Incumbent Firms Towards Successfully Innovating the Business Model
Applying Strategic Entrepreneurship with Business Model Innovation

John Andersson, Lucas Eriksson
Abstract

Business model and Business model innovation are highly crucial aspects for incumbent firms in today’s very fast paced and dynamic environment. In this thesis, we seek to integrate strategic entrepreneurship theory with business model innovation. By doing so, we show how entrepreneurship, strategy and business models all lies squarely at the intersection of innovation and change. Most of the research on business models have been in the context of startups. In this study, we, however, decide to explore the context of incumbent firms and how they explore and exploit opportunities to innovate their business model.

This study contributes to a better understanding of how incumbent firms innovate their business models. It does this by answering three fundamental questions:

- How does the incumbent firm explore and exploit opportunities to innovate their business model?
- What are the drivers for innovating the incumbent firms business model?
- How does the decision-making process look like during the business model innovation processes in the incumbent firm?

To answer these questions, we have conducted a thorough literature review of the business model literature, business model innovation literature, as well as strategic entrepreneurship literature. By doing this, we highlight the most relevant aspects of these three concepts and theories, also providing the reader with a historical development of the concepts. To further build on towards answering our research questions we compliment the three central concepts with supporting theories of strategic management and innovation theory. We have answered these questions by conducting a qualitative study that is mainly explorative. Interviewing four incumbent firms that act in different industries; Banking Co, Technology Co, Productivity Co, and Software Co. Moreover, we interviewed two experts that together have over 70 years of experience in leading and consulting incumbent firms through different significant market changes. Thus, the six interviews together with internal and external organizational documents, triangulation has been used to produce the empirical results and analysis of this study.

With the empirical findings, we contribute to a comprehensive picture of how incumbent firms can efficiently adopt strategic entrepreneurship together with their business model innovation process. By doing so incumbent firms can find an optimal balance between opportunity-seeking and advantage-seeking behavior. Our findings show that incumbent firms today have a culture and structure that does not optimally promote business model innovation. The empirical findings provide two different viewpoints; one from the incumbent firm showing the current process and culture. The other viewpoint shows how the experts describe the incumbent firms and how they should change. Thus, these two different perspectives provide two different realities that we connect back to the theoretical frameworks. Moreover, this thesis contributes by showing that strategic entrepreneurship and business model innovation needs to be combined for incumbent firms to succeed in today’s fast-paced and dynamic environment.
Acknowledgement

We would like to extend a special thank you to Umeå School of Business and Economics for giving us such an amazing environment to work and grow these past four years. Especially we would like to thank our supervisor Zsuzsanna Vincze for making this thesis possible and giving us constructive feedback throughout the whole process. Moreover, we would want to give a special thank you to the respondents that took time out of their busy schedules to help us reach our goal with this thesis.

Lastly, we would like to extend a huge thank you to our great friends and classmates here at Umeå University who have made the whole experience so much more amazing.

Umeå University, 9th May 2018
John Andersson & Lucas Eriksson
Table of Contents

1. INTRODUCTORY ........................................................................................................... 1
   1.1 CHOOING THE SUBJECT ......................................................................................... 1
   1.2 PROBLEM BACKGROUND ..................................................................................... 2
   1.3 THEORETICAL BACKGROUND AND RESEARCH GAP ......................................... 3
   1.4 PURPOSE ................................................................................................................ 6
   1.5 RESEARCH QUESTIONS ......................................................................................... 7

2. LITERATURE REVIEW ................................................................................................. 8
   2.1 LINKING TO OTHER ACADEMIC FIELDS ............................................................. 9
       2.1.1 Innovation management ..................................................................................... 9
       2.1.2 Business Strategy ........................................................................................... 10
   2.2 BUSINESS MODEL ............................................................................................... 12
       2.2.1 History and Development ................................................................................. 12
       2.2.2 Definitions of Business Model .......................................................................... 12
       2.2.3 Business model levels .................................................................................... 13
       2.2.4 Business model perspectives ........................................................................... 14
   2.3 BUSINESS MODEL INNOVATION ......................................................................... 19
       2.3.1 History and Development ................................................................................. 19
       2.3.2 Business Model Innovation Definitions ........................................................... 20
       2.3.3 Levels of Business Model Innovation ................................................................. 21
       2.3.4 Approaches to Business Model Innovation ......................................................... 22
       2.3.5 Business Model Innovation Process .................................................................. 27
       2.3.6 Theoretical perspectives of business model innovation .................................... 29
   2.4 STRATEGIC ENTREPRENEURSHIP ..................................................................... 31
       2.4.1 History and development ................................................................................. 31
       2.4.2 Approaches of Strategic Entrepreneurship ......................................................... 32
   2.5 LITERATURE SUMMARY ....................................................................................... 35

