

JOURNAL OF BUSINESS MODELS

Organisational Design Issues and the Proper Dimensionalisation of Business Model Innovation

A conversation with Nicolai Foss about the future of business model innovation research

Nicolai Foss can be without an introduction in this context. Over the years, Nicolai has made substantial contributions to the business model innovation field.

I met Nicolai across the street from CBS at Solbjerg Plads. Copenhagen is bathed in springtime sunshine, and we aim to finish with a light lunch before afternoon meetings kick in for both of us.

I asked him about his general perception of the recent developments within the field of business models and business model innovation:

"I think it is fair to say that the business model research landscape has changed quite a lot from what it was in the early days. A decade ago, many researchers still reacted negatively to notions of business models and innovation. These two concepts were mainly viewed as practitioner concepts with little theoretical grounding and unclear empirical relevance. I think that has changed.

There are probably two reasons for this. First, much research on BM/BMI has been carried out. It is no longer "just" a practitioner phenomenon. The leading journals increasingly take BM and BMI seriously. The 2010 Long Range Planning special issue on business models was probably entirely instrumental here. Second, the big moves in business towards sustainability and digitalisation have further underscored the meaningfulness of thinking "holistically" about overarching strategy issues, in the way BM and BMI research seeks to do."¹

What are, in your opinion, the most critical recent theoretical contributions in the BMI area?

"This is a good question! I think we have seen many applications of the BMI notion recently, notably to

¹ The current special issue contains contributions specifically looking at digital transformation (Silvi et al. 2023), Artificial Intelligence (Haefner and Gassmann, 2023), Blockchain (Schmuek, 2023) the Metaverse (Rosenstand et al., 2023) and Sustainability (Demil and Léococq, 2023/Ricart 2023)

sustainability and digitalisation issues. So, there have been applications to the “circular economy”, “the Internet of Things”, and similar. There have also been applications to SMEs and family firms. However, I am not sure I currently see a lot of distinctly theoretical work in the BMI space. There is much application of existing ideas to new contexts and qualitative research, but little distinct theoretical work and rigorous empirical research with large numbers of observations”.

What research gaps do we need to explore in this BMI area?

“I think the research gaps that Tina Saebi and I pointed to in our 2015 book one and our 2017 and 2018 articles remain (Foss and Saebi, 2017; 2018) In terms of what we discussed in the book, I think organisational design issues remain a black box in BM and BMI research, which is odd because the overlaps are so many: Organization design and BM/BMI research are fundamentally about choosing the right mix of specialised activities, coordinating them in the right way, and making cooperation happen.

Even more fundamentally, we still need proper dimensionalisation of the unit of analysis, that is, the business model innovation. What are the relevant dimensions in which business model innovations differ? Tina and I proposed that BMIs differ in terms of their novelty and the extent to which they are modular or architectural. Getting some clarity on this is essential for several reasons. Thus, Nils Stieglitz and I have argued that different BMIs require different leadership approaches (Foss and Stieglitz, 2015). BMI characteristics may also determine diffusion patterns of BMIs; more incremental and modular BMIs diffuse more quickly. Antecedents, as well as consequences of different BMIs, are likely to differ. And so on. So, I think dimensionalisation matters a great deal.

I am partial to the specific dimensionalisation that Tina and I proposed because it links up with many excellent and well-established management and social science theories, such as thinking about interdependencies between investments and processes and

how they give rise to coordination and cooperation challenges in implementation. So, a great deal of organisation theory, complexity theory, etc., is relevant here. That is good because we need to link BMI theory to existing theory systematically and cumulatively rather than reinvent the wheel.

Another gap that seems evident to me is to link BMI more to top managers. Yves Doz did some critical work on this, but I haven't seen much in this space since his creation. I think there are opportunities to link BMI to top management cognition. My PhD student Kristin Ringvold (also a consultant with CapGemini) has done significant work in Telenor investigating the managerial cognition associated with conceiving and implementing BMIs. Another possibility is to link BMI to the heuristics and biases of top managers. This is something I have pursued with Tina Saebi and Lasse Lien (Saebi et al., 2017).

Which current/contemporary trends have you been focusing on in your recent research on business models?

