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Chapter · February 2015

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1 **Business Models and Business Model Innovation**

Bringing Organization into the Discussion

NICOLAI J. FOSS AND TINA SAEBI*

Introduction

The notion that companies have “business models” has become extremely influential, although perhaps still more so in the communication of business people and in the business press than in the management research literature. And yet, the latter literature has most definitely taken off within the last decade. With over 1,200 articles published in peer-reviewed academic journals between 1995 and 2010 addressing the notion of business models since (Zott, Amit, and Massa, 2011), the business model construct has gained substantial currency across strategy, entrepreneurship, and innovation literatures. There is little doubt that the construct resonates within several, overlapping communities, both practice-oriented and scholarly.

Much of the attraction of the business model construct arguably lies in its holistic approach. Thus, business models are sometimes characterized as mental constructs—presumably mainly residing in the upper managerial echelons of a company—that define the structure of the interlocking activities associated with key strategic choices. The relevant strategic choices relate to the firm’s fundamental value proposition(s), the markets and market segments it addresses, the structure of the value chain which is required for realizing the relevant value proposition, and the mechanisms of value capture that the firm deploys, including its competitive strategy. Teece (2010: 172) summarizes this by stating that the “... essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit.”

* We gratefully acknowledge support from the Center for Service Innovation at the Norwegian School of Economics, where Tina Saebi has been employed as a Post-doctoral Research Fellow. We also thank Anders Pico for efficient editorial work.

It is intuitive that this “manner” can be highly firm-specific and may thus serve to differentiate the firm in the marketplace. It is similarly intuitive that because of this firm-specificity and the underlying complexity that a business model contains, advantages associated with such differentiation may be hard to eliminate (e.g., by imitation) by the competition. Along similar lines, the firm that possesses a successful model may also be in a privileged position to change, renew, and even innovate that model. Such thinking has not been lost on the business community: Surveying more than 4,000 senior managers, a global survey conducted by the Economist Intelligence Unit (2005) found that the majority of managers preferred new business models over new products and services as a source of future competitive advantage. Similarly, an IBM survey (IBM Global Business Services, 2006) confirmed that managers increasingly perceive innovative business models as the key to sustained competitive advantage (Amit and Zott, 2012).

However, in spite of such massive resonance, in the academic as well as the practitioner community, much, and perhaps most, of the extant literature on business models and the innovation thereof suffers from deep-seated conceptual problems, little cumulative theorizing, and a lack of a sustained data collection and analysis. Thus, definitions of the core construct proliferate (in fact, there is some definitional variation across the chapters in this book), scholars do not scrupulously cite each other, and single-firm cases dominate empirical inquiry. By most standards, this seems problematic. However, these are typical characteristics of an emerging field rather than characteristics of bad research, and there are reasons to optimistically expect that these characteristics will gradually disappear as research in business models becomes increasingly cumulative.

In any case, it may seem to be something of a stretch to add more complexity to an influential, yet emerging and complex discourse, as we do in this volume, pressing the argument that the literatures on business models and business model innovation need to embrace organizational theory (in a broad sense). And yet, we argue that bringing organizational considerations into the discourse has the potential to clarify and align rather than confuse. Consider again the notion of a “model.” On one understanding of this notion, namely the one that engineers and social scientists (notably economists) ascribe to, a model is fundamentally a set of relations between variables designed to capture reality in an essential way. Note that those who think of a business model in terms of managerial cognition hold a similar view: The mental model represents the key relations between the key elements of the firm’s business. The point here, however, is that a model goes beyond the mere elements or variables; it also includes the *relations* between those elements or variables. In a nutshell, *our key argument is that in the context of a company, these relations are fundamentally organizational.*

Relations are organizational in a trivial sense—namely, these relations are embedded in the firm. However, more substantively they are organizational in the sense that they involve decision processes and outcomes,

communication, interdependencies, decision authority, performance assessment and key performance indicators (KPIs), rewards, job descriptions, implicit and explicit contracts, and so on. This is the stuff from which organizational structure and control are made. Indeed, some notions of business models (and, per implication, business model innovation) make this point implicitly. For example, Zott and Amit (2010) place organization centrally, namely as part of the very definition of a business model. Thus, they argue that business models can be understood in terms of transaction content (i.e., value propositions), transaction structure—and transaction *governance*. Of course, the governance part directly links to the organizational dimension (Williamson, 1996).

Teece (2010) argues that the “architecture” of the firm’s value creation and appropriation mechanisms is the hallmark of a business model. Although Teece does not specify this, an important part of an architecture is the organizational structure and control that supports the activities that allow the company to make its value proposition to the marketplace and embed the human and social capital that, with other resources, add value in those activities. In this volume, Santos, Spector, and Van der Heyden (chapter 3) argue that business models are all about “How is it being done?” rather than “What is being done?,” “What is the segment being addressed?,” and “How is revenue being captured?” The underlying argument is that business models uniquely address “how” issues, whereas the other issues are treated in the extant body of literature on marketing and competitive strategy. In such an interpretation, business models are fundamentally about the activities under the control of the firm that allow it to exploit an identified opportunity in the marketplace, and therefore also the structures and relations between the firm and its multiple stakeholders that support the value creation and value-capturing processes of the firm. Similarly, George and Bock (2011: 99) note that a “business model is the design of organizational structures to enact a commercial opportunity.” In this volume, Birkinshaw and Ansari (chapter 5) even coin a new term for this organizational dimension of the business model, namely the “management model”: “A firm’s management model is the choices it makes about *how* work gets done—how activities are coordinated, how decisions are made, how objectives are set, and how employees are motivated.”

