# Business Model Innovation: Perspectives and Foundations

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Summary: This is a conceptual paper that aims to identify the key perspectives on business model innovation. Understanding the theoretical and conceptual underpinnings of business model innovation is crucial in facilitating organisation in reinventing their business models. Through a comprehensive literature review, three perspectives are identified. Business model innovation is a complex construct. There is no single approach or method in undertaking business model innovation. Successful undertaking of business model innovation depends on a number of factors. Dynamic capabilities and internal capabilities are just two of many important factors.

Key words: Business model, business model innovation, dynamic capabilities, design, activity systems

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## 1. Introduction

Business model innovation is a key competitive advantage for organisations and is a phenomenon that is well researched. The growth of the use of the term 'business model' parallels with that the growth of firms with the NASDAQ stock exchange (Osterwalder, Pigneur, & Tucci, 2005), which infers that the term 'business models' were used to describe organisations whose business did not fit with other organisation is contemporary industry at that time. Bander-Fuller and Morgan (2010) state that business models are a product of both practice and academia. Practitioners develop new business models, whilst scholars describe and study the business models that are successful in identifying rules and idiosyncratic attributes of the business model e.g. Southwest Airline (Morris, Schindehutte, & Allen, 2005). The aim of this paper is to identify the key perspectives on business model innovation and to correspond these perspectives to the key supporting theories and concepts. Section two contains a discussion on the concept of business model and the criteria in evaluating its effectiveness. Section three contains the three perspectives on business model innovation, whilst section four identifies the key theories and concept that underpin these perspectives, and with section five containing the conclusion.

## 2. Business Model

Business models tells the story of how businesses make money (Magretta, 2002). Chesbrough and Rosenbloom (2002) assert that business models are an organisation's dominant logic. Zott and Amit (2010) posit that business models are a *language* a tool, whilst Doganova and Eyquem-Renault (2009) claim that business models are "market and exploration devices" used to gauge the feasibility of the business. Teece's (2010, p. 172) definition encapsulates the preceding conceptualisation of business models as he states that "*the essence of a business model is in defining the manner by which the enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit. It thus reflects management's hypothesis about what customers want, how they want it, and how the enterprise can organize to best meet those needs, get paid for doing so, and make a profit*". The varied definitions and conceptualisations of business models make it one of the most misunderstood terms and concepts in business and management (Afuah & Tucci, 2003; H. Chesbrough, 2011; Linder & Cantrell, 2000; Osterwalder et al., 2005). Below we present three views that may help provide a better understanding of business models.

### 2.1. Business models: recipe and visual building blocks

Baden-Fuller and Morgan (2010) posit that business model innovation is a heuristic and isreflexive. Using a culinary analogy, they assert that business models innovation is like cooking with each business model being developed through "recipes" that are unique based on the tacit knowledge and insights of individual entrepreneurs and managers (as the cook). Organisations that wish to compete should possess the key threshold 'ingredients' i.e. business model components such as the value proposition and core competencies however, it is the "recipe" entrepreneurs and managers develop that make a business model successful and unique (Baden-Fuller & Morgan, 2010). Thus, some organisations may have the same 'ingredients' i.e. business model components but may have significantly different business models i.e. 'recipes'.

In linking this to the relationship between practitioners and scholars, Baden-Fuller and Morgan (2010) observes "recipes" as a concept that lays between the "principles" of a business model typology (i.e. general theory) and the "templates" i.e. rules. Whilst ingredients are not secrets, recipes are the capabilities of entrepreneurs, managers and leaders. Thus, the source of business model innovation is the individuals within an organisation. Organisations may have the same "ingredients" but different "recipes" i.e.

business model, for different markets, or repeat the “recipe” for different markets but with different “ingredients”.

