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Network configuration, customer centricity, and performance of open business models: A solution provider perspective

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ABSTRACT

While research has shown a positive impact of open business models on value creation, it has remained silent on the configuration of the corresponding partner networks and their effect on performance. Studying three cases of solution providers which involve external service partners for solution delivery, we find that solution customer centricity – the degree to which the focal firm focuses on solution customers in the joint delivery of solutions – moderates the relationship between partner networks and open business model performance. For open business models with low solution customer centricity, a network configuration characterized by many weak ties to service partners leads to superior performance. Conversely, for open business models with high solution customer centricity, few but strong ties to partners lead to superior performance. Based on these findings, three ideal configurations of networks for open business models are derived: the controlled, the joint, and the supported model.

The findings of this paper are especially relevant for managers of product-focused firms who seek guidance in evolving their business models into solution providers. The paper also contributes to business model research by linking extant insights from network research to open business model performance.

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1. Introduction

Increasing specialization and division of labor in today's economy have led to the emergence of open business models in many industries. One instance of these business models are firms which rely on external service providers in delivering integrated solutions. While the business model, in general, illustrates the logic of how firms create and capture value (Chesbrough & Rosenbloom, 2002; Mason & Spring, 2011; Teece, 2010; Zott & Amit, 2009), the open business model specifically describes value creation and capturing by “systematically collaborating with outside partners” (Osterwalder & Pigneur, 2010: 109). Scholars in this field explain how the integration of external resources and exchange with partners can create additional value (Chesbrough, 2006, 2007; Sandulli & Chesbrough, 2009). Business model scholars also highlight the importance of customer orientation as a key characteristic of business models (Amit & Zott, 2001) and especially of open business models, whereby multiple actors co-create value for the same customer (Storbacka, Frow, Nenonen, & Payne, 2012). Solution customer centricity – the degree to which the focal firm focuses on solution customers in the joint delivery of solutions – is hence an important aspect in studying open business models involving partner networks.

Although open business models are by definition closely linked to the establishment and management of external networks, research

falls short in explaining the configuration of these networks and their impact on the performance of open business models. Understanding these relationships is of particular relevance for manufacturing companies facing the organizational challenge to become solution providers. A solution provider manufactures stand-alone products as well as bundling them with related services into solutions that solve customers' problems (Davies, Brady, & Hobday, 2006; Galbraith, 2002). For these firms, utilizing services provided by partners in the network is an attractive means of achieving successful integrated solutions (Gebauer, Paiola, & Saccani, 2013; Helander & Möller, 2008; Jaakkola & Hakanen, 2013; Martinez, Bastl, Kingston, & Evans, 2010; Windahl & Lakemond, 2006) and, in turn, successful open business models. Scholars have studied partner networks in the context of the development of new integrated solutions (Liu & Hart, 2011; Windahl & Lakemond, 2006), but not the required network setup and logic for successful delivery of solutions.

This raises two research questions we aim to answer in this article: Firstly, how do various network configurations in relation to service partners influence the performance of open business models? Secondly, what is the role of varying degrees of customer centricity of open business models in this setting? We study these questions in the context of solution providers as a good backdrop.

To come to an answer we build on network theory, which argues that a network of relations of firms produces positive but also negative results (e.g., Lechner, Frankenberger, & Floyd, 2010). Positive effects include information benefits (Burt, 1992; Granovetter, 1985; Hansen, 1999; Rindfleisch & Moorman, 2001), efficient knowledge

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transfer (Reagans & McEvily, 2003; Uzzi, 1996, 1997), and access to resources (Gnyawali & Madhavan, 2001). Conversely, negative effects stem from reduced information benefits (e.g., Uzzi, 1997) and costs of maintaining additional ties (Burt, 1992). Such networks are characterized on the basis of three dimensions: the relational, the structural, and the cognitive (Lechner et al., 2010; Nahapiet & Ghoshal, 1998; Simsek, Lubatkin, & Floyd, 2003).

Our results suggest patterns new to existing theory. We find the influence of networks on performance of open business models contingent on the level of customer centrality. That is, to ensure superior performance, different levels of solution customer centrality in the business model require different network configurations to service partners. The realization of these relationships contributes to the open business model, solution provider, and network fields.

2. Theoretical background

This section analyses in depth the theoretical background necessary for our line of reasoning, namely literature on open business models, social network theory, customer centrality, and solution providers.

2.1. Open business models

In general, the business model is depicted as an overarching concept assimilating the constituent components of a business and assembling them as a whole. Components proposed often include the value proposition (e.g., Chesbrough, 2010; Morris, Schindehutte, & Allen, 2005), the customer (e.g., Morris et al., 2005; Teece, 2010), and the performed activities and transactions (e.g., Afuah, 2004; Amit & Zott, 2001; Zott & Amit, 2008). The most common role of the business model is to illustrate how the focal firm creates and captures value for its stakeholders and itself (e.g., Afuah & Tucci, 2001; Amit & Zott, 2001; Chesbrough, 2007; Chesbrough & Rosenbloom, 2002; Teece, 2010). A central feature of the business model is the provision of a holistic view of the business by combining the firm's internal and external factors (Teece, 2010; Zott, Amit, & Massa, 2011). In other words, the business model suggests an interplay between the internal dimension of a business, such as the firm's resources and activities, and the external dimension, such as the firm's customers and partners (Chesbrough & Rosenbloom, 2002; Johnson, Christensen, & Kagermann, 2008; Morris et al., 2005). In this regard, it is often referred to as a boundary-spanning concept explaining how the focal firm embeds in and transacts with its surrounding ecosystem (e.g., Shafer, Smith, & Linder, 2005; Teece, 2010; Zott & Amit, 2008, 2009).