Another fundamental organizational issue relates to the question at what level in the organization a business model exists. The literature does not provide any clear-cut answer to this. In this volume, Casadesus-Masanell, Ricart, and Tarziján (chapter 4) argue that business models exist at the level of business units. They may, however, reflect overarching corporate models.

In sum, scratching the surface of the business model construct immediately raises all sorts of fundamentally organizational concerns. In the remainder of this introductory chapter we discuss why it is important to link business models and business model innovation to the “organizational dimension,” and we discuss the role of organization as an antecedent and moderator of business model innovation. We end by surveying the various ways in which

the chapters in this volume meet the imperative of adding organizational content to our understanding of business model innovation.

Business Models and the Innovation Thereof

A BURGEONING LITERATURE

The notion of a “business model” has emerged as one of the most used pieces of management lingo over the last two decades, and is used constantly in the business press, in conversations between venture capitalists and those who seek their financial support, in the assessments firms make of competitors, and so on. It has entered the realm of political discourse, as when President Obama called for changes in the auto industry’s business model as a crucial step in the recovery of that industry (Levi, 2009). There is clearly a very strong communicative appeal to the concept, arguably because of its holistic nature. For example, business models include more than the firm’s current (business and marketing) strategy, and direct attention to the activities and the underlying organization that enable this strategy.

Moreover, the notion of a “model” has inherent attractions: A “model” is something that can be inspected, measured, and ascertained. Moreover, models can be replicated. Thus, entrepreneurs stand a better chance of getting funding from venture capitalists and other financiers when they can make convincing claims that they are not just pitching a value proposition, but a value proposition that is supported by value-chain activities, an identification of distinct segments and value appropriation mechanisms, and can perhaps also argue that all this is replicable.

In academic research, the business model construct has served multiple purposes, amongst others (1) as a basis for classification of firms (e.g., Timmers, 1998; Rappa, 2001; Amit and Zott, 2001; Osterwalder, Pigneur, and Tucci, 2005); (2) as an antecedent of heterogeneity in firm performances (e.g., Zott and Amit, 2010; Weill et al., 2005); and (3) as a new form of innovation (e.g., Teece, 2010; Markides, 2006).

As a classification device, the business model construct gained particular popularity in the early 2000s. As a response to the emergence of new e-business ventures, the business model construct was employed to understand and classify value drivers of (e-commerce) business models (cf. Amit and Zott, 2001; Rappa, 2001; Margretta, 2002; etc). Business models, with their simultaneous focus on value creation and value capture mechanisms were found more suitable to explain these “new forms of doing business” as compared to more traditional concepts in strategy. Research feeding into this discipline centered mostly on the definition of the construct, putting forward numerous definitions (Morris, Schindehutte, and Allen, 2005), typologies (e.g., Timmers, 1998), ontologies (Osterwalder, Pigneur, and Tucci, 2005), and

taxonomies of business model (Weill et al., 2005) in an effort to categorize firms, especially in an e-business context.

A second wave of research brought forward an increased interest in the performance implications of business models. Largely rooted in strategic management research, business models are argued to be an important factor contributing to firm performance (cf. Dunford, Palmer, and Benveniste, 2010). As some types of business models are found to outperform others (cf. Zott and Amit, 2007, 2010; Weill et al., 2005), successful business models are seen as examples to be imitated (cf. Baden-Fuller and Morgan, 2010; Teece, 2010; Chesbrough, 2010) or replicated (Winter and Szulanski, 2001; Doz and Kosonen, 2010).

Finally, a research stream has considered business models as both a vehicle *and* a source of innovation. Research focusing on business models as enablers of innovation has described the business model as a “focusing device that mediates between technology development and economic value creation” (Chesbrough and Rosenbloom, 2002: 532). Relatedly, business models are increasingly perceived as a promising new unit of analysis and starting point for innovation strategies. Research in this field is often centered on identifying different types and dimensions of business model innovation (cf. Giesen et al., 2010). In this volume, Stieglitz and Foss (chapter 6) build on the economics of complementarity as well as the innovation literature to conceptualize and dimensionalize business model innovation. This research stream also highlights the potential of innovative business models to disrupt the “rules of the game” and transform industries or markets (cf. Voelpel, Leibold, and Tekie, 2004; Markides, 2006; Casadesus-Masanell and Ricart, 2011).

Notably, these streams within the overall business model literature have largely evolved in relatively isolated silos across various disciplines such as innovation management, strategic management, and entrepreneurship literatures without much interaction. Because the field is a new one and because it reaches across a number of heterogeneous management research streams, the business model field exhibits many “pre-paradigmatic” (cf. Kuhn, 1970) characteristics such as unclear core constructs, lack of theoretical foundations, and a lack of evidence based on empirics that goes beyond small-N samples with their characteristic problem of sometimes getting dangerously close to sampling on the dependent variable. Perhaps the core problem is that of lack of construct clarity. Such clarity matters much to the coordination of research efforts and hence the progress of knowledge.