Business models can also be described as building blocks as Burgi, Victor and Lentz (2004) assert that reconfiguring business models can is akin to building something new using a Lego blocks. Business models must be explicit and visual to allow meaningful reconfiguration (Bürgi, Victor, & Lentz, 2004). Adopting a similar view, Osterwalder, Pigneur and Tucci (2005) stress the importance of the visual aspect of business models. This emphasis can be observed as they stressed the term ‘model’ as “*a simplified description and representation of a complex entity or process*” (p. 4).

Putting this definition of model together with that of ‘business’, which is“*the activity of providing goods and services involving financial, commercial and industrial aspects*” (p. 5), they define a business model as “*a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences*” (p. 5).

## 2.2. Business models effectiveness

It is clear how a unique business models may have an advantage over others. However, how does one compare and evaluate these business model? Casadesus-Masanell and Ricart (2011) addresses this by positing that there are three characterises of a sound and effective business model; 1) the overall business model is aligned with organisational goals, 2) the elements in the business model are self-reinforcing, and 3) the overall business model is robust.

The need for the overall business model to be aligned with organisational goals is apparent as it drives all organisational actors in the same direction. In addition, the elements (or building blocks) within a business model must be self-reinforcing. Self-reinforcing is more than just about consistency amongst the elements. It is about each elements complementing and fortifying one another. Casadesus-Masanell and Ricart (2011) cite the case of Ryanair whose business model elements reinforce one another (e.g. standardise fleet and economies of scale for maintenance).

Last but not least, a business model innovation is sustainable when the overall business model is robust. A business model is considered robust when it is difficult to imitate in its entirety, negates the bargaining power of buyers and suppliers that may hold up the business model, the business model can tolerate changes and slack/ buffers can be built into it. In addition, the business model is as valuable as the value proposition itself, if not more, so that competitors that offer substitutes for the organisations value proposition are not able to threaten the organisation (Casadesus-Masanell & Ricart, 2011).

## 2.3. Inadequacy of business model effectiveness

An organisation’s business model is usually based on heuristic logic i.e. how best to organise the business and its link with the external environment to enable the realisation of the organisations’ value proposition. As an organisation becomes familiar with its present ways of doing things and with its environment, its heuristic logic becomes its dominant logic i.e. it starts assuming that its current way of doing things can be applied in the future even when the external environment changes (H. Chesbrough & Rosenbloom, 2002). However, even though organisations must adapt to environment changes, many find it difficult to change its dominant logic as it entrenched in the organisation’s psyche. Business model innovation occurs when organisations are able to revise their dominant logic (including beliefs and norms) to cater and adapt to changes within the environment.

## 3. Business Model Innovation

The importance of business models in innovation is emphasised by Casadesus-Masanell and Ricart (2010) when they state that, "*Much of the recent managerial literature on innovation is concerned with altering business models*" (p. 212). George and Bock (2010) asserted that understanding and developing sound business models are imperative in innovation-driven sectors and industries.

Chesbrough (2007, p. 12) reasons that a "*better business model often will beat a better idea or technology*". He rationalises this by asserting that a relatively high-value and high priced technology will most likely earn organisations profits (assuming competitors do not), however customers may not want to pay a high price for the new technology. But yet at the same time, organisations that make the technology open will not be able to capture or appropriate the value created. Thus, a business model innovation is a better alternative to product/ service or technology innovation.

Osterwalder and Pigneur (2010) asset that business model innovation achieves four general goals; i) satisfy a market and fulfilling unanswered market need (e.g. GrameenBank) , ii) bring to market new technologies, product or services or even to exploit existing intellectual property (e.g. Nespresso, Xerox Model 914), iii) improve or disrupt an existing market (e.g. Ryanair, Amazon), and iv) to create entirely new markets based on an entirely new business (e.g. Google, Visa).

Although there are many perspectives on business models, we argue these varied perspectives are usually comparable to one of the three key perspectives of business models; aggregator/ mediator perspective, activity system design perspective and the reconfiguration perspective.