“If by ‘current/contemporary trends’ you mean ‘trends’ in business reality, this isn't something that has occupied me too much. Theoretically and empirically speaking, I am mainly interested in getting notions of BM and BMI on a more solid footing. However, I have some recent work with Kristin Ringvold and Tina Saebi in which we explore sustainable business models and the additional challenges they raise because they add to the complexity of the BMI process (Ringvold et al., 2023).”

Which new BMI trends are you seeing: a) in the research literature? b) in practice and from society? What is the reasoning behind these trends; where do they arise from?

“A big theme both in practice and in the research literature is business models for digitally enabled (and enabling) platforms. Related to this is a broader theme of business models exploiting ecologies of complements between services and products. This relates to platforms because platforms are also about building a central service and product

with various complementary add-ons. However, “ecologies of complements” is broader. It is partly captured by the notion of “ecosystems” (which may or may not be platform-mediated), which is a megatrend both in research and practice².

However, I think it is fair that ecosystem thinking is still in its infancy. I don’t even think we have an excellent basic definition of “business ecosystems” yet. One of the critical challenges in this literature seems to be understanding governance challenges across an ecosystem’s lifecycle. I have some ongoing research with Jens Schmidt and David Teece. We conceptualise these challenges using a mix of transaction cost economics arguments and David’s notion of (the micro-foundations of) dynamic capabilities (Foss et al., 2022). But, it seems that notions of business models and business model innovation may also be linked naturally to ecosystems. So, we need to think more about business models for ecosystems, both for those companies that set up such ecologies and that those are part of them without assuming a leadership role.”

How should academia/universities educate students and inspire industry (in new ways/differently) for future BM/BMI?

“I think the fundamental thing is to students to practitioners convey that BM/BMI are holistic phenomena. One of the things I like about BM/BMI is that, in some ways, it takes us back to the 1960s strategy approach associated with, notably, the Harvard Business School, where the task of strategy is to think holistically about the enterprise in a way that integrates all functions, processes, etc. This disappeared when focusing on external environments or “resources” mainly. BM/BMI thinking brought it back. And I suspect this is a key reason why BM/BMI thinking has resonated so well with practitioners.

However, I have sometimes observed that the holistic thing gets lost in discussing business models in teaching. In teaching the business model canvas, there seems to be an unfortunate tendency to overly

focus on the value proposition aspects of the business model. It is like in entrepreneurship education, where sometimes the attention is on opportunity identification, and the realisation part is forgotten. However, the fundamental thing is that business models are meant to convey the holistic notion of an enterprise as a system of interlocking activities.”

What are, in your opinion, the new and unexplored/uncharted territories in BM research?

“As I indicated above, I think there is still so much fundamental ground-clearing left, such as meaningful taxonomies and dimensionalizations of BM/BMI; understanding the basic coordination and cooperation needs that different BM/BMIs give rise to; linking these to different management and organisation approaches, etc. Of course, we also want to get a better idea of the performance implications of BM/BMI.

As you can hear, I am a theory-driven traditionalist in these matters: I think we need to be more grounded, theoretically and empirically speaking. There is considerable tension here because many strongly theoretically or empirically minded management don’t take BM/BMI research too seriously. Similarly, much of the attraction to many BM/BMI research is that it is heavily applied. I honestly don’t know how to resolve that tension, but hopefully, it will come “naturally.”

What is the next significant phase in business model research?

“Well, although I do hope that this would be about beefing up business model research theoretically and empirically—making it more rigorous—I doubt this is going to be the ‘next big phase.’ It is more realistic that business model research will jump on some new Big Phenomenon, such as, who knows, the blockchain or quantum computing. The BM/BMI research community seems to do rather quickly—and this is a strength. However, the balance between exploitation and exploration in organisational learning also applies to research. Thus, we can do too much exploration and too little exploitation. On the one hand, we need both careful theory-building and careful empirics and a keen interest in novel phe-

² See also the contributions on ecosystems by Lingens (2023) in this special issue.

nomena. Perhaps BM/BMI research has been leaning too much towards the exploration side of things. That said, it does seem clear that we will experience much change, particularly in the digital dimension. Machine learning and other AI technologies are general-purpose technologies that will profoundly impact multiple aspects of existing business models. Thinking about how the individual impact components of business components and how these relationships are... tricky – but undoubtedly worthwhile.”