UNCLEAR CORE CONSTRUCTS I: BUSINESS MODELS

In spite of their widespread use, the terms “business model” and “business model innovation” are not at all unambiguous. The term “business model” was introduced in the late 1950s but hardly used in popular or research

publications until the 1990s, and only with the hype of the Internet did it reach a first peak in 2000 (Osterwalder et al., 2005; Zott, Amit, and Massa, 2011). To date, the concepts remain ambiguous as there is no commonly accepted or dominant theory or definition of business models. Thus, as Zott, Amit, and Massa (2011: 4) note in their impressive overview of the field:

At a general level, the business model has been referred to as a statement (Stewart and Zhao, 2000), a description (Applegate, 2000; Weill and Vitale, 2001), a representation (Morris, Schindehutte, and Allen, 2005; Shafer, Smith, and Linder, 2005), an architecture (Dubosson-Torbay, Osterwalder, and Pigneur, 2002; Timmers, 1998), a conceptual tool or model (George and Bock, 2009; Osterwalder, 2004; Osterwalder, Pigneur, and Tucci, 2005), a structural template (Amit and Zott, 2001), a method (Afuah and Tucci, 2001), a framework (Afuah, 2004), a pattern (Brousseau and Penard, 2006), and a set (Seelos and Mair, 2007). Surprisingly, however, the business model is often studied without an explicit definition of the concept.

George and Bock (2011: 83) similarly point out that “definitions for business models vary widely, incorporating organizational narrative (Magretta, 2002), processes that convert innovation into value (Chesbrough and Rosenbloom, 2002), recipes for firm activities that incorporate organizational design and strategy (Slywotzky and Wise, 2003), ‘flows’ of information and resources (Timmers, 1998), and designed structures such as the firm’s set of boundary-spanning transactions (Amit and Zott, 2001).”

Scholars often insist on the importance of construct clarity (e.g., Suddaby, 2010). Indeed, having core constructs that are clearly defined assists the coordination of research efforts and thus promotes the growth of knowledge. On the other hand, the history of social science is replete with core constructs that, while being ambiguous for a long time (or even permanently), have nevertheless been central in massive and often fruitful research efforts (e.g., in economics, the “utility” and “aggregate demand” constructs may serve as illustrations; in management, notions of “competence” or “capability” may be illustrations). The literatures on business models and the innovation thereof are no exception to this. Much research has been done and continues to be done in spite of continuing conceptual confusion.¹ Thus, the business model construct is used to denote rather different things, “... such as parts of a business model (e.g. auction model), types of business models (e.g. direct-to-customer model), concrete real world instances of business models

¹ There are, however, indications that we are now moving toward a “theorization stage” of the business model literature. As Lecocq, Demil, and Ventura (2010) observe, there has been an increase in studies that seek to anchor the construct in existing theories such as transaction-cost theory, entrepreneurship theories, RBV, or the Penrosian view of the firm, linking it to phenomena such as strategic change (e.g., Sosna, Treviño-Rodríguez, and Velamuri, 2010), performance (Amit and Zott, 2001), innovation (Chesbrough and Rosenbloom, 2002), replication (Winter and Szranski, 2001), and competition (Casadesus-Masanell and Zhu, 2013). This development also gradually entails more explicit definitions, more theoretical foundations, some empirical evidence, and more and more relations with established research in, mainly, strategic management.

(e.g. the Dell model) or concepts (elements and relationships of a model)” (Osterwalder, Pigneur, and Tucci, 2005: 8).

Given this ambiguity in definitions and components, it is not surprising that there is no unified typology of business models or business model archetypes. For example, Afuah and Tucci (2001) propose three “generic strategies” of business models, including “run,” “block,” and “team-up” strategy. Zott and Amit (2010: 7) identify four “dominant value drivers”: (i) novelty (adopt innovative content, structure, or governance), (ii) lock-in (build in elements to retain business model stakeholders such as customers), (iii) complementarities (bundle activities to generate more value), and (iv) efficiency (reorganize activities to reduce transaction cost). Similarly, Osterwalder and Pigneur (2010) characterize business models in terms of “patterns” such as “long tail,” “multi-sided platforms,” “freemium,” and “open business models.” Yet in another approach, business models are characterized based on the questions of “what rights are being sold” and “what type of asset are involved,” resulting in fourteen different types of business models (Weill et al., 2005).

UNCLEAR CORE CONSTRUCTS II: BUSINESS MODEL INNOVATION

The disagreement among scholars about what a business model is complicates conceptualizing business model *innovation*. While practitioners and many researchers alike seem to agree on the strategic importance of business model innovation as a new source of competitive advantage (cf. Chesbrough, 2010; Teece, 2010; Ho, Fang, and Hsieh, 2011; Zott and Amit, 2007), the definitions used of business model innovation vary greatly across research studies. Definitions differ considerably with regard to what it is that constitutes such an innovation, such as in terms of novelty or radicalness or the role business model innovation plays in enhancing a firm’s performance. For example, while some suggest that business model innovation needs to be new to the firm (cf. Johnson, Christensen, and Kagermann, 2008; Osterwalder, Pigneur, and Tucci, 2005), others, including most of the contributors to this volume, argue that it has to be new to the industry as well.