### 3.1. Aggregator-mediator perspective

The aggregator/ mediator perspective is an abstract notion of business model innovation that stems from early research into business model innovation that sees it as both an enabler and vehicle for innovation. For example, Teece (2010) states a business model innovation is the result of all other innovation, in addition to technology. For example, the principle of the 'Long Tail' demonstrates how technology has changed business models of some organisations who are now able sell a broader range of goods in low volumes (Anderson, 2008). This is because the virtual world is not limited by the same constrains in physical world that restrained old brick-and-mortar businesses (Anderson, 2008). The 'long tail' exemplifies Teece's (2010) claim that business models play a dual role in reflecting (aggregating) and then facilitating other forms of innovation (e.g. technology). There is a reinforcing element at play as an innovative business model affects other forms of innovation and vice versa (D. J. Teece, 2010).

Another view of business model innovation is its role in mediating factor between technology and its commercialisation. Chesbrough and Rosenbloom (2002) used the case of Xerox to exemplify how Xerox changed its dominant logic and hence its business model to cater for a new technology and to overcome the constraints that came with it, in driving the new value proposition to new market segments.

Xerox (called Habloid at that time) changed its business model to cater for a new ‘dry’ (those that are prevalent at present) desk-top printer technology, called Model 914, in the 1980s (H. Chesbrough & Rosenbloom, 2002). Prior to the advent of Model 914, printers were sold outright to customers, for a modest margin, who also paid for other supplies such as ink and paper at a considerable mark-up with other vendors involved in servicing the printers. However, the production of the Model 914 was significantly more expensive than the present printers at that time and was a riskier proposition for potential customers. Xerox changed its business model by offering the printer on lease, charging customers a nominal price for the machine (H. Chesbrough & Rosenbloom, 2002).

In addition, to shift the risk from the customer to the Xerox themselves, Xerox charged customers a very low rate (4 cents) for each print out after the first 2000 copies each month and allowed customers to cancel the lease with a 15-day notice (H. Chesbrough & Rosenbloom, 2002). This new value proposition required Xerox to change its dominant logic and business model that was present in the printing industry at that time. Xerox was rewarded for this innovation as customers used the printer more than was envisaged and Xerox grew by 41 per cent in the next 10 years (H. Chesbrough & Rosenbloom, 2002). The lessons learned from Model 914 enabled Xerox to spin-off companies such as 3Com to market technologies that would have been potentially orphaned if left within Xerox as these technologies did not fit its overall strategy (H. Chesbrough, 2010b).

## 3.2. Activity system thematic design perspective

The activity system design perspective is a view that business model innovation is derived from a specified number of themes. A system is the interconnectivity and linkages amongst components that determine the dynamics and patterns of behaviour (Afuah & Tucci, 2003; Senge, Kleiner, Roberts, Ross, & Smith, 1994), whilst “activities” are functional and/ or task-orientated endeavours (Zott & Amit, 2010). Thus, Zott and Amit (2010) assert that an “activity system” is the network of activities within an organisation (e.g. operations, training and development, budgeting, sales and service) that take place to create and capture value (H. Chesbrough & Rosenbloom, 2002; H. W. Chesbrough & Appleyard, 2007).

Amit and Zott (2012) assert that business model innovation, is not a ‘black box’ as intimated by the aggregator/ mediator perspective, and can occur through changing i) the activity system content (“what”), ii) activity system structure (“how”) and ii) activity system governance (“who”). Activity system content is the activities within the business model. Business model innovation may occur by including new and novel activities into the business model (Amit & Zott, 2012). As mentioned, some organisations may involve new *content* (activities) through backward or forward integration. An example includes IBM, who included services in its business model to complement its hardware business (Amit & Zott, 2012).

