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Business Model Innovation as the New Strategy Arena

A conversation with Joan E. Ricart – Interviewed by Christian Nielsen

Joan E. Ricart is Carl Schrøder Professor of Strategic Management at IESE Business School in Barcelona, Spain. Joan has been influential in forming discussions of the relationship between strategy and business models with his colleague Ramon Casadesus-Masanell from Harvard Business School. In the earlier years of distinguishing between business models and strategy, colleagues of Ramon, including Michael Porter and Joan Magretta, were instrumental in forming the initial understanding of the differences between strategy and business models, from which many researchers took their points of departure.

"How companies work together and interact with society will be a game-changer for business model innovation in the future", states Joan, and explains that rising concerns towards sustainability (cf. Massa, 2023) in part spur this trajectory and, on the other hand, also technological development (Silvi et al., 2023). Technology will drive societal growth by improving the conditions for developing sustainability and "smartness" (Ahokangas, 2023). This will alter how we think about strategy and business models. With this point of departure, Professor Ricart identifies four key scenarios that are important to consider in developing the field of business models and business model innovation.

First, the relationship between strategy and business models is currently being challenged.
Recently, Snihur and Eisenhardt have argued that business models have taken over the central role of strategy. Business models are about developing holistic concepts of value creation and a set of choices, and by doing this, they fill out a space that contemporary strategy research needs to pay more attention to.

The relationship between strategy and business models has existed since the initial papers on the subject. This is why when Prof. Casadesus-Masanell and I started working on this subject in the early 2000s, we needed to clarify how this new

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perspective of business models was related to the strategy concept.

Our HBR article 2011 defines a business model as "a model of the business" that explains the logic of value creation and value capture by different stakeholders (Casadesus-Masanell & Ricart, 2011). A business model is like identifying the "motor" that makes the strategy real. This motor is fuelled by choices, which are the essence of strategy. These choices have consequences that feed other consequences and eventually feed back some of the choices, creating positive loops (virtuous loops) or negative loops (vicious loops). Virtue reinforces one's positive consequences, allowing us to obtain good and better outcomes, or vice versa, with vicious loops.

As you can appreciate, our business model definition tries to capture the essential elements of strategy dynamics. This provides a language that allows us to deal with the relationship between strategy and business model, as we develop in our Long Range Planning article (Casadesus-Masanell & Ricart, 2010a). As strategy is a set of contingent choices, and we define a business model as the set of choices and their consequences, the choices of the realised strategy generate consequences, and the corresponding dual set ends being the business model of the company; of course, a business model is constantly evolving, as consequences affect choices, and those affect consequences, and the movement continues cycling.

Things are more complex because strategies are usually contingent choices made in interaction with the choices of other claimants and creators of value. However, you can easily visualise the loops of the focal business model interacting with loops of, for instance, the competitor's business model whose choices affect our essential consequences. Therefore, the simple explanation is still valid under the complexities of interacting business models (Casadesus-Masanell & Ricart, 2008; 2008b; 2008c).

As you might realise, I have always referred to the business unit (represented in the BM) strategy rather than the firm-level strategy. However, we can also contribute to corporate strategy by "modelling" the interaction with other business units (models) of the same firm. This representation, we call the corporate-level business model, provides a good understanding of the value creation process at the corporate level (Casadesus-Masanell et al., 2015).

This understanding of strategic interaction through the lens of business models has been instrumental in understanding regional competitiveness (Casadesus-Masanell & Ricart, 2010b), productivity growth (García-Castro et al., 2018), strategies in the Bottom of the Pyramid (Sánchez & Ricart, 2010), or reinventing companies with digitalisation (Ricart, 2014), among other interesting strategic problems. The business model perspective in strategy provides new important roles for CEOs focussing on entrepreneurship, innovation, artificial intelligence, and business model renewal (Ricart, 2015; 2019; 2020). And even corporate purpose and governance (Ricart & Rey, 2022).

The second perspective that Professor Ricart highlights is the role of communities and community-building in establishing platform-based business model innovation.

Professor Ricart explains: "I have much interest in helping transform cities towards what has been called smart cities. The name is associated with the use of ICT as a facilitator of the transformation. Thanks to ICT, many new business models are emerging in the context of cities, and many of them take the form of sharing (platform) business models"[1].

Initially, sharing business models grew relatively fast, as with Airbnb. Airbnb started with the reputation of almost a social business, allowing hosts to get extra money renting rooms and allowing guests short-term, affordable accommodation. All sounds very good, but soon, they started getting strong social rejection in some cities like Barcelona.

Initially, our focus was to provide data that may help to understand this tension with Airbnb in Barcelona. Our initial empirical study got tremendous adverse

[1] See also Lingens' (2023) article on ecoystems and business model innovation

reactions from the Airbnb local management, so we had to go very carefully to sustain each step in the analysis and tried to be as rigorous as possible. While publishing the paper took some time (Carrasco et al., 2022), it helped us approach the problem more theoretically.