Not surprisingly, there is no dominant approach to conceptualizing and classifying business model innovation. For example, while Koen, Bertels, and Elsum (2011) classify business model innovation along the three dimensions of innovation in technology, value network, and financial hurdle rate, Giesen et al. (2007) and Lindgart et al. (2009) conceptualize business model innovation as innovations in value proposition, revenue model, and operating model. Others have typified business model innovation either by origin of innovation (i.e., the firm innovates its business model as a response to a threat or an opportunity) or by degree of innovativeness (i.e., market breakthrough vs. industry breakthrough, incremental vs. comprehensive innovation) (cf. Bucherer, Eisert, and Gassman, 2012).

EMERGING SHARED MEANINGS?

In spite of the extant differences in the definition and conceptualization of business models and the innovation thereof, a gradual convergence in meaning is becoming apparent in extant literature. Researchers seem to converge on the basic understanding that business models denote the firm's core logic for creating and capturing value by specifying the firm's fundamental value proposition(s), the markets and market segments it addresses, the structure of the value chain which is required for realizing the relevant value proposition, and the mechanisms of value capture that the firm deploys, including its competitive strategy (e.g., Teece, 2010). More specifically, business models refer to the system of activities underlying these value propositions, segments, value-chain structures, and revenue models, that is, the activities themselves and how they are linked in an architecture.

Indeed, if notions such as “model,” “system,” and “architecture” are seen as essential, these linkages become a key aspect of the business model. This directs attention to relations, communication, contracts, etc. Thus, a key aspect of business models is the structures and relations between the firm and its multiple stakeholders that support the value creation and value-capturing processes of the firm. In turn, a firm's organizational design is an inherent part of a firm's business model so as to support the firm's chosen strategy. Given this understanding, business model innovation may be defined as a realignment of activities, relations, routines, and contracts which results in a new configuration of how the firm creates and captures value that is the new to the product/service market in which the firm competes. Adopting this perspective brings us in close contact with extant theorizing on organizations and allows us to generate conceptual and empirical work that contributes to developing a cumulative, rigorous, and testable theory of business model innovation.

Why Organization Matters to Business Model Innovation: Antecedent, Moderator, and Configurational Elements

DEFINING “ORGANIZATION”

Pragmatically, we can think of “organization” as “that which is addressed by the rich body of organizational theory.” In particular, we are interested in those parts of organizational theory that deal with the designable parts of organizations, that is, the boundaries and internal structuring of organizations. While organizational belief systems, culture, and psychological contracts surely matter to organizational performance, they are also

dimensions of organizations that are arguably less given to direct design. They can be influenced by managerial and leadership actions as well as by the formal organizational design in place, but only indirectly. Moreover, the links between the levers that managers can pull and the outcomes in terms of consequences for, for example, organizational culture, are many, complex, and uncertain. Perhaps for this reason most of the contributions to this volume establish a link between business model innovation and organization in terms of organizational design. However, the chapters by Birkinshaw and Ansari (chapter 5) and Stieglitz and Foss (chapter 6) do touch on these softer aspects of organizations.

A large body of work on organizational design has identified a set of key variables along which organizational structure—that is, the “relatively enduring allocation of work roles and administrative mechanisms that creates a pattern of interrelated work activities” (Jackson and Morgan, 1982: 81)—can be characterized (e.g., Burton and Obel, 2004; Burns and Stalker, 1961; Galbraith, 1974; Miller and Dröge, 1986), such as (job and unit) specialization (with an implied allocation of decision rights, i.e., authority), and coordination by means of (workflow) formalization,² rules and targets, and other elements of planning. New business models typically involve changes in the organization’s formal structure. In this volume, the chapter by Santos, Spector and Van der Heyden (chapter 3) is particularly taken up with these structural dimensions of business model innovation. Thus, they offer a rich and highly useful terminology for classifying various kinds of business model changes that is organized around what exactly happens to the activity set of the firm. Specifically, Santos et al. distinguish between “reactivating” (i.e., altering the set of activities performed by the company), “relinking” (altering the linkages between activities), “repartitioning” (i.e., altering the boundaries of the focal company by moving an organizational unit across business boundaries), and “relocating” (i.e., altering the (physical, cultural, and institutional) location between organizational units performing activities)—all of which are processes that are intimately connected to changes in organizational structure. Structural changes can also be observed in the pharma companies discussed by Rasmussen and Foss (chapter 12). These companies increasingly seek to engage in servitization efforts, which involve changed job descriptions for sales reps, new dedicated units, and new alliances with external service providers. Similarly, entrepreneurial ventures adopting innovative business models in high-tech industries need to readjust the organizational structure, decision rights, and human resource management practices to adapt to the need of absorbing knowledge from the external environments (Colombo, Mohammadi, and Rossi-Lamastra, chapter 9). Other companies expand their top management teams to better deal with the coordination challenges of major changes in business models (Stieglitz and Foss, chapter 6).

² Formalization refers to the degree to which communications and procedures in an organization are written (Daft, 1986).