Change in *structure* may involve linking and/ or reconfiguring the linkages between activities, which they refer to as an “activity system”. Business model innovation may occur by changing the linkages and also the sequence of the activities. For example, IBM, in addition to adding new content also change the sequence of its activities by establishing its service activities as the lead for its businesses. In another example, Amit and Zott (2012) cite Priceline.com, an online travel agent that has established links with airlines, travel reservation and credit card companies. However instead, of offering customers what providers had to offer, Priceline.com reconfigured the sequence of the process by allowing customers to post their holidays at a desired price for sellers to accept.

Business model innovation may also occur through the change in activity system *governance* by changing the role of the party performing the activity. Amit and Zott (2012) cites the use of a franchising model compared to complete ownership as one of the many ways that organisations may be able to innovate their business model through changing the way activities are governed. Zott and Amit (2010) cite the case of peer-to-peer lending organisations such as Lender Club, Zopa and Prosper to illustrate how three design elements may be involved when designing a new business model. For example, these organisations considered whether they would include a secondary market in their business model (similar to derivatives, or instruments to hedge risk), which is an activity system content consideration. In addition, they also had to consider how to match and link lender and borrower in terms of the system algorithm to implement (similar to dating sites matching potential couples based on biographical attributes and stated preferences), which is a activity system structure issues. Finally, these organisations also had to decide who would undertake the risk assessment of the borrower, which is an activity system governance issues. Amit and Zott (2012) stressed that the interdependencies of elements within a business model is critical in ensuring that the business model is sound.

The activity system perspective is based on the concept of design, a similar notion espoused by Osterwalder and Pigneur (2010). Design is the action that changes the activities and its linkages in the business model. The design of a business model is the activity of 'figuring out', implementing and refining a business model (D. J. Teece, 2010). Zott and Amit (2010) assert that successful business model innovation are based on design elements and design themes. The design themes posited by Zott and Amit (2010) are similar to Osterwalder and Pigneur's (2010) articulation of business model archetypes, as the design themes depict the central benefit of the business model. Amit and Zott (2012) assert that business model innovation truly materialises when four other considerations are included in the business model. These value drivers are  i) novelty, ii) lock-in, iii) complementarities, and iv) efficiency. Each of these value drivers can be applied to each design element discussed above.

Novelty is the newness of a new activity adopted (activity system content), new ways of linking and sequencing activities (activity system structure), and/ or new ways of controlling activities and its interconnections (activity system governance). Zott and Amit (2010) cite the example of Apple in applying novelty in its activity system content, through the design of new music players and smart phones, in addition to its traditional business domain in computing products.

Another design theme is lock-in. Lock-in occurs when increases the switching cost of customers and/ or involved enhanced incentives for a customer to stay with the organisation (Amit & Zott, 2012). For example Nespresso locked in customers by developing its low-cost espresso maker to only work with Nespresso coffee capsules. Another example is Facebook. Users of Facebook face strong impediments to switch as most users and members have already commited a lot time and effort to personalise their webpage (Amit & Zott, 2012).

The third design theme is complementarities. Complementarities involve include value-enhancing services or products to the core offering. For example, commercial banks usually offer a broad range of complementarity products such as insurance (e.g. home and personal insurance) and wealth management (Zott & Amit, 2010). Another example involves eBay in its acquisition of PayPal, the online payment company, to facilitate the transactions of buyers and sellers on eBay.

The final design theme value-driver is efficiency. Amit and Zott (2012) cite the example of Wal-Mart's business model of creating warehouse hubs and the use of sophisticated technology to increase the efficiency of its logistics operations. Efficiency, in addition to reducing transaction cost, can also be a result of backward and forward integration, as organisations have more discretion and power to change operations and logistics.

