

BUSINESS MODEL INNOVATION DIFFUSION AMONG COMPANIES

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ABSTRACT

Business model innovation represents nowadays an important source of competitive advantage. This paper aims to identify the spread of business model innovation among organizations. Thus, we have conducted an exploratory research and have done a longitudinal study on 96 organizations from different industries. Our analysed data consists in 1124 annual reports for a time interval of 12 years, between the years 2000 and 2011. As a result we found out that the majority of studied companies practice business model innovation.

KEYWORDS: *business model, business model innovation, innovation.*

JEL CLASSIFICATION: *M19, O31.*

1. INTRODUCTION

Over the years the pace of changes has intensified. The fast changing environment is forcing organizations to adapt in order to obtain or maintain their competitive advantage. Many organizations have responded to these challenges by using different types of innovations. Beside product and process innovation, organizations are beginning to use business model innovation as a source of competitive advantage.

The paper aims to identify the spreading degree of business model innovation among organizations.

2. THE BUSINESS MODEL CONCEPT

The business model is an emerging concept and is relatively new to the management and business vocabulary. It had a fast propagation after the year 1995 (Ghaziani & Ventresca, 2005; Zott et al. 2010). The concept proved useful explaining how the new business based on the internet created value.

There is no widespread accepted definition for the business model concept in the academic literature (Lecocq et al., 2010; Zott et al. 2010), and it is often used without a clear definition (Chesbrough, 2010).

But in general, the business model is used by scholars to describe the logic by which the organizations creates, distributes and captures value for stakeholders (Casadesus-Masanell & Ricart, 2010; Osterwalder & Pigneur, 2010). According to Chesbrough (2007) the business model has two main functions: value creation and value capture.

Also the academic literature went to great lengths for explaining the business model components and taxonomies. This has facilitated the concept understanding. Before business model innovation is important to understand the business model components and how it creates and captures value.

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3. BUSINESS MODEL INNOVATION

Innovation is considered to be a source of competitive advantage. Business model innovation is distinct types of innovation (Hamel, 2007; Morris, 2006).

Lindgardt et al. (2009:2) argue that „an innovation becomes business model innovation when two or more elements of a business model are reinvented to deliver value in a new way”. Business model innovation is about successful change in business model elements (Johnson et al., 2008; Mitchell & Coles, 2004) for creating value in a new way, or about replacing outdated models (Osterwalder & Pigneur, 2010), adding new activities or by linking them in a new way, or even changing which party performs an activity (Amit & Zott, 2012).

Many organizations decided to use business model innovation to obtain competitive advantage. In 2005, The Economist Intelligence Unit conducted a global survey that showed that 54% of the interviewed managers consider that the business model innovation is a more important source for obtaining competitive advantage compared with product or service innovation. Also, business model innovations delivers superior returns over time compared with product or process innovation (Lindgardt, et al., 2009).

In another study (Phole & Chapman, 2006) shows that business model innovation is important for CEOs to face competitive forces.

Observing that some organizations are taking business model innovation as an option or some of these had already innovated their models, we had decided to investigate the diffusion of business model innovation in practice.

According to Chesbrough (2007:12), "every company has a business model, whether they articulate it or not". Some organizations decide to innovate their business model. We considered that also the action of business model innovation can be articulated in explicit manner or can be done in tacit way. Our paper is focusing on identification of the spread of business model innovation among those organizations that announce the innovation in explicit way.

4. RESEARCH METHODOLOGY

The paper aims to identify the use of business model innovation among organizations. Thus, we have conducted an exploratory research. We analysed 1124 annual reports from 96 organizations for a time period of 12 years, beginning from the year 2000 to the year 2011.

First, we have chosen from Fortune 500 the top 100 companies for the year 2011. Second, we selected only those companies for which we have obtained a minimum 8 annual reports. As a result, we have choosed 96 organizations. The selected companies are from different industries, many of them are multi-business firms and also their age is very diverse with an average of over 70 years of activity.

The firms distribution by foundation year is presented in figure 1.

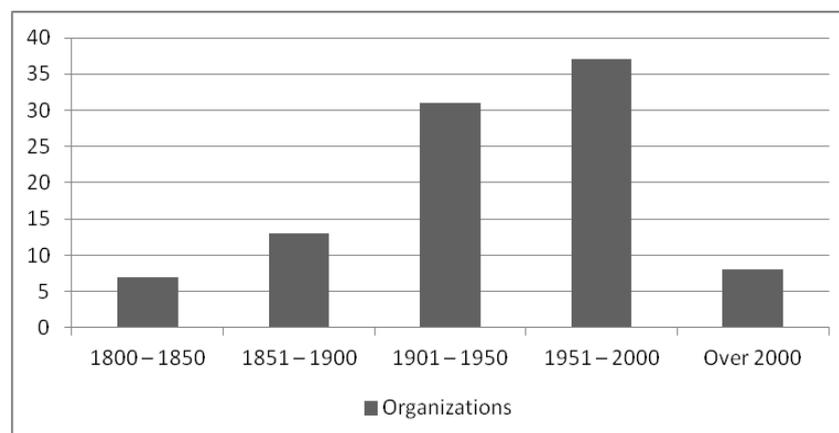


Figure 1. Firms distribution by foundation year

On average, we analyzed over 11 annual reports for each organization. In the table 1, we present the number of the analysed annual reports by organizations.