However, as Ouchi (1977) clarified, organizational structure does not automatically translate into organizational control. Organizational control can broadly be defined as processes and administrative apparatus by which managers motivate and encourage organizational members to act in ways that further organizational goals and objectives and monitor whether the right behaviors are adopted. Organizational design therefore also encompasses governance mechanisms for monitoring and evaluating inputs and outputs and rewarding behaviors. As Birkinshaw and Ansari (chapter 5) note, many organizational theories “characterize the organization in structural terms (indeed, this field is often referred to as *structural* contingency theory), and with little regard for the underlying processes and sometimes informal systems through which work actually gets done.” To capture these dimensions they coin the notion of a “management model” which they see as complementary to the business model. Innovating the business model may have to be complemented by innovating the management model, in their view.

There is little doubt that it is entirely warranted to draw attention to the non-structural organizational dimensions of business models and the innovation thereof. Thus, those firms in the pharma industry that seek to change their business models toward more service-oriented models typically also find that they need to change KPIs, reward systems, and management information systems to complement changes in the value proposition, value-chain organization, and so on. However, one may question whether it is necessary to coin a new construct, that of the “management model,” to bring the organization more into contact with the business model construct. While this can be seen as a reaction to the relative neglect of organizational issues in the business model literature, an alternative route is to think of organization, in the structural sense as well as in the “management model” sense, as an integral part of a business model innovation. And yet, organization is not always best thought of as a complementary part of a business model innovation. Thus, certain organizations may, because of their structural features and other aspects of organizational design, be more capable when it come to business model innovation. This suggests that organization can be an *antecedent* of business model innovation.

However, even though all firms in an industry may recognize the need for engaging in business model innovation simultaneously, they may not be equally good at implementing business model innovation, for example, because organizational structures represent organizational power structures that are hard to change. Such contextual features suggest that organization can be a moderator in a relation that specifies business model innovation as the dependent variable. Finally, part of a business model innovation may be that the organizational design changes along with other components of the business model. In this situation, organization is really part of the business model innovation itself. In the following, we discuss these three possibilities.

ORGANIZATION AS AN ANTECEDENT TO BUSINESS MODEL INNOVATION

Organizations may cultivate a preparedness for organizational change that facilitates business model innovations. Some organizations may develop dynamic capabilities that enable them to innovate their business models in a systematic manner. In chapter 2, David Teece and his co-authors draw attention to how the microfoundations of dynamic capabilities speak to this issue. For example, firms need to have mechanisms in place for sensing the need for business model innovation. Dynamic capabilities assist the firm in creating and capturing value by encompassing the “activities, processes, and leadership skills by which (1) the need for changing/innovating existing business models is recognized, and (2) the necessary assets are (a) accessed and (b) orchestrated in the pursuit of new value creation.” They further determine the “... firm’s agility and flexibility in implementing the new organizational design, including the alignment of new and existing activities and responses to the unforeseen internal and external contingencies that unavoidably accompany deploying a new business model” (Leih, Linden, and Teece, chapter 2).

Relatedly, a number of scholars have linked business model innovation to the need for learning and experimentation (cf. Sosna, Trevinyo-Rodriguez, and Velamuri, 2010; McGrath, 2010; Doz and Kosonen, 2010; Chesbrough, 2007; Wirtz, Schilke, and Ullrich, 2010), organizational change processes (Dunford, Palmer, and Beneviste, 2010), critical capabilities (Achtenhagen, Melin, and Naldi, 2013), strategic flexibility (Bock et al., 2012), and the need for strategic sensitivity, leadership unity, and resource fluidity (Doz and Kosonen, 2010). These are both antecedents to, and facilitators of, business model innovation.

“Strategic sensitivity,” “sensing,” and the like may in turn be determined by organizational design. Thus, the size of and division of labor within the top management team may influence how well the company reads the signals in the environment that may suggest that a change of business model is warranted. A large top management team that is closely connected to the operational levels and features functional specialists is likely to be better at picking up such signals. The degree of delegation in the company also matters. If employees (e.g., in marketing and R&D) have extensive decision rights that enable them to cooperate with external parties, they are more likely to be able to sense the need for changes in the business model or indeed a change to a new business model. Such companies may be able to start experimenting with new business models at an earlier stage than the competition, and may therefore enjoy a first-mover advantage with respect to implementing the new model. Also, multibusiness (diversified) companies may enjoy an advantage in this respect because they may find that new business models may be transferred from one business to another.

The example of the multibusiness company points to the corporate context in which the business model operates. Business models exist on the

division level of the firm; that is, in multibusiness corporations, a corporate center oversees the actions of a number of discrete operating business units, each with their own competitive strategy and business model. As Santos, Spector, and Van der Heyden (chapter 3) and Casadesus-Masanell, Ricart, and Tarjizán (chapter 4) demonstrate, the corporate center may act as both a constraint on and a provider of opportunity for division-level business model change. The corporate center can play a crucial role in promoting dynamic reinforcements among the different business models at the divisional level that can be conducive to business model innovation (Casadesus-Masanell, Ricart, and Tarjizán, chapter 4). For example, corporate centers that actively promote cross-divisional knowledge exchange and learning positively influence the divisional units' ability to adapt and innovate their business models.