### 3.3. Building-blocks reconfiguration perspective

The reconfiguration perspective views business model innovation as a set of changes that makes a business model distinctive. Santos, Spector and Van der Heyden (2009) argue that technology (i.e. Chesbrough & Rosenbloom, 2002) does not need to be an impetus of business model innovation nor does it need be a grand design (i.e. Zott & Amit, 2010). New technologies may or may not lead to business model innovation (H. Chesbrough, 2010b) nor do business model innovation require complete change. The former is an assertion that Chesbrough (2010) recognised as he posited, "*a mediocre technology pursued within a great business model may be more valuable than a great technology exploited via a mediocre business model*" (p. 1). Business model innovation provides organisations with the opportunity for strategic renewal, such as lean value creation (Browning & Sanders, 2012).

In addition, based on their definition of business model as a configuration of activities, Santos, Spector and Van der Heyden (2009) thus define business model innovation as a "*reconfiguration of activities in the existing business model of a firm that is new to the product/ service market in which the firm competes*" (p. 14). They assert the reconfiguration involves the following:

1. Relinking: changing the organisation interfaces with its various organisational units with its external partners.
2. Repartitioning: changing the boundaries in which organisational units and external partners perform their activities (these may be institutional, physical or cultural).
3. Relocating: changing the physical (or cultural and institutional) location and proximity of organisational units and its external partners.
4. Reactivating: changing the set of activities that are undertaken by the organisational units and/ or its external partners.

Table 1 illustrates a typology of business model innovation in reconfiguring an organisation's operations.

| Classification | Type | What changes? | Examples |
|---|---|---|---|
| Relinking: altering the linkages between units performing activities. | Re-governing. | The governance of transaction among units. | An arms-length relation with a supplier becomes an alliance. |
| | Re-sequencing. | The order in which activities are performed. | Design and procurement activities become mutually reciprocal instead of sequential. |
| Repartitioning: altering the boundaries of the focal firm by moving activities and the units that perform activities. | Insourcing. | Moving inside activities that were once performed outside the focal firm. | A manufacturer opens its own retail stores to supplement its dealers. |
| | Outsourcing. | Moving outside activities that were once performed inside. | A firm outsources its information technology activities. |
| Relocating: altering the (physical, cultural and institutional) location between units performing activities. | Off-shoring. | Moving activities from a unit in the firm's home country to a foreign country. | A bank moves back-office activity to a foreign subsidiary |
| | On-shoring. | Moving activities from a foreign country into the home country of the firm. | A call centre is moved back to the original home country. |
| Reactivating: altering the set of activities performed by the firm. | Augmenting. | Adding a new activity in the firm. | A free give-away newspaper includes/ adds people to hand out the paper at subway stops. |
| | Removing. | Removing an activity from the firm. | An airline removes cooking hot meals from its service. |

**Table 1: Typology of business model innovation: Reconfiguring a firm's activities (Santos, Spector, & Van der Heyden, 2009)**

Some of the reconfiguration activities, specifically reactivating and relinking, in Table 2 are exemplified in the case of Taco Bell. Taco Bell implemented an initiative named 'K-minus' (Schlesinger, Delong, & Applegate, 2001). This initiative involved Taco Bell centralising of its cooking (i.e. food preparation, cooking and cleaning) which was transferred to its headquarters leaving its restaurants to just reheat the food as they were delivered to the restaurant. This initiative enabled Taco Bell to gain from economies of scale and the quality of the food increased due to standardisation (Santos et al., 2009). This was achieved by removing the cooking activities from the restaurants, and augmenting the role of headquarters, while at the same time, re-governing and re-sequencing the activities (Santos et al., 2009).

## 4. Foundations

This section identifies the theories and concepts that underpin the perspectives in business model innovation. Table 2 contains a summary of the underpinning for each of the perspective, although it does not suggest a precise mapping between each perspective and a corresponding group of theories/ concepts. The mapping is only indicative.