3. METHODOLOGY .......................................................................................................... 37
   3.1 RESEARCH PHILOSOPHY ...................................................................................... 37
   3.2 ONTOLOGY ............................................................................................................ 37
   3.3 EPISTEMOLOGY ...................................................................................................... 38
   3.4 RESEARCH APPROACH ......................................................................................... 39
   3.5 RESEARCH DESIGN ............................................................................................... 41
   3.6 LITERATURE SEARCH AND CHOICE .................................................................. 42
   3.7 QUALITY CRITERIA ................................................................................................. 44
   3.8 ETHICAL CONSIDERATION .................................................................................. 45
   3.9 DATA COLLECTION ............................................................................................... 45
   3.10 INTERVIEW DESIGN ............................................................................................ 46
   3.11 PARTICIPANTS AND SELECTION ....................................................................... 48
   3.12 DATA ANALYSIS ................................................................................................ 49

4. EMPIRICAL FINDINGS ................................................................................................. 51
4.1 Interview Process ................................................................. 51
  4.1.2 Description of the four incumbent firms ........................................ 51
4.2 Exploring Opportunities to Innovate the Business Model ..................... 52
  4.2.1 Strategy ............................................................................ 53
  4.2.2 Change Process .................................................................. 56
4.3 Drivers for Innovating the Incumbent Firm’s Business Model .................. 58
  4.3.1 Drivers ............................................................................. 58
  4.3.2 Value Creation and Capture .................................................... 59
4.4 Decision-Making Process in the Incumbent Firm .................................. 61
  4.4.1 Communication & Structure .................................................. 61
  4.4.2 Culture & Leadership .......................................................... 63
5. Discussion ................................................................................. 65
  5.1 Exploring Opportunities to Innovate the Business Model ..................... 66
    5.1.2 Dynamics Between Central and Environmental Business Model Innovation Dimensions ............................................. 66
    5.1.3 Business Model Innovation Intensity ....................................... 68
    5.1.4 Managing resources strategically .......................................... 68
    5.1.5 Applying creativity and developing innovation ......................... 69
  5.2 Drivers for Innovating the Business Model ....................................... 71
    5.2.1 Environmental Business Model Innovation Dimensions ................. 71
    5.2.2 Business model innovation factors ........................................ 73
    5.2.3 Initiation and Ideation phase ................................................. 73
    5.2.4 Entrepreneurial mindset ...................................................... 74
    5.2.5 Value creation and capture .................................................. 76
  5.3 Decision-Making Process during the Business Model Innovation Processes ...................................................... 76
    5.3.1 Business Model Innovation Areas ......................................... 77
    5.3.2 Integration and Implementation ............................................. 78
    5.3.3 Entrepreneurial Culture and Leadership .................................. 79
6. Conclusion ................................................................................. 81
  6.1 Research Questions and Study Purpose ............................................ 81
    6.1.3 Exploring and exploiting opportunities to innovate the business model ............................................................ 82
    6.1.3 Drivers for innovating the business model .................................. 82
    6.1.4 Decision-making process during the business model innovation processes ...................................................... 83
  6.2 Theoretical Contributions .......................................................... 83
  6.3 Practical and Social Contributions .................................................. 84
  6.5 Limitations and Suggestions for Future Research .................................. 86
7. References .................................................................................. 88
8. Appendix ..................................................................................... 93
  8.1 Introductory Letter .................................................................... 93
  8.2 Interview Guide ....................................................................... 94
List of Figures