However, the extent to which the corporate center can act as an opportunity provider for division-level business model innovation largely depends on the type of corporate model chosen by the firm. In fact, the "corporate-model configuration" (i.e., the business model at the corporate level) can considerably increase or decrease the interactions and reinforcements between divisions in the corporation; that is, different corporate-level business models are found to have different effects on the divisional units' ability to change their business model. While in the "modular model" (corporate portfolio consisting of diverse businesses), the divisional units operate with maximum opportunity to innovate business models but low opportunity to interact, in the "linked model," the corporate center imposes operational linkages to capture synergies, which in turn places constraints on divisional units to initiate business model change because of forced linkages to other units. In contrast, promoting cross-divisional learning, divisional units in a "mutual corporate model" have flexibility to initiate business model change as well as opportunities to learn from other units (Santos, Spector, and Van der Heyden, chapter 3).

ORGANIZATION AS A MODERATOR OF BUSINESS MODEL INNOVATION

Not all firms are equally good at implementing business model innovation. The organization's ability to change its business model is influenced by its existing design and capabilities, as well as more intangible phenomena, such as the extent to which employees perceive existing roles, structures, etc. as entitlements (and therefore worth fighting for). Further, business model innovation involves a process of searching, learning, and experimentation, usually with uncertain performance prospects. A new business model is not fully and rationally planned *ex ante*, but emerges in an extended design process (Sosna, Trevinyo-Rodriguez, and Velamuri, 2010; McGrath, 2010; Dunford, Palmer, and Benveniste, 2010). However, as Stieglitz and Foss (chapter 6) argue, successful business model innovation requires the

concerted and collaborative efforts of the top management team, whose leadership involvement needs to match the type of business model innovation envisioned. In fact, different business model innovations are associated with different management challenges and thus require different leadership interventions to become successful (Stieglitz and Foss, chapter 6).

Another moderating factor is power. Thus, business model innovations typically make some groups of employees more powerful and other groups less powerful inside the organization. Similarly, some business model innovations may be “competence-destroying” in that the skills/human capital of some employees may be less valuable in the context of the firm. We know very little about the implications of such shifting power constellations for decisions to adopt and implement a business model innovation. Rasmussen and Foss (chapter 12) hint that such power issues may matter in the pharmaceutical industry as the industry is innovating its business models toward models with a higher service content.

ORGANIZATION AS A PART OF BUSINESS MODEL INNOVATION: A CONFIGURATIONAL VIEW

Changing the organizational design of the firm is a key aspect of many business model innovations, particularly the more radical ones. Such a change is often complementary to changing the value proposition, the revenue model, or other modes of often highlighted components of business models.

For example, firms changing their business models toward open innovation models must also change underlying rewards, KPIs, ways of communication, and the way authority is allocated (cf. Foss, Laursen, and Pedersen, 2011). Because open business models are often based on the commercialization of ideas or on the leveraging of communities of users and developers, an important organizational requirement of these open business models is the ability to integrate external knowledge. As Colombo, Mohammadi, and Rossi-Lamastra (chapter 9) illustrate, the adoption of innovative business models in high-tech industries requires an internal organization that smoothly facilitates these interactions. To support such a shift in business model, the firm’s structure, decision rights, and human resource management practices must be adapted to the need of absorbing knowledge from the external environments (Colombo, Mohammadi, and Rossi-Lamastra, chapter 9). In similar fashion, firms that aspire to shift toward “service-driven business models” (Kindström and Kowalkowski, chapter 10) need to align their existing organizational design and structure to support the new business model strategy.

Often, the managerial challenges of business model innovation are to a large extent organizational challenges that involve the redesign of organizational structure and control, as well as choices that involve the boundaries of the firm vis-à-vis other firms (Rasmussen and Foss, chapter 12). Different types of

business model innovation and their accompanying organizational structures are typically followed by adjustments and/or renewal in other areas. For example, in pharmaceutical firms adopting new business models, a recurring theme is the need for new human capital to either augment the incumbent model or to drive more radical business model experimentation. To address new non-routine tasks a number of organizational practices need to be installed (such as reallocation of decision rights, lateral communication, workshops) to ease the new coordination requirements. Similarly, new performance measurement systems and KPIs are required to support the firm's new strategic reorientations (Rasmussen and Foss, chapter 12). These findings highlight that if firms are to succeed in innovating their incumbent model (especially in cases of radical change), the organizational context should be changed respectively in accordance with the new business model in order to realize complementarities and limit coordination costs (Rasmussen and Foss, chapter 12).

What this Volume Tells Us About Organization and Business Model Innovation: Emerging Themes

To launch the organizational dimension of business models and the innovation thereof as a distinct research theme, this volume contains a set of essays that deals with various organizational aspects of business model innovation. Combining organizational and strategic theory and empirical observation, the contributors specifically highlight organizational design aspects of business model innovation, focusing on how reward systems, power distributions, routines and standard operating procedures, the allocation of authority, and other aspects of organizational structure and control should be designed to support the business model the firm chooses. Also discussed are how existing organizational structures, top management team composition, capabilities, beliefs, cultures, and so on influence the firm's ability to flexibly change to new business models. These important organizational aspects of business models and the innovation thereof have so far been missing from the literature. The chapters of this book are organized around four main themes: (1) theoretical foundations, (2) organizational determinants of business model design, (3) organizational design challenges of innovative business models, and (4) firm and industry studies of business model innovation.