<table>
<tr><th>Perspectives</th><th colspan="2">Foundations</th></tr>
<tr><td>Aggregator/ mediator (conceptual)</td><td>• Dominant logic and narrative (Magretta, 2002)<br>• Experimentation (H. Chesbrough, 2010a)</td><td rowspan="3">Dynamic capabilities and resource-based view (Barney, 2001; D. Teece & Pisano, 1994)</td></tr>
<tr><td>Activity system design (themes-based)</td><td>• Open innovation (H. Chesbrough, 2006)<br>• Business process improvement (Davenport & Short, 1990)<br>• Value chain (Porter, 1985),<br>• Social exchange theories (Blau, 1964).<br>• Transformational change (Hope Hailey & Balogun, 2002)</td></tr>
<tr><td>Reconfiguration (building blocks)</td><td>• Transaction cost (D. Teece, 2007)<br>• Core competencies and rigidities (Johnson, Whittington, & Scholes, 2011; Prahalad & Hamel, 1990),<br>• Horizontal integration and coupling (Daft, 1978; Daft, Murphy, & Willmott, 2010)<br>• Organisational justice (Greenberg, 1987, 1990).</td></tr>
</table>

**Table 2: Foundations of Business Model Innovation**

### 4.1. Foundations of the aggregator/ mediator perspective

The aggregator/ mediator perspective is a narrative (story) of how an organisation makes money (Magretta, 2002). It is the narrative shapes the way the organisation continues to seek new ways to thrive. In addition, Chesbrough (2010) states that the 'soft' aspects of organisations are crucial for business model innovation especially in terms of an organisational climate of experimentation, which in turn is influenced by organisational leadership. He claims successful innovation lies in the ability of organisations to experiment. Business models are a form of heuristic logic and a proto-strategy that must be tried and tested in order to learn whether it works. In addition he claims that experimentation must be accompanied with effectuation, in that organisations must be willing to act through prototyping and simulations. Last but not least there must be effective organisational leadership with power and influence to not only enact the change but also be the first to be seen taking the first leap forward.

### 4.2. Foundations of the activity system design perspective

The theme-based activity system design perspective is underpinned by the theories/ concepts of open innovation (H. Chesbrough, 2006), business process improvement (Davenport & Short, 1990) and the value chain (Porter, 1985), social exchange theory (Blau, 1964) and transformational change (Hope Hailey & Balogun, 2002). Business models have a better chance of innovation when organisations adopt an open innovation approach and take advantage of resources and partners that have complementary core competencies (H. Chesbrough, 2006). In addition , business process improvement  and the value chain aids organisations in identifying and aligning key activities that create and capture value

(Davenport, 1992; Porter, 1985). Zott and Amit (2010) claim that at the most granular level it is organisational actors that actually make a business model effective. The social relationships that actors have with one another improves the effectiveness and efficiency of the process, and also minimises risks that may be inherent with an activity system (Zott & Amit, 2010). Transformational change is also critical as it is a form of change that is wide and deep in scope involving many parts of an organisation and also including behaviours and culture, and its generally undertaken swiftly (Hope Hailey & Balogun, 2002; Senior & Swailes, 2010). These foundations of business model innovation relies not just on organisational-based transactional activities but also social relationships amongst actors and individuals (Blau, 1964; Zott & Amit, 2010).

4.3. Foundations of the reconfiguration perspective

The reconfiguration perspective articulates the actions that need to be performed. Santos, Spector and Van der Heyden (2009) posit that the issues are in relation to the transaction cost theory (D. Teece, 2007), core rigidities (inverse of core competencies) (Johnson et al., 2011; Prahalad & Hamel, 1990), horizontal integration and coupling (Daft, 1978; Daft et al., 2010), and organisational justice (Greenberg, 1987, 1990). Organisations may innovate by undertaking forward and/ or backwards integration by absorbing activities into the organisation and thus lowering transaction cost (Zott & Amit, 2010). Transaction cost economics establishes that transaction costs generally do decline as activities are brought under one organisation (Zott & Amit, 2010). In addition, transformational change also involves changing competencies within organisational units undergoing business model innovation. Organisations must be adept in changing the core competencies of the organisational unit(s) as new activities may involve new capabilities (Prahalad & Hamel, 1990). However, this potentially presents a challenge to present core competencies as it may become core rigidities as employees may find it difficult to acquire new skills and competencies (Johnson et al., 2011).