FIGURE 1: BUSINESS MODEL LEVELS ................................................................................................................. 14
FIGURE 2: THE FOUR-BOX MODEL........................................................................................................................... 15
FIGURE 3: THE BUSINESS MODEL CANVAS ............................................................................................................ 17
FIGURE 4: AN ACTIVITY SYSTEM DESIGN FRAMEWORK ............................................................................................. 18
FIGURE 5: INTEGRATIVE BUSINESS MODEL INNOVATION FRAMEWORK .............................................................. 25
FIGURE 6: BUSINESS MODEL INNOVATION PROCESS .............................................................................................. 29
FIGURE 7: A MODEL OF STRATEGIC ENTREPRENEURSHIP ......................................................................................... 33

List of Tables

TABLE 1: BUSINESS MODEL DEFINITIONS ........................................................................................................... 13
TABLE 2: BUSINESS MODEL INNOVATION DEFINITIONS ....................................................................................... 21
TABLE 3: INTERVIEW SUMMARY ............................................................................................................................. 52
TABLE 4: VALUE CREATION AND VALUE CAPTURE ................................................................................................. 60
1. Introductory

In this chapter, we introduce the reader to the subject of what this study aims to explore. We provide you with insight towards the concepts of business model and business model innovation, we further argue for the choice of subject and also the theory of strategic entrepreneurship that we apply. After that, we introduce you to the problem background of the issue and argue for its relevance to the field. We highlight what the previous research has said and the gaps that exist, and how we intend to fill some of those gaps. Finally, we conclude this chapter by stating our research questions and purpose of the research.

1.1 Choosing the subject

During the internet boom of the 1990s, one of the hottest buzzwords being thrown around was the business model. Firms did not need strategies, competences or customers, the only thing they needed was a great business model that generated enormous profits. However, as we know now, this was not the case. As with the following crash of the dot-com, the idea and the hype surrounding the business model died down. Since then the concept has re-emerged as yet again a trendy topic for researchers and managers during the 21st century. However, this time around society has gained a greater understanding of the concept and its role both within the firm and outside the firm’s boundaries. From a better understanding of the business model concept, a more novel concept has evolved, that of business model innovation. Business model innovation has become as important as product and service innovation. Thus, these concepts have become an essential topic for managers and researchers alike because of today’s fast-paced and dynamic environment. Business model innovation is now seen as an ongoing process in firms, hence there is a need for a strategy to cope with the issue. Therefore, strategic entrepreneurship has become an interesting approach as it includes a strategic mindset from the firm when exploring and exploiting opportunities in its surroundings. And can therefore be applied towards innovating the firm’s business model.

The reason we both were intrigued by this topic is due to our interest in how firms can advance their current activities in an ever-changing and dynamic environment. Having two different majors, one management and the other business development and internationalization gave us different perspectives towards the topic. The study on business models and business model innovation becomes relevant from both a business development perspective, and a management perspective as the business model concept applies to all areas of a firm.

The theories that we use in this thesis are theories that introduce and explain the concepts of business models and business model innovation. Besides those main theories, supporting theories have been presented that complement and act as an extension of the two central concepts. Innovation management theory and strategy theory is introduced to get a better comprehension of how they naturally occur with the business model concept. Finally, this thesis presents the theory of strategic entrepreneurship with the purpose of applying it towards the business model innovation concept and thus gaining a better understanding of how firms identify and exploit new opportunities in their environment. The main subject at hand is, therefore, a combination of business model innovation and strategic entrepreneurship theory.
1.2 Problem background

In today's society, we are seeing the unprecedented rapid growth of new technologies that are reshaping and disrupting firms and entire industries, while also creating a diversity of new attractive customer segments. In effect, this has led to that firm's now have shorter business model lifecycles and that new global competitors have emerged (Lindgardt, Reeves, Stalk, and Deimler, 2009, p. 1). Uber, Airbnb, and Alibaba are just some examples of firms that have reshaped their respective industries. What these firms have in common is that they all have, in some way, innovated the traditional business models of their existing sectors and thus beat the competition. Therefore, business model innovation has begun to emerge as a vital strategy for firms to drive value creation and growth. Leaders of firms have become more vocal in saying that they are actively trying to innovate their business models to either disrupt industries or to defend their positions. Business model innovation has become a decisive mean to seize new opportunities enabled by technological progress, customer preferences and deregulations (Lindgardt & Ayers, 2014, p. 2; Wirtz & Daiser, 2017, p. 15).