We focused our theories on understanding the grassroots resistance to digital platforms and what recommendations we could make to these platforms to avoid or alleviate the reaction. The result was our Strategy Science paper (Ricart et al., 2020), where we identify the conditions that give rise to adverse reactions (local and scarce physical assets or local and precarious labour markets) and the need to respond with relational business models that provide inclusive stakeholder value propositions and relational ecosystem governance to the multisided platform, including the local community. It is a co-creation of value exercise, thanks to stakeholder governance.

These relational business models, responding to community needs, play an essential role in the governance of emerging city ecosystems and the new Public-Private Partnership cities used to face the grand challenges of our century. With my co-authors in those papers, we are working on new papers on this triangle (Ecosystem/platforms; PPPs for the SDGs; Relational business model), hoping to contribute mainly to the so-called New Stakeholder Strategy and its governance.

Third, according to Professor Ricart, the importance of considering sustainability in today's business environment and the education of the next generations means that the circular economy is crucial to factor into business model innovation activities.

Besides digital transformation, Sustainability is another big trend changing the world and cities. Circularity or circular business models are a particular case of relational business models. I have studied those models in a European Horizon 2020 project called GrowSmarter[2] with actual applications to the cities of Stockholm, Cologne and Barcelona involved in the project. Still, we have yet to publish academic publications from this research.

Firms that decide to include in their corporate purpose contributions to the SDGs will need to work on business model innovation towards a sustainable business model (Ricart & Rey, 2022). Back to the context of cities, we are seeing that both trends go hand-to-hand[3] or what is the same, we will only be able to advance on achieving the SDGs with new technology-based business models.

Our research in this area focuses on cities and SDGs (Giuliodori et al., 2022) and in PPP business models and their evaluation in line with their contributions to the SDGs (Berrone et al., 2016; 2019). Broadening this research to understand the governance of PPP that focuses on achieving SDGs, we converge to the line of study I was advancing in answering the previous question.

According to Professor Ricart, the fourth and final theme is understanding ecosystems (Lingens, 2023) and platforms because of the link to digital transformation in general (see also Silvi et al., 2023).

The third axis is ecosystems and platforms following relational business models, which I explore in greater depth in my forthcoming paper in the Journal of Business Models (see Ricart, 2023), sustainability, and PPPs. Some of my research on this area has been mentioned before, but now I want to focus on a different issue related to digital business models. As a professor in Strategy trained in economics, the commitment model developed by Prof. Pankaj Ghemawat many years ago greatly impacted my thinking about strategy and competitive advantage. As Pankaj moved into Emeritus Professor at IESE Business School, Strategy Science decided to organise a special issue in his honour; together with colleagues Bruno Cassiman and Giovanni Valentini, we decided to study if the concept of commitment was still so central to competitive advantage in the digital world. The result of this reflection was published as a short paper in this issue (Cassiman et al., 2022).

[2] Grow Smarter: Home (grow-smarter.eu)

[3] See the report in https://thoughtlabgroup.com/building-a-future-ready-city/; Joan was an academic advisor on this report.

Contrary to intuition, the final answer was a strong yes, but with some important caveats. First, committed choices are less related to sticky assets and irreversible investments (sometimes involved) than to the platform owner's architectural and governance choices. Note that architectural choices are still quite sticky but less than, say, a new factory, but governance choices are even less sticky but usually more important.

The second caveat is the relevance of flexibility. When you think about big investment decisions, real options are a good way to deal with uncertainty, gain flexibility, wait as much as possible and learn about the future. But in the digital world, learning is so fast that flexibility is crucial to committed governance choices. While commitment is a dynamic concept, it gets all the meaning of dynamism in the digital context.

The above reflection tells us that business models facing great uncertainty (Massa, 2023) should be designed with governance able to learn and adapt, and this is fundamental in the relational business models, closing our magic triangle. Let me remind you of the three connected sides: Relational business model, PPP (for SDG), Platforms (and ecosystem).

Let me finish this conversation with some reference to two special issues I had the opportunity to co-organize in Strategic Entrepreneurship Journal and R&D Management (Demil et al., 2015; Spieth et al., 2014). They are part of the history of a field that has gained much traction in the last decade. It has tremendous, transformational potential as we move into a world where competition, innovation and competitive advantage are fundamentally associated with business model innovation and renewal.

I am claiming the relevance of introducing a relational stakeholder perspective to business model innovation and design, resulting in relational business model design. This design involves three key aspects:

1. A multisided business model structure, as we need to include all potential stakeholders affected by positive or negative externalities. If we omit stakeholders that benefit from positive externalities, we are capturing and distributing this value created. Moreover, we may encounter grassroots resistance to the platform if we omit stakeholders suffering negative externalities.
2. An inclusive Stakeholder Value Proposition (SVP) for each added stakeholder to better balance the incentives dealing with the externalities.
3. An Ecosystem-Centered Governance (ECG) to improve alignment and balance power differences among the partners, focusing on value-creation (and distribution) by increasing entrepreneurship and innovation.

The design of a relational business model ends up being the orchestration of an ecosystem integrated by a multisided platform, and the prevalence of these ecosystems in many economic activities will drastically change how we think about strategy and competitive advantage, the gamechanger being that the central node of strategy now and in the future is the business model. Perhaps this may lead us to revisit Chandler's seminal work on the relationship between strategy and organisational structure by contemplating business models as the determinant around which organisation and governance should pivot.

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