What new/altered roles will businesses, society, state/government, ecosystems, policymakers, and others play in future BMs/BMI?

“That is a comprehensive question, but there is one comment I would like to make: I think that we are going to see even more policy involvement with business in the future. It may not be the ‘Grand Reset’/Davos extremes that seem almost about a corporatist state. But there is lots of policy attention on sustainability, competition policy appears to be tightening everywhere, public/private partnerships are increasingly emphasised, and there is attention to ownership, gender representation and whatnot. In other words, many more aspects of the enterprise have now come under policy scrutiny. Like it or not, that is a fact³.

In this situation, it makes sense for top managers to think about business models: We need to focus on all aspects of the company and how they may be in-

³ See for example Nielsen’s (2023) account of the influence of regulation on business model innovation

terdependent. For example, what does a new value proposition imply for sustainability issues in the supply chain? Or what are the competitive implications of our unique value proposition that may throw the competition authorities’ searchlight on us? How much of our existing business model does a new public-private partnership involve?”

Lunchtime!

Concluding Remarks – by Christian Nielsen

This conversation with Nicolai Foss summarises that research in business model innovation needs to factor in the ever-rising application of machine learning and artificial intelligence, along with other digital enablers, to ensure that managers, owners, entrepreneurs and business developers are continuously forced to consider holistic approaches to improving their competitive advantage. Business model innovation is a central holistic approach to strategy that can help companies with these challenges. Nicolai is attentive to the fact that there are organisational design issues that we need to understand properly. He argues that only through academic rigour in studying business model innovation, in the form of empirics with large numbers of observations, can we solve these challenges. Such research will trigger the next critical theoretical insights into business model innovation and maybe also solve Nicolai’s request for proper, or more accurate, dimensionalisation of the unit of analysis by which business model innovation is done.

References

- Lecocq, X., B. Demil & V. Warnier (2023), Moving business models forward for positive social, environmental and economic outcomes: Managing externalities (and internalities) for sustainability innovation, *Journal of Business Models*, Vol. 11, No. 3, pp. 117-132
- Foss, N.J. and N. Stieglitz (2015), "Leadership and Organizational Design in Business Model Innovation." In N.J. Foss and Tina Saebi, eds. *Business Model Innovation*. Oxford University Press.
- Foss, N.J. and T. Saebi (2017). "Fifteen Years of Research on Business Model Innovation." *Journal of Management*, 43: 200-227
- Foss, N.J. and T. Saebi (2018), "Business Models and Business Model Innovation: Between Wicked and Paradigmatic Problems." *Long Range Planning*, 51: 9-21.
- Foss, N.J., J. Schmidt and D.J. Teece. 2022. "Innovation Ecosystem Leadership." Unpublished paper.
- Haefner, N. and O. Gassmann (2023), Generative AI and AI-Based Business Model Innovation, *Journal of Business Models*, Vol. 11, No. 3, pp. 46-50
- Lingens, B. (2023), How ecosystem management will influence business model innovation: Bridging the gap between theory and practice, *Journal of Business Models*, Vol. 11, No. 3, pp. 97-104
- Nielsen, C. (2023), How Regulation Affects Business Model Innovation, *Journal of Business Models*, Vol. 11, No. 3, pp. 105-116
- Ricart, J.E. (2023), Business Model Innovation as the new strategy arena, *Journal of Business Models*, Vol. 11, No. 3, pp. 18-23
- Ringvold, K., N.J. Foss, and T. Saebi. "Sustainability-oriented business model innovation processes: A micro-foundational perspective." *Unpublished paper*.
- Saebi, T. L. Lien & N.J. Foss (2017) "What Drives Business Model Adaptation?" *Long Range Planning*, 50: 567-581.
- Schmück, K. (2023), How Blockchain disrupts business model innovation counting on lock-in effects, *Journal of Business Models*, Vol. 11, No. 3, pp. 57-61
- Silvi, R., C. Nielsen and A. Pia (2023), From Insights to Business Model Innovation and Results: Using the