In a 2006 global survey by IBM, looked at how CEOs in 765 firms viewed the importance of business model innovation to their firm’s success. What this study found was that CEOs were placing much more emphasis on business model innovation and more surprisingly found that the CEOs viewed it as necessary as product and service innovation. To quote one CEO from the survey “Since 70 percent of our business is based on a service that will no longer exist as we know it, we need to adapt our enterprise to survive” (Pohle & Chapman, 2006, p. 36). The value in business model innovation is that it offers firms a way to break out of intense competition (Lindgardt et al., 2009, p. 2). Managers and firms now realize business model innovation as having the same importance as acquisition, service development and product development when it comes to the firm’s growth and value creation (Wirtz & Daiser, 2017, p. 15).

Due to the changing competitive landscape, it is becoming more difficult for firms to protect their margins, and more and more firms need to differentiate their business models from the competition. A PwC survey from 2015 showed that 54 % of CEOs around the world were concerned about new competitors entering their market. Another interesting fact from that survey was that the same percentage said they had, or were, thinking about entering non-traditional markets themselves (PwC, 2015). The business model, therefore, become an increasingly important basis for competition, and firm’s business models will either emerge as dominant or laggards within their industries. Even though managers think they are acting strategically when they are evolving the firm’s business model, they more or less leave the business model strategy decisions to traditional industry practices or serendipity, and thus these attempts usually fail (Chesbrough, 2010, p. 361). We are seeing established firms and their management teams mount both offensive and defensive initiatives in developing new business models as a reaction towards competition with varying results (Christensen, Bartman & Bever., 2016, p. 2). In a 2014 survey by the Boston Consulting Group, they found that out of 1500 executives, 94 percent of them stated that their firms had attempted business model innovation to some degree (Lindgardt & Ayers, 2014, p.2).

Keeping this in mind, it is a bit surprising that there is still a shortage of models and practical theories of how firms can work with the business model innovation process. One reason for this could be that research within these areas has developed in separate silos, so few studies have a holistic view on the issue, which leads to the shortage of models and guidelines (Schneider & Spieth, 2013, p. 3). Furthermore, there is a need for incumbent firms to change
their way of seeking new opportunities and new business models, and according to Chesbrough (2010, p. 361) incumbent firms act more reactively towards changes in their environment today. Thus, a problem for incumbent firms today is figuring out how they can tap into new sources of value creation and capture. To name a few examples of firms that have been able to profoundly impact and change the way people live, work and interact, consider; Apple, Airbnb, Facebook and Google. There is a need for incumbent firms to change their current mindset (Ireland et al., 2003, p. 981). Much is already known about how startups identify opportunities but lack the ability to exploit them, however, much less is known about how incumbent firms can explore and exploit opportunities. Ireland et al., (2003, p. 981) propose that firms, no matter the size, are able to implement both opportunity seeking and advantage seeking behavior in their strategy, thus, becoming more entrepreneurial in their way of working with business model innovation. They propose, in theory, that even an incumbent firm should be able to ignite a disruptive innovation by applying strategic entrepreneurship.

1.3 Theoretical background and research gap

In the mid-1940s Schumpeter presented the concept of creative destruction. The idea of creative destruction is that every time someone creates a new disruptive innovation, it destroys the old one (Schumpeter, 1942). Ireland et al., (2003, p. 981) develops it further by saying that creative destruction drives significant growth in industries and thus surprise market leaders. Creative destruction is essentially new ways of playing the game, they are different and conflict with the current business models. The ideas of creative destruction have become even more relevant in today’s rapidly changing global world than it was during the 20th century (Lindgardt et al., 2009, p. 1).

As we have previously described, business models and business model innovation have had a global impact on firm’s competitive success and is associated with achieving competitive advantage (Wirtz et al., 2016). However, even though these concepts have received much interest and attention by researchers and practitioners, there is still no widely accepted definition or understanding about what they represent (Zott et al., 2011; Schneider & Spieth, 2013). The problem is based on the fact that the concepts have been developed in different academic silos, and the often-confusing overlap with a firm's strategy (Schneider & Spieth, 2013, p. 3).

