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Business models and business model innovation: Between wicked and paradigmatic problems

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A B S T R A C T

While research on business models and business model innovation continue to exhibit growth, the field is still, even after more than two decades of research, characterized by a striking lack of cumulative theorizing and an opportunistic borrowing of more or less related ideas from neighbouring fields in the place of cumulative theory. We argue that the lack of cumulativeness stems from lack of construct clarity (i.e., BM and BMI are seldom defined with much precision) and lack of agreement on definitions, which in turn imply that the core constructs are not dimensionalized in a way that eases theory-building and empirical testing. Lack of progress on these matters partly reflect that the BM and BMI constructs are used in multiple explanatory contexts, so that it is not entirely clear what are the problems that BM and BMI research seek to solve. We argue, with Teece (2010), that the BM and BMI constructs are fundamentally about the architecture of the firm's value creation, delivery and capture mechanisms; theoretically the key aspect of BMs is complementarity between activities underlying these mechanisms; BMI means novel changes of such complementary relations; and this understanding not only unifies diverse contributions to the literature but is also productive of new insight.

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Introduction

This special issue represents yet another strong indication that research on business models and business model innovation is attracting very significant attention, not just from the business community, but also increasingly from various research communities, mainly in strategy, but also in, for example, technology management, international business and sustainability. Thus, as [Foss and Saebi \(2017\)](#) show, research on business models (BM) has increased significantly, reaching 7391 publications in the Scopus database for the period 1980–2015. While research on business model *innovation* (BMI) thus far only amounts to 349 publications, it is rapidly increasing ([Foss and Saebi, 2017](#)).¹

This growth underscores that research interest in a phenomenon is perhaps particularly likely to happen and increase when the phenomenon is broadly seen as highly important, ill-understood, but the problem of understanding it is not so badly defined or ill-structured that inquiry seems near hopeless, as in the case of “wicked” problems ([Buchanan, 1992](#)) (e.g., some of the problems that attach to the understanding of consciousness; [Rittel and Webber, 1973](#)). Scholars often impose structure on ill-structured problems (i.e., problems that have no well-defined ends, means, causal relations between variables, objective functions) by borrowing constructs and insights from neighbouring fields (cf. [Simon, 1973](#)). In fact, many critics of the BM and BMI constructs have argued that ultimately these constructs amount to little more than a repackaging of well-understood strategy insights (e.g., [Arendt, 2013](#); [Porter, 2001](#); see the discussion in [Massa et al., 2016](#)). We disagree with this critical stance (see [Foss and Saebi, 2015, 2017](#)), and submit that BM and BMI are still to large extents phenomena in search

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¹ These numbers are based on Scopus searches for the terms “business model” and “business model innovation” in the search field “abstract, title, keyword” within the field of “social sciences and humanities”. The number of publications reported refers to peer reviewed and non-peer reviewed articles for the period 1980–2015.

of theory, or, more precisely, *cumulative* theory (and cumulative empirics) with more “paradigmatic” problem-solving in the manner classically described by [Kuhn \(1970\)](#).

Thus, over the last fifteen years, *at least* the following theories have been applied to the understanding of BM and BMI: Dynamic capabilities ([Leih et al., 2015](#)), threat rigidity and prospect theories (see [Saebi et al., 2016](#)), entrepreneurship theory (see [Foss, Saebi & Stieglitz, 2016](#); [George and Bock, 2011](#)), TCE ([Zott and Amit, 2010](#)), RBV or Penrosian view of the firm ([Mangematin et al., 2013](#)), applied to the understanding of BM and BMI in the context of learning (e.g. [Sosna et al., 2010](#)), managerial cognition (e.g., [Tikkanen et al., 2005](#)), performance (e.g., [Amit and Zott, 2001](#); [Zott and Amit, 2008](#); [Kim and Min, 2015](#)), innovation (e.g., [Chesbrough and Rosenbloom, 2002](#)), replication (e.g., [Winter and Szulanski, 2001](#)), and competition (e.g., [Casadesus-Masanell and Feng, 2013](#); [Velu and Jacob, 2014](#)).

