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The impact of a delivery project's business model in a project-based firm

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Abstract

If projects are independent business organizations having goals of their own instead of being direct subordinates to the parent firm, then project-level goals might contradict those of the parent firm. This raises an empirical question on the impact of delivery projects in a project-based firm. We use the business model concept to study the mechanisms of generating revenues in five delivery projects in a case firm from the mining and metallurgical industry. Our findings suggest that although project-level business models are often derived top–down from firm-level business models, projects also create autonomous business models that have a bottom–up effect on the firm by shaping the existing business models or creating completely new ones. These results strengthen the understanding of the dynamic relations between a project-based firm and its delivery projects.

Keywords: Business model; Project-based firm; Project

1. Introduction

Project-based firms (PBFs) organize most of their internal and external activities in projects (Wikström et al., 2009). Instead of continuous manufacturing or service activities, the business is conducted in temporary organizations established to complete a single specific goal time and again (Lundin and Söderholm, 1995; Packendorff, 1995). Traditionally, projects are perceived as vehicles for achieving firm-level goals (Morris and Jamieson, 2004; Shenhar et al., 2007). More recently, suppliers in several project-based industries are facing increasing pressure to tailor their delivery projects according to the specific needs of an individual client (Hobday, 1998). For example, they might combine the physical deliverable with various services such as maintenance and operational support (Kujala et al., 2011; Oliva and Kallenberg, 2003). Contrary to the traditional view, a project can be seen as an independent business organization in its project-specific environment (Artto et al., 2008, 2009, 2011; Wikström et al., 2009, 2010).

If delivery projects may vary within one firm, does the traditional view of projects as obedient servants implementing firm-level goals always accurately represent the activities in a PBF? We seek to clarify whether project-level goals are determined by firm-level goals or whether projects actually influence the firm-level goal setting by examining a case firm in the metallurgy industry whose delivery projects vary due to every customer's unique specifications with regard to the ore they seek to refine and the end product they intend to do business with in a historically specific plant site setting. We use the business model concept defined both on the firm and delivery project levels to be able to compare the similarities and differences of goals and ways of operating between the firm and its projects, and across the projects.

In a PBF, business models can be found on both the level of the firm and the project (Kujala et al., 2011). But there is a gap in the literature on what the origins of project-level and firm-level business models are. Do project-level business models originate from the firm-level business models applied to the

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project's business environment? Are business models at project level deployed top–down to realize the firm's business model; or is the relation rather bottom–up? How do project-level business models influence the development of firm-level business models? The purpose of this paper is to contribute to the understanding of the role of project-level business models in a PBF. Therefore, we set the following research question:

RQ: What is the impact of project-level business models in a project-based firm?

In Section 2, we build a theoretical framework for the simultaneous business model concepts at project and firm levels in a PBF. In Section 3, the research methodology design is presented. Section 4 is a case description of the firm and five of its case projects that are chosen for detailed analysis. Section 5 describes the analysis. Finally, Section 6 is a discussion about the results compared with previous research, presenting the conclusions of the study.

2. Theoretical framework

2.1. The business model concept

In the past decade, the concept of business models has become more and more popular in both management practice and research (Casadesus-Masanell and Ricart, 2007; Demil and Lecocq, 2010; Morris et al., 2005; Osterwalder et al., 2005; Shafer et al., 2005). In its most simple form, a business model can be described as the way a company operationalizes its strategy to concrete business activities or initiatives (Casadesus-Masanell and Ricart, 2007; Chesbrough and Rosenbloom, 2002). Earlier, scholars suggested that a firm chooses one business model for its operations (Amit and Zott, 2001; Magretta, 2002; Morris et al., 2005), but they increasingly recognize that firms have multiple business models to be used simultaneously for exploration and exploitation purposes (Chesbrough, 2007; Gilbert, 2006; Linder and Cantrell, 2001; Shafer et al., 2005). Focusing on the definition of the concept, scholars seek to define what elements constitute a business model and how business models can be classified and represented (Demil and Lecocq, 2010; Osterwalder et al., 2005; Pateli and Giaglis, 2004). However, there are gaps in the literature regarding the nature of relationships between business model components (Hedman and Kalling, 2003), the conditions that make a particular model appropriate, the ways in which models interact with organizational variables, the existence of generic model types, the dynamics of model evolution, and evaluating model quality (Morris et al., 2005). Gaps in the literature stem from the fact that there is no consensus regarding the definition, nature, structure and evolution of the business model (Amit and Zott, 2001; Casadesus-Masanell and Ricart, 2007; Magretta, 2002; Morris et al., 2005; Osterwalder et al., 2005; Shafer et al., 2005). This lack of consensus has been attributed to the fact that the concept draws from and integrates a wide range of academic and practical disciplines (Aaltonen et al., 2011; Chesbrough and Rosenbloom, 2002; Pateli and Giaglis, 2004; Shafer et al., 2005).

This study of a project-based firm and its delivery projects aims to deepen the understanding on both the relationships between business models and their dynamics. Therefore, a business model framework constituting of a working definition and including elements is required for structuring the remainder of the study. To create the framework, seven review articles (Amit and Zott, 2001; Casadesus-Masanell and Ricart, 2010; Chesbrough and Rosenbloom, 2002; Hedman and Kalling, 2003; Magretta, 2002; Morris et al., 2005; Osterwalder et al., 2005; Shafer et al., 2005; Tikkanen et al., 2005) focusing on defining the business model concept were chosen for in-depth analysis. The review articles were chosen because they explicitly focused on elaborating both the definition and the elements of a business model.

Table 1 summarizes the various business model definitions from the review articles representing mainly general management literature. Many of the definitions see business models as representing the core logic of how the firm creates and captures value (Amit and Zott, 2001; Magretta, 2002; Osterwalder et al., 2005; Shafer et al., 2005). In many of the definitions, the authors have also defined what kinds of elements are included in the business models (Amit and Zott, 2001; Hedman and Kalling, 2003; Magretta, 2002; Morris et al., 2005). The elements can essentially be classified to three groupings, covering aspects related to the firm's strategy, organization and financial logic

Table 1
Business model definitions of the review articles.

Author	Business model definition
Amit and Zott (2001)	The content, structure and governance of transactions designed to create value through the exploitation of business opportunities.
Chesbrough and Rosenbloom (2002)	A business model takes technological characteristics and potentials as input and converts them through customers and markets into economic outputs.
Hedman and Kalling (2003)	A conceptualization including customers and competitors, the offering, activities and organization, xresources and factor market interactions. The causal inter-relations and the longitudinal processes by which business models evolve should also be included.
Magretta (2002)	Stories about how enterprises work, answering questions like who is the customer, what does the customer value, how do we make money and what is the logic by which we can provide value to customers.
Morris et al. (2005)	A concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture and economics is addressed to create sustainable competitive advantage in defined markets.
Osterwalder et al. (2005)	A conceptual tool containing a set of objects, concepts and their relationships, which describe what value is provided to the customers, how this is done and with what financial consequences.
Shafer et al. (2005)	A representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network.