The concepts have become widely popular in literature and in practice given the increasing number of opportunities that exist with emerging new technologies. The business model concept has been around since the mid-1950s but did not become a mainstream topic of interest until the development of internet boom during the 1990s (Teece, 2010). Since then the business model concept has surged and been used to address a variety of research questions in different contexts and different management areas. Researchers have used the concept to describe and discuss various phenomena such as business models concerning e-business, value creation and value capture, and technology innovation (Zott et al., 2011, p. 1034). A majority of researchers have decided to adopt a holistic and systematic perspective instead of a particularistic and functional view. Therefore, the focus is on what the firm does, e.g., what products and services they produce and also how they do it, e.g., the content and process of doing business. The literature of business models also seems to take on, or support, an activity system perspective (Zott et al., 2011, p. 1034). Lately, the business model has seen a convergence into defining the business model as a holistic boundary spanning view of a firm’s activities. Moreover, the primary purpose of a business model is to create, deliver and
capture value from its activities (Zott et al., 2011; Teece, 2010; Osterwalder & Pigneur, 2010).

Further, research on how strategy plays a part together with business models has increased since the beginning of the twenty-first century and gained much importance. Having a strategic perspective on the business model concept has been beneficial when analyzing the competitive structure and strategic innovation decisions (Wirtz et al., 2016, p. 2). Having a strategy for how a company seeks and takes advantage of innovative opportunities differs between incumbent firms and startups. According to Ireland et al., (2003, p. 966), it is mainly startup firms that generate disruptive business models while incumbent firms only adapt or copy those business model innovations. Firms create revenue and wealth by identifying opportunities and then act upon them, Ireland et al., (2003) thus, introduces the theory of strategic entrepreneurship which builds on the idea of combining strategic management together with entrepreneurship. The theory builds upon the notion that firms create and implement strategies that focuses on seeking and taking advantage of new opportunities by adding more entrepreneurial elements into their processes. Historically, startups are prominent in discovering opportunities but lack the ability to turn them into sustainable advantages while incumbent firms struggle to find opportunities but are better at taking advantages of them when they arise. Ireland et al., (2003, p. 967) describe many components that incumbent firms have to develop to become more opportunity seeking in their business. Most of them revolve around creating an entrepreneurial mindset and culture among the employees where it is natural to come with suggestions and solutions no matter where in the organization they usually operate.

Strategic entrepreneurship theory is an area that has yet to be introduced together with business model innovation and is something we hope to contribute to this study. New market entrants are often a product of disruptive innovation which leads to the reshaping of markets and new business models. As an effect, incumbent firms are often caught off guard when new ways of playing the competitive game get introduced which are different, and conflict with the firm's current business model. Thus, firms need to be committed to seeking entrepreneurial opportunities that could potentially shift the basis of competition in the industry (Ireland et al., 2003, p. 982). Most times, established firms focus solely on improving their current goods and services. Leading to firms failing to recognize less complicated, more convenient, and more affordable innovations. Therefore, incumbent firms need to integrate opportunity-seeking behavior with advantage seeking action, in other words, a strategic entrepreneurship approach (Ireland et al., 2003, p. 982).

One process that is vital when it comes to business model innovation is that of leading change in the organization. It is a part that has not been answered in previous research. Who is responsible for business model innovation and experimentation? Managers will most likely lack authority across the whole organization, especially in large incumbent firms. Business models, however, stretch and interact across different operations like R&D, marketing, sales, and finance. Therefore, causing conflict between these functions when it comes to business model innovation and experimentation (Chesbrough, 2010, p. 361). CEOs and the owners might be suitable for the task when it comes to small firms. A problem, however, occurs when solely relying on the CEO/owner when it comes to leading change in large incumbent firms, as they received that position based on the current business model and may thus perceive the new business models as threatening. Therefore, even if the CEO is in the best place to lead, they might act as a barrier in the process. Even managers may be a possible locus of business model innovation. While managers might have some authority, they are often moved from
one position to another every two to three years, thus leaving little time to formulate experiments and conduct a full implementation of a new business model. Hence, firms need to address these kinds of leadership issues to ensure effective governance of business model innovation.