Santos, Spector and Van der Heyden (2009) also suggest that in terms of new business model implemented by a corporate parent, opportunities may be identified by integrating some activities between strategic business units horizontally. Strategic business units in different industries may be able complement one another (Daft et al., 2010). However, if horizontal integration is not the optimum form, strategic business units must be allowed to work with one another in a loose coupling form with a significant degree of autonomy. Corporate parent should not dictate the governance model as it needs to provide the strategic business units *creative space* to work out for themselves how best to implement the new business model.

Corporate parents can and should play a significant role in ensuring fair governance. It should ensure that organisational justice is perceived, specifically in terms distributive and procedural justice (Santos et al., 2009). Distributive justice concerns corporate parents balancing the fairness in terms of equality and equity, treating strategic business units equally but at the same time providing resources to those that are indeed in need of resources (Greenberg, 1990). Distributive justice is enhanced if procedural justice is also perceived, in the form of corporate parents acting in due process in terms of policies but also engaging with strategic business units to participate in decision making (Greenberg, 1990).

4.4. Dynamic capabilities and the resource-based view

The most fundamental theory that underpins business model innovation dynamic capabilities, which is an organisational theory that stems from the resource-based view of strategic management (Barney, 2001; D. Teece & Pisano, 1994). Dynamic capabilities underpin organisational competences that enable organisations in "*appropriately adapting, integrating, and re-configuring internal and external organizational skills, resources, and* *functional competences toward changing environment*" (Teece and Pisano, 1994, p. 537). Whilst dynamic capabilities are usually articulated as 'soft-skills' and are tacit by nature, they can be translated into organisational artefacts such as policies and processes, specifically via human resource management practices. Dynamic capabilities are pervasive and critical in all aspects of organisations. Its value is mostly keenly observed and valued in business model innovation (D. Teece & Pisano, 1994; D. J. Teece, 2010). Dynamic capabilities enable organisations to enhance their reconfiguration skills in developing new business models and also assist organisations in moulding and governing its evolutionary fitness in shaping the business to adapt to the business environment and the organisational ecosystem (D. J. Teece, 2010).

Santos, Spector and Van der Heyden (2009) observes that spin-offs (i.e. corporate venturing) in relation to new business models can be performed under a corporate banner although with a significant degree of autonomy (that does not amount to a spin-off and/ or corporate venturing). Business model innovation also involves unbundling the organisation (Hagel & Singer, 1999). Corporations nonetheless need to create a conducive environment for this to take place (Santos et al., 2009). Thus there are business model innovations that can takes place in new enterprises, corporate spin-offs and as new strategic business units with modest control from a corporate parent. Organisation, which may have a number of strategic business units and thus business models, must be able to balance both evolutionary and revolutionary change – organisations they must be ambidextrous (Tushman & O'Reilly, 1996).

## 5. Conclusion

Business model innovation are a source of competitive advantage. Organisations must continuously reinvent their business models (although some business models may not be protected by patents) (D. J. Teece, 2010). Business model innovation is a key competitive factor for all organisations. Teece (2010) assert that new and innovative business models must be underpinned by systems and processes that are difficult to replicate, should have a significant degree opacity and organisations must be willing to cannibalise its existing business models, products, services and technologies.

This paper has presented three seminal perspectives on business model innovation. It has also identified the key theoretical and conceptual foundations of each perspective. These findings allow future researchers to identify how these theories interact with one another in explaining business model innovation. Potential direction for future research may also include the role of ecosystems and networks (Kanter, 2012; Tidd & Bessant, 2010). Business model innovation is only effective if an organisation has clarity of its network and ecosystem.

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