However, in spite of all this experimentation and application, the BM and BMI research streams have produced little agreement on key issues. In fact, there is still surprisingly little agreement on what is the nature of the unit(s) of analysis, that is, what BM and BMI *are*. Recent discussions and reviews of the BM and BMI literatures have all made this point ([Zott et al., 2011](#); [Foss and Saebi, 2017](#); [Wirtz et al., 2016](#); [Massa et al., 2016](#)). These papers show that the definitional variety is quite overwhelming and it is not clear if these diverse definitions are mutually consistent. Some are also highly unclear. Given this definitional variety and the lack of clarity that attaches to the units of analysis, it is perhaps not surprising that BM and BMI research has produced few models that lay out a clear causal structure with exogenous variables, parameters and endogenous variables (whether the BM and BMI themselves or the outcomes of BM and BMI). Thus, as [Wirtz et al. \(2016: 37\)](#) surmise, “there is still no complete clarity in the literature, in particular about the purpose or the right of the business model approach to exist, or even the contrast to established concepts”. They attribute this ambiguity to the fragmented nature of the literature, its historical development as well as diverging views of researchers.

A further, and perhaps deeper problem, we submit, is that we may not have a good idea of what we want our units of analysis (i.e., BM and BMI) to do for us, resulting in notions of BM and BMI that are put to rather different explanatory purposes such as: “(1) attributes of real firms variously influencing their performance in markets, (2) cognitive schemas (and linguistic schemas as observable manifestations), and (3) formal (scaled-down) conceptual representations of organizational activities” ([Massa et al., 2016: 28](#)).

Compare this with a social science success story, namely that of transaction cost economics. Initiated by Ronald [Coase \(1937\)](#), TCE didn’t take off until the mid-1970 in terms of cumulative development. The reason was that although Coase clearly had pointed to a truly fundamental explanatory gap (i.e., why firms exist), he didn’t formulate a problem-oriented approach to filling the gap in a sufficiently operational way. That was left to, mainly, Oliver [Williamson \(1975, 1985, 1996\)](#), who made TCE fundamentally researchable and cumulative by clearly defining a unit of analysis (i.e., the transaction), dimensionalizing it (i.e., the frequency, uncertainty and asset specificity triad), and linking the unit to outcomes (i.e., governance structures), using a clear discriminatory principle (i.e., transaction cost economizing). He also identified the “paradigmatic” problem of TCE, namely that of explaining vertical integration. The rest is history—which concretely means cumulative theory-building and a massive amount of empirical TCE studies ([Tadelis and Williamson, 2012](#)). Notice how the explanatory purpose of the theory, the unit of analysis, is dimensionalized, and the role it plays in the theory are all tightly integrated.

Although the analogy is by no means perfect, there is a need for a similar undertaking in the case of BM and BMI research, that is, some agreement on the nature of the unit of analysis, how that unit may be dimensionalized, causal mechanisms linking BM and BMI to antecedents and outcomes, and some central problems that research should address. The purpose of this essay is not to deliver on something so ambitious. Rather, we more modestly hope to contribute to the emergence of a discussion of what are the nature of the phenomenon we seek to study and how we best approach it, so as to move BM and BMI research away from the “wicked” end of the continuum of problem-solving and more towards the “paradigmatic” end. To this end, we elaborate on the idea of BMs as the architecture of activities and hereby show how complementarity is the key dimension of the BM construct. This further allows us to dimensionalize BMI in terms of scope (architectural vs. modular change) and novelty (new to firm vs. new to industry), which is productive in the examination of the antecedents, moderators and consequences of BM and BMI.

The unit(S) of analysis

The importance of construct clarity

BM and BMI are not directly observable. We observe specific constellations of activities dedicated to value creation, delivery and appropriation and have decided to call these constellations “business models” and changes in them “business model innovation.” Thus, BM and BMI are, of course, conceptual abstractions, theoretical constructs. Ideally, we want such constructs to create cognitive order out of the “booming, buzzing, confusion” of the business world by offering “robust categories that distill phenomena into sharp distinctions that are comprehensible to a community of researchers” ([Suddaby, 2010: 346](#)). Good theorizing is based on the creation of this kind of cognitive order. If our constructs are unclear and possibly overlapping, we will also likely get causality and mechanisms wrong. Empirics will also suffer from this. Lack of construct clarity does not mean that we won’t get research. In fact, we may get plenty of it. Research on BM and BMI is fairly voluminous (see [Foss and Saebi, 2017](#)), yet this research has been building for about two decades in the absence of clear definitions of the central constructs. As [Zott et al. \(2011: 4\)](#) note:

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