ELSEVIER

LRP long range planning

Long Range Planning ■■ (2013) ■■■–■■■ http://www.elsevier.com/locate/lrp

Dynamics of Business Models – Strategizing, Critical Capabilities and Activities for Sustained Value Creation

Leona Achtenhagen, Leif Melin and Lucia Naldi

Much progress has been made recently in developing the business model concept. However, one issue remains poorly understood, despite its importance for managers, policy makers, and academics alike, namely, how companies change and develop their business models to achieve *sustained* value creation. Companies which manage to create value over extended periods of time successfully shape, adapt and renew their business models to fuel such value creation. Drawing on findings from a research program on continuously growing firms, this paper identifies three critical capabilities, namely an orientation towards experimenting with and exploiting new business opportunities; a balanced use of resources; as well as achieving coherence between leadership, culture, and employee commitment, together shaping key strategizing actions. Moreover, we illustrate how each of these capabilities is supported by different sets of specific activities. Jointly, these three capabilities, their activities and the strategizing actions act as complementarities for value creation. We conclude the paper by suggesting implications for research and practitioners, providing a tool for managers which allows them to reflect on and identify critical issues relevant for changing and developing their business model to sustain value creation.

Introduction

Since the initial academic interest in the business models of new economy ventures, much progress has been made in developing the business model concept. Recent progress in the conceptual development follows the practical insight that business models need to change over time if firms are to achieve sustained value creation. In particular, it has been realized that companies which have been successful for some time run the risk to fail if they continue doing for too long what used to be right, without adapting their business model to changes in the competitive situation (Doz and Kosonen, 2010). *Sustained* value creation instead relies on successfully shaping, adapting and renewing the underlying business model of the company on a continuous basis, which comprises

0024-6301/$ - see front matter © 2013 Elsevier Ltd. All rights reserved.
http://dx.doi.org/10.1016/j.lrp.2013.04.002

the rationale of how an organization creates, delivers, and captures value (Osterwalder and Pigneur, 2010).[1]

While recent business model literature acknowledges this need for business model change, there is little conceptualization and empirical evidence on what is needed to *achieve* this change beyond the recognition that strategy is important and that experimentation plays a role (Teece, 2010; McGrath, 2010). Through a longitudinal study of 25 small and medium-sized firms (SMEs) and a systematic within and cross-case analysis, we identify micro-aspects of successful business model change, and show how this enlarges our understanding of business models and of change management in SMEs. The data is generated through semi-structured interviews with top managers and other key actors in the organizations. In this paper, we follow a recent call for more research investigating the 'black box' of business model activities (Zott and Amit, 2010) and employ an activity- and capability-based view on what is needed to achieve business model change. More specifically, we illustrate how strategizing for sustained value creation is fuelled by critical capabilities, which are made up of different activities, or micro-practices. These strategizing actions, capabilities and activities allow companies to adapt their business models to changes in market demands and a competitive environment, while at the same time leveraging and building their internal organizations.

The results of our paper are of practical relevance, especially for companies that operate in changing competitive environments. Business model change is essential for success, not only to take advantage of new value creating opportunities, but also as such an approach reduces the risk of inertia to change which often occurs when a company has been successful with its business model over some time. Dynamically managing and changing the business model more incrementally over time can be seen as an alternative (or complement) to the more dramatic business model changes needed if business model adaptation and renewal has been neglected. Our paper provides guiding lights for identifying necessary strategic actions, capabilities and activities to achieve successful business model change for sustained value creation and points out the relevance of considering the complementarity of changes. To facilitate this process, we offer a tool for managers to help them reflect on their business model management.

Point of departure – from 'what business models are' towards understanding 'what business models are for'

In the past years, many publications have attempted to define what business models *are*, focusing on business models as basis of company success (Afuah, 2004; Amit and Zott, 2001; Morris et al., 2005) or as a "framework for making money" (Afuah, 2004, p. 2). Such business model concepts typically captured the sources of revenues (and costs), with descriptions of the business architecture (for product, service and information flows, including description of the market participants), the value chain position, and relevant industries, as well as the benefits which customers and suppliers can gain from a company's business model (Wirtz and Lihotzky, 2003). Despite advances made, the theoretical foundations of the business model concept still display some inconsistencies in the underlying assumptions and propositions (Mäkinen and Seppänen, 2007). Yet, as has recently been pointed out, this might not be a problem, as the business model concept can be useful in multifaceted ways (Baden-Fuller and Morgan, 2010).

In recent business model literature, and in particular a *Long Range Planning* Special Issue on business models, different findings were especially striking for informing the aim of this paper. Not surprisingly, it has been found that business models cannot be static. Demil and Lecocq (2010), for example, investigate the dynamic created by the interactions of the different building blocks of business models. Yet, the capabilities or activities driving such a dynamic to success over time have not yet been regarded. Further, strategizing has been found to play a crucial role for changing business models. For instance, Casadesus-Masarell and Ricart (2010) argue that

[1] We adapt this definition to focus on those activities which create, deliver, and capture value over time. For a discussion of business models, see also (Magretta, 2002, p.88).

Please cite this article in press as: Achtenhagen L., et al., Dynamics of Business Models – Strategizing, Critical Capabilities and Activities for Sustained Value Creation, Long Range Planning (2013), http://dx.doi.org/10.1016/j.lrp.2013.04.002