Table 1. Analysed annual reports distribution

Number of companies	Number of analysed annual reports by company
79	12
13	11
1	9
3	8
Total	Total
96	1124

After selecting the companies and obtaining their annual reports we conducted an content analysis. The purpose of the analysis was to identify those companies that have mentioned explicitly in their annual report about business model innovation.

In our paper we took into consideration different degrees of innovation: from incremental to radical innovation. To highlight business model innovation we search in the annual reports various expressions that made a direct reference to innovation like: „new business models”, „business model innovation”, „change our business model”, „our business model evolves”, etc.

Based on these results we could appreciate the diffusion of business model innovation among organizations.

5. THE DIFFUSION OF BUSINESS MODEL INNOVATION

In the academic literature there are used, along with the popular expression of "business model innovation", several phrases with similar meaning: "reinventing business models", "new business models", "change business models", „improved business models”, etc. Based on this and on the fact that there are different degrees of innovation, we took into consideration that at the organizational level can occur various expressions referring to business model innovation.

Because the main purpose of the analysis was to identify those companies that have mentioned explicitly in their annual report about business model innovation, we searched for several words (see tabel 2) which have appeared in the same propositions with the term business model.

We obtained a total of 845 propositions in which appeared a word that suggested a smaller or a greater modification at the business model level. We have interpreted the modification from the strategic point of view as a signal that is suggesting the propensity for innovation, even if it is incremental or radical.

The propositions were then individually analysed to be sure that the meaning of the propositions were referring to business model innovation of the analysed companies.

There are companies that were aware and have mentioned about the business model innovation in their industry: for their clients, competitors, suppliers or new entrants.

Those propositions were not counted as business model innovation for the company. But, we can argue that those propositions have highlighted the degree of awarness at the organizational level for the business model innovation phenomena, and we can see that many companies are attentive at this aspect. The business model innovation of companies from the value chain system can create both opportunities and/or threats for the focal firm or other partners.

Table 2. Searched words and intersections frequencies

Words	Intersections frequency (words with business model syntagm)
Adapt	22
Adjust	30
Change	160
Develop	138
Evolution	17
Evolve/evolved	40
Evolving	54
Improve	77
Innovation	25
Modified	1
Modify	4
New	194
Reinventing	1
Shift	34
Transformation	13
Transition	35
Total	845

Source: Authors

Our analysis shows that more than half (56.25%) of the studied companies have used in at least one annual report a reference to their business model innovation. There is important to remember that many of the analysed companies are multi business, and have many strategic business units. From this point of view the business model innovation could refer to one of this business units, not to the organization as a whole.

Judging by the fact that there are organizations that are innovating their business models, but do not make an explicit announcement about it, we appreciate that the number of companies that practice business model innovation is even greater.

From the total of 54 firms that have referred to business model innovation, most of them (55.6%) have mentioned this in one or two annual reports. The distribution of organizations by the number of annual reports which have mentioned business model innovation is shown in the table 3.

Table 3. The distribution of organizations by the number of annual reports

Number of annual reports indicating business model innovation	Organizations	
	Frequency	Percent (%)
1	17	31.5
2	13	24.1
3	8	14.8
4	1	1.9
5	6	11.1
6	1	1.9
7	3	5.6
9	2	3.7
10	1	1.9
12	2	3.7
Total	54	100

Source: Authors

We have analyzed the use of business model innovation spread at organizational level considering a period of 12 years. Based on this facts, we could highlight the spread of business model innovation over time for the 96 selected companies. The business model innovation trend for these firms is presented in the figure 2.

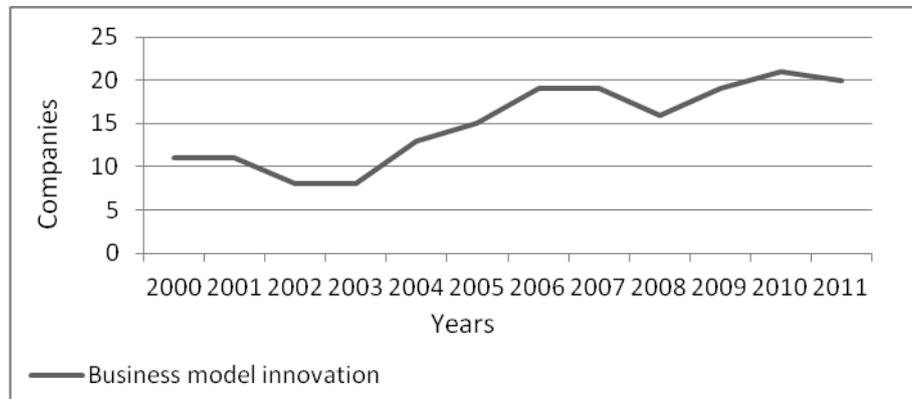


Figure 2. Business model innovation trend

Source: Authors

The frequency of business models innovation that was explicitly confirmed has an increasing trend. The results show that over time the number of organizations that had innovated their business models grew.

6. CONCLUSIONS

Our paper highlighted that many organizations are practicing business model innovation. Based on our research approach we could identify only those organisations that have had declared explicitly their business model innovation. Thus, we have reasons to consider that the proportion of the business model innovators could be higher. This could be true if there are organizations that are innovating, but do not explicitly mention it.

Our research highlights that the propensity for business model innovation has an ascending trend on the analysed time interval based on the explicit statements from annual reports .

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