THEME 1: THEORETICAL FOUNDATIONS

The first Part of this edited volume lays down the theoretical foundations for business models and business model innovation. Drawing on

organizational strategy, transaction-cost theory, and the organizational capability view, the following chapters highlight different aspects of business model innovation.

In chapter 2, Sunyoung Leih, Greg Linden, and David J. Teece examine the interrelationship between business model innovation, dynamic capabilities, and organizational design. By adopting a dynamic capabilities perspective, the authors argue that dynamic capabilities are key antecedents of business model innovation and implementation. Dynamic capabilities reside in the collective learning and culture of the organization and in the entrepreneurial skill of the top management team. Hence, entrepreneurial managers bear the primary responsibility for recognizing the need for business model change, for adjusting or inventing business models, for orchestrating the necessary assets, and for (re)structuring the organization as needed. The authors further argue that the organization's structure, incentives, and culture can, in turn, be more or less well suited to the recognition of new opportunities and the implementation of new structures that are integral to the dynamic capabilities of the firm. In short, the generation of new business models requires entrepreneurial managers to balance attention to customer needs and technological possibilities with the logic of organization.

Examining the implications of the organizational context for business model innovation, José Santos, Bert Spector, and Ludo Van der Heyden provide a theory of business model innovation within incumbent firms in chapter 3. The authors examine the process of business model change and innovation. In focusing on business units within large multibusiness corporations, the authors suggest that business units can be more likely to produce business model innovation if the corporation is able to create a favorable context. The dimensions of that context—what is called the “BMI-Conducive Corporation”—are explored, as are the transformational organizational changes required to produce such conduciveness. Finally, the authors present implications for both managers and researchers of the proposed theory of business model innovation within incumbent firms.

Elevating the unit of analysis from business level to the corporate level, Ramon Casadesus-Masanell, Joan Ricart, and Jorge Tarjizán analyze the fundamental economics underlying corporate business model innovations in chapter 4. The authors describe how by choosing internally consistent configurations of policies, assets, and governance structures, innovative business models integrate business units in ways that create compelling new value propositions able to fill important spaces in already crowded environments, and to capture value. Their chapter analyzes the fundamental economics underlying such corporate model innovations and highlights their organizational implications. The analysis reveals that the recommendations of transaction cost economics (TCE) as to which transactions to conduct inside the firm through authority and which ones to outsource through contracts are qualified when a business model lens is applied to corporate-level choices.

THEME 2: ORGANIZATIONAL DETERMINANTS OF BUSINESS MODEL DESIGN AND CHANGE

The second Part of this volume addresses the internal and external determinants of business model design and dynamics. The four contributions under this theme illustrate the importance of aligning business models with external contingencies as well as aligning the internal systems of management and leadership to support business model change.

In chapter 5, Julian Birkinshaw and Shaz Ansari clarify what exactly a management model is, and how it is complementary to a business model. As these authors suggest, while every company has an implicit management model, many have failed to articulate the choices they have made on these dimensions, and many have failed to align their management model with their chosen business model. Hence, reviewing the relevant bodies of academic literature on which the concept of a management model draws (e.g., structural contingency theory or organizational culture), the authors discuss how management model innovation sometimes leads and sometimes lags behind business model innovation. A future research agenda is proposed.

Chapter 6 by Nils Stieglitz and Nicolai Foss draws on the complementarity literature in economics and management research to dimensionalize business model innovations. Specifically, such innovation can be dimensionalized in terms of the depth and the breadth of the changes to the company's business model that they imply. Based on this, the authors identify four different types of business model innovations. These different types are associated with different management challenges and require different leadership interventions to become successful. In sum, top management is found to play a crucial role in contributing to the success of business model innovation, given that its involvement matches the type of business model innovation chosen.

Chapter 7 by Costas Markides investigates the strategic and organizational challenges of exploiting disruptive business model innovation in established firms. To address this important issue, the author examines the strategies with which incumbent firms can respond to newly created markets either by using their existing business model or by developing a new one. The findings suggest that established players cannot succeed by simply adopting their disruptors' (winning) business model in the new markets. Instead, they need to develop a business model which is different from the one they currently employ in the established market and also substantially different from the ones that disruptors use. Further, simply separating the new business model in a new unit is not enough; rather, while keeping it in a separate unit, the parent must also put in place organizational mechanisms that allow the unit to exploit synergies with the parent.

The importance of attaining alignment between the external environment and the firm's business model is further elaborated on in chapter 8. Putting forward a contingency framework, Tina Saebi examines how firms need to

modify their business model in response to different threats in the business environment. Examining three different forms of business model dynamics, namely business model evolution, adaptation, and innovation, the author addresses the questions: which environmental conditions prompt which type of business model change, and by means of which capabilities firms can support change in their business models. The author argues and demonstrates how and why a fit between business model dynamics, environmental change, and dynamic capabilities is likely to be an important antecedent to firm performance.

