practice to some extent.

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## THE PAPERS

What falls short in research on business models, business model innovations and business model design, is the role of emotions. Karla Straker and Cara Wrigley uncover the role of emotion-driven innovations in their article on “The Role of Emotion in Product, Service and Business Model Design”. They point to the need to build strong emotional connections with the customer by approaching visceral design, consumer hedonics and product rhetoric (VHR) issues. Whereas marketing research particularly in the realm of consumer behavior addressed the multiple emotional relations between products and customers, research on business model innovation is still silent in this regard. Their conceptual foundations are related to qualitative empirical research in eleven companies. The semi-structured interviews give rise to the impression that visceral, hedonic and rhetoric issues play a considerable role and deserve more attention when designing innovative products, services and business models.

If we move from the role of emotions to the role of intercultural skills and diversity of people driving businesses, the resources of migrants and, particularly in the article of Aki Harima and Sivaram Vemuri (2015), of diasporas come into play. “Diaspora Business Model Innovation”, the official title of this contribution, refers to people with a double embeddedness: they migrate to a country of residence where they get used to and they still stay in touch with

their country of origin. This kind of embeddedness enlarges the reservoir of business ideas and experience and may go along with favorable positions to develop and implement sometimes minor, sometimes major business model innovations. Building on empirical fieldwork in English schools in East Asia and structuring their considerations along the Osterwalder and Pigneur (2010) business model canvas, Harima and Vemuri (2015) compare diaspora and conventional English schools by their qualitative empirical studies.

In their article called “Enabling Business Model Change: Evidence from High-Technology Firms” Christiana Müller and Stefan Vorbach extend the debate on dynamic capabilities and their enabling role in business model change. They specify properties and capabilities that allow changing the elements or the entire design of business models. The findings are extracted from qualitative empirical research in high-tech industries predominantly in Western European countries.

In more recent times, there is a strong trend in business modeling and business model innovations to create critical mass effects and, thus, instant growth by the so-called ‘freemium’ approaches. Although not entirely new, this trend gained momentum in the 2000’s by attracting and bonding customers long before first payments are made. Business reality developed a lot of examples. In earlier years, telecommunication providers gave away cell phones to charge customers heavily using these devices. Real pioneers of freemium models have been companies like Netscape or Adobe with basic versions for free and more sophisticated packages to be purchased. By now, there is a huge variety of freemium business models. Franziska Günzel-Jensen and Anna B. Holm illuminate this variety in their article on “Freemium Business Models as the Foundation for Growing an E-Business Venture: A Multiple Case Study of Industry Leaders”. Moreover and in the center of their article, they address the growth of companies by implementing these business models. In this vein, they pay attention to the development of these business models over time – with an emphasis on initial life-cycle stages. The empirical background are four case studies of successful e-business companies.

Päivi Jokela and Maria Elo with their article “Developing Innovative Business Models in Social Ventures” open the door for business model innovations in case of the social entrepreneurship as a still up-and-coming field of entrepreneurial activities. It is evident that in terms of the business model canvas social ventures, driven by a social, mostly non-commercial mission, differ from profit-based start-ups in certain ways. The authors point out the very nature of business model innovations in case of social entrepreneurship and conduct qualitative empirical fieldwork based on the case study approach.

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Bernardo Balboni and Guido Bortoluzzi (2015) raise the question whether business model adaptations are related to the success of new ventures. In their article on “Business Model Adaptation and the Success of New Ventures” they particularly analyzed the impact of business model adaptations on survival in volatile settings, growth and profitability. Against this background, they point out the close connection between business model adaptations and the availability of dynamic capabilities in terms of Teece (2007). In this vein, they conducted case study-based empirical research by analyzing three Italian start-ups. The findings reveal that we must be cautious not to over-estimate the role of business model changes and innovations. While these adaptations help young firms to stay in competition, there does not seem to be an evident impact on typical performance measures like growth or profitability. Obviously, business model adaptations may go along with problems of converting market positions in financial performance – an interesting aspect that deserves more attention in future research.

### **WHAT’S NEXT?**

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It is by no means difficult to fill the research agenda of business model innovations with topics that deserve more attention. In this respect, many of the articles of this issue are simply door openers and call for follow-up contributions to continue. Besides that, the articles suggest over-arching topics that may stimulate further discussions. Among these issues, the core obstacles in reality of implementing business model innovations are still under-researched (Chesbrough, 2010; Freiling et al., 2015). A first few steps have been made, but there is still much more we should be aware of. Moreover, we can learn very much from failure. There are, in fact, numerous initiatives of business model innovations that finally failed – but often rather silently. It would be useful to uncover the hidden reasons for that by digging a little bit deeper based on empirical fieldwork.

When reading the papers of this special issue, another issue comes to the fore: business model innovation is, at first glance, a primarily explorative issue. However, business models, innovative or not, mark the line between strategy formation and implementation and call for regular adjustments and adaptations to fully reap the potential they bear. This, however, is closely related to exploitation that goes hand in hand with exploration and forms organizational ambidexterity (Tushman and O’Reilly, 1998; Gibson and Birkinshaw, 2004). How business model innovations are aligned and how transitions are managed, belongs to the topics that deserve more attention in future research.

Moreover, the articles of this special issue often implicitly deal with the governance dimension of business model innovations. Obviously, business models innovations seem to favor network-like contexts and, particularly, platforms. It would be interesting to address this issue in future research more directly and more comprehensively than before.

A core challenge in researching business model innovations is the selection of appropriate research methods. In this special issues, the majority of articles adopted qualitative empirical research with a strong focus on case studies. However, as voiced by Harima and Vemuri (2015), we should not under-estimate the power of observations in the field. Sometimes the background of business model innovations is very complex and urges researchers to closely embedding themselves in the settings they want to investigate. However, the more we know about causal relationships in the realm of business model innovations, the more we can employ quantitative research. As business model innovations and adaptations are process phenomena with often long duration, path dependent effects and temporal interconnections, longitudinal research is among the future challenges as well. In sum, researchers on business model innovations are well advised to be open minded – in terms of methods and methodologies, as well as in terms of theories and theoretical approaches.

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