Although the business model describes boundary-spanning value creation, not every firm must do so. Chesbrough (2006, 2007) differentiates between closed and open business models. Firms implementing closed business models focus primarily on internal value creation and rarely collaborate with partners; they only maintain simple buyer-seller relationships with the outside world. In contrast, open business models focus on external resources as key contributors to a firm's value creation process; value for the customer is co-created between actors in a network (Storbacka et al., 2012). Through close partner collaboration, firms implementing open business models gain improved access to markets and knowledge, as well as to external resources and capabilities (Sandulli & Chesbrough, 2009). In this study, we focus on open business models which we define as follows: An open business model explains value creation and value capture of a focal firm, whereby externally sourced activities contribute significantly to value creation.

2.2. Networks

Although open business models are by definition related to the establishment and management of social ties to external partners, the field currently lacks a systematic approach to identify patterns and

rules for the composition of partner networks underlying open business models (Zott & Amit, 2009).

Research in network theory in multiple studies shows that a network of relationships produces a number of positive outcomes, including increased access to novel and diverse information (Burt, 1992; Granovetter, 1985; Hansen, 1999), increased access to resources (Gnyawali & Madhavan, 2001), more efficient knowledge transfer (Reagans & McEvily, 2003; Uzzi, 1996, 1997), heightened power and control (Brass, 1984; Brass & Burkhardt, 1992), increased legitimacy and understanding for the products (Tsai & Ghoshal, 1998), increased innovation (Capaldo, 2007; Phelps, Wadhwa, Yoo, & Simon, 2010; Rodan & Galunic, 2004; Schilling & Phelps, 2007), and increased performance (Lechner et al., 2010; Powell, Koput, Smith-Doerr, & Owen-Smith, 1999; Zaheer & Bell, 2005). But scholars also argue that networks have negative effects, such as costs of maintaining additional ties (Burt, 1992), reduced information benefits (Uzzi, 1997), or information overload (Iselin, 1989).

Scholars characterize such networks on the basis of three dimensions: the relational, the structural, and the cognitive (Lechner et al., 2010; Nahapiet & Ghoshal, 1998; Simsek et al., 2003). As these dimensions are too broad to develop hypotheses (Lechner et al., 2010; Miller, 1996; Powell et al., 1999), we use more specific constructs for each dimension: tie strength for the relational, centrality for the structural, and shared vision for the cognitive.

2.2.1. Relational dimension: tie strength

Granovetter (1973: 1361), who introduced the concept of tie strength, defined it as a "combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie." With strong ties at one extreme and weak ties at the other, it is viewed as a continuous measure (Granovetter, 1973; Hansen, 1999; Lechner et al., 2010; Levin & Cross, 2004; Marsden & Campbell, 1984).

Researchers argue that both strong and weak ties produce a number of positive outcomes. Granovetter (1973) argues that weak ties lead to novel information by otherwise unconnected groups within an organization. He argues that weak ties are more likely to transfer non-redundant information, since the contacts are less likely to be connected. Similarly, Levin and Cross (2004) show in their empirical study that weak ties, rather than strong ties, provide access to novel and non-redundant information. Conversely, researchers show the positive effects of strong ties, as they facilitate the transfer of fine-grained information and tacit knowledge (Brass, Butterfield, & Skaggs, 1998; Gulati, 1998; Hansen, 1999; Rangan, 2000; Uzzi, 1996), increase the level of trust (Burt & Knez, 1995; Granovetter, 1973; Gulati, Nohria, & Zaheer, 2000; Krackhardt, 1992; Larson, 1992; Podolny, 1994; Uzzi, 1997), and lead to support (Fukuyama, 1995; Gambetta, 1988; Kostova, 1999; McAllister, 1995) between the two actors within the social relationship. Some efforts are made to reconcile the differences between weak and strong ties by introducing a contingency argument to moderate the effects (Burt, 1997; Hansen, 1999; Lechner et al., 2010; Levin & Cross, 2004; Rowley, Behrens, & Krackhardt, 2000).

2.2.2. Structural dimension: centrality

Network research mostly defines centrality as the position of an actor within the network, meaning "the extent to which the focal actor occupies a strategic position in the network by virtue of being involved in many significant ties" (Wasserman & Faust, 1994: 172).

Several researchers emphasize that centrality in a network is connected to power and control (Brass & Burkhardt, 1992; Burt, 1992; Ibarra, 1993; Salk & Brannen, 2000), to superior information and resource flows (Gnyawali & Madhavan, 2001; Gulati et al., 2000; Lechner et al., 2010; Powell et al., 1999), and to broad access to many resources, partners, or knowledge (Rowley et al., 2000). Some researchers emphasize the value of low centrality, arguing that it allows time for the focal actor, since fewer ties require less time to maintain the relationships

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