THEME 3: THE ORGANIZATIONAL DESIGN CHALLENGES OF INNOVATIVE BUSINESS MODELS

The third Part of this edited volume investigates, both theoretically and empirically, organizational design challenges of shifting toward new forms of business models. Under investigation are organizational design challenges of innovative business models in high-tech entrepreneurial ventures (chapter 9) and transition processes toward service-based business model innovation (chapter 10).

In chapter 9, Massimo Colombo, Ali Mohammadi, and Cristina Rossi-Lamastra examine how high-tech entrepreneurial ventures should organize internally to successfully implement innovative business models. A common characteristic of innovative business models by high-tech entrepreneurial ventures is their dependence on interactions with external third parties, which provides external knowledge to be integrated with internal knowledge to deliver value to the customers. Accordingly, innovative business models by high-tech entrepreneurial ventures ask for an internal organization that smoothly favors these interactions. Specifically, the authors analyze how firms' structure, decision rights, and human resource management practices should be adapted to the need of absorbing knowledge from the external environments. Heeding a recent call in management literature, their analysis considers organizational design variables both at the individual and firm level.

Chapter 10 by Daniel Kindström and Christian Kowalkowski examines business model innovation driven by increased service focus. In their chapter, the authors discuss the external drivers and organizational implications of shifting toward service-based business models. Driven both by competition and by new customer demands, many firms find themselves moving from their traditional business models based on, primarily, product sales toward business models based on services. As business success in this setting depends as much on such organizational rearrangements (including business model redesign) as it does on new service development, examining the organizational implications of this shift becomes crucial. Hence, the authors discuss

how firms can approach and understand this change to their business models, and also how their organization can become more service-oriented in order to take advantage of the emergent opportunities inherent in this shift.

THEME 4: FIRM AND INDUSTRY STUDIES OF BUSINESS MODEL INNOVATION

In the final Part of this edited volume, contributors examine business model innovation at the firm and industry level.

In chapter 11, Torben Pedersen and Henrik Sornn-Friese study the example of a business model innovation conducted by Maersk Line. The case unfolds Maersk Line's development from being a minor player in global liner shipping in 1953, through the decision to invest heavily in container-based transport systems, which changed the whole industry. Since then Maersk Line has been the main player and innovator in global shipping, and has reached its current position as the world's largest container operator with a fleet of about 650 container ships providing global "point-to-point" services.

Chapter 12 by Klement Rasmussen and Nicolai Foss investigates business model innovation in the pharmaceutical industry. The authors document how deep-seated changes in the pharmaceutical industry—related to increasing demands from payers, the strengthening of the role of patients, changing legal demands, and declining technological opportunity—are driving a process of experimenting with business model. Based on interviews in LEO Pharma, UCB Pharma, and Novo Nordisk, the authors distinguish between three ideal types, namely a traditionalist model (exemplified by Novo Nordisk), the full-blown service-oriented model (UCB Pharma), and the in-between model (LEO Pharma). The authors illustrate the changes to the organizational design and management processes that accompany the ongoing process of changing business models in these firms.

In chapter 13, Marcel Bogers, Kristian Sund, and Juan Andrei Villarroel explore the organizational aspect of business model innovation in the postal industry. Studying the examples of postal business model innovations from three European countries, the authors seek to understand both the organizational antecedents and impacts of these innovations. Over the past decade, postal operators across Europe and much of the developed world have seen acceleration in digital substitution, as well as a liberalization of the market, such that postal businesses today face lower volumes but higher competition. Postal operators have had to engage in a massive transformation of their organizations to meet these challenges and have simultaneously sought to diversify their businesses to seek new growth opportunities. Key challenges with postal business model innovations have included how to shield new business ventures from the rest of the organization as well as how to identify and capture value linked to synergies with existing business models.

Conclusions

Business model innovation is increasingly advocated as a necessary reaction to strategic discontinuities and disruptions, shifting base of competition, the increasing importance placed on innovation and knowledge as value-creating attributes, and emerging competition from new business models entering the market (cf. Johnson, Christensen, and Kagermann, 2008; Doz and Kosonen, 2010; Teece, 2010; Voelpel, Leibold, and Tekie, 2004). However, little is known about the organizational antecedents and barriers of business model innovation, and how business model innovation is intertwined with organizational changes. Although the notions of business models and business model innovation are shot through with broadly organizational considerations, such considerations usually appear at best as afterthoughts in the current business model literature.

This is surprising because business models need to be designed, even if the design process is incremental and experimental, and business model innovations are often major organizational change processes. This volume is based on the notions that (1) organizational considerations, notably those relating to organization design, need to be explicitly integrated in business model innovation research, and (2) the existing body of organizational research, broadly conceived, is very helpful in this regard.

The endeavor that this volume represents is a novel one, taking place within an emerging field (i.e., business models and business model innovation). This has a number of implications. First, the reader should not expect an entirely uniform terminology across chapters, although the editors have tried to impose some consistency. Second, the empirical work that is reported in this volume is all of the small-N variety. Although large-N empirical work is clearly warranted, it should also be recognized that exactly because of the emergent nature of the business model innovation/organization space; small-N research is needed and indeed justified. Third, although this volume comprises more than a dozen chapters, many issues are not discussed or only mentioned in passing. Among these are the many important potential insights into business model innovation of the organizational change and learning literatures. We are confident that future research on the organizational dimensions of business models and business model innovation will address these challenges.

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