There are significant barriers to business model innovation, but what we have seen here is that the way forward is for firms and leaders to adopt, explicitly, an experimental stance towards business model innovation. The leadership process has to address the affected constituencies within the firm without becoming mired in the infighting between them. Firms need to identify internal leaders for business model innovation, to manage the process and to deliver a new business model for the company (Chesbrough, 2010, p. 362). Wirtz et al. (2016, p. 16) bring up this topic as well, saying that research on actors and interactions in the context of business models has mostly been neglected in previous research. How do the interaction and coexistence look like between business model and business model components on a corporate level? Who are the key players and how do the interactions look like between them? These are questions that have yet to be taken into account.

Neither has it been explicitly stated or researched sufficiently about the drivers behind innovating when external pressure is not the primary driver of change or strategic renewal in the organization (Sosna et al., 2010, p. 403). Casadesus-Masamell and Zhu (2013) analyze the situation when startups, with a new business model, enter a market and how the incumbent firms react to the situation. In many cases, the incumbent firm imitates merely the new entrant’s business model and make it into their own. In this way, incumbent firms neglect the effort to develop a business model on their own and increase the risk of missing opportunities (Casadesus-Masamell & Zhu, 2013, p. 465). Firms will either try to proactively influence their competitive destiny or wait to be shaped by the evolution of the markets in which they compete (Ireland et al., 2003, p. 982).

Against this background, the research on business model innovation needs to provide additional insights to develop a more comprehensive concept and to create a more practical application. We believe that the ideas that are available do not yet support management in innovating their business model. Thus, this study tries to contribute to the academic literature by using a strategic entrepreneurship perspective to gain a better understanding of the process of identification and facilitation of opportunities when innovating the business model.
1.4 Purpose

The purpose of our research is to gain more knowledge about the process of business model innovation. What are the primary drivers of incumbent firms when it comes to innovating its business model, are they more defensive or opportunistic when it comes to business model innovation (Sosna et al., 2010, p. 16). In research and through empirical studies, top management support is pressed as necessary when it comes to business model innovation. However, as we have seen, business models are complex and consist of many different components throughout the whole organization (Chesbrough, 2010, p.362). Thus, an important question to understand in regard to the process is how the communication and decision-making process looks like during business model innovation. During the implementation process (Frankenberger et al., 2013), it is imperative to ensure the alignment between departments for a successful change. How and where does business model innovation belong in the organization to both solicit ownership and change acceptance from employees, while at the same time having managerial focus and the necessary resource allocation? Moreover, how do other stakeholders such as investors, suppliers and government officials play into the process?

We further adopt a strategic entrepreneurship perspective (Ireland et al., 2003) to extend the current knowledge about business model innovation. Previous research has mainly used a resource-based view, or dynamic capabilities view to explain the nature of business model innovation. Schneider and Spieth (2013, p. 21) find that business model innovation requires a firm to consider the uncertainty within a potential source of opportunity that needs to be explored and exploited. Therefore, strategic entrepreneurship seems to provide additional insights into how firms can identify and exploit opportunities and can thus further expand the current knowledge and understanding of business model innovation. Even though the current business model might be well established and generating a steady stream of revenue, the firm needs to at the same time explore potential opportunities in its environment. Firms need to timely and efficiently identify and anticipate relevant drivers in the changing environment that they operate within. Nevertheless, the process of innovating an established business model has been seen to be highly challenging due to the complexity and barriers that exist (Chesbrough, 2010, p. 362; Schneider & Spieth, 2013, p. 21). However, little knowledge exists about how incumbent firms can act efficiently in exploring opportunities through business model innovation. Therefore, gaining a better understanding of the drivers of the need and opportunity to innovate the firm’s business model is of importance, and thus becomes a central purpose in our research question.

To conclude, we will be addressing the question of how incumbent firms explore opportunities for business model innovation; this will act as our central research question. We also seek to understand what the underlying drivers are for firms to innovate their business model, and also how the communication and decision-making process looks like when innovating the business model. These three questions are all interrelated with each other and are equally essential to understand how incumbent firms innovate their business models.
1.5 Research Questions

**Main research question:**
How does the incumbent firm explore and exploit opportunities to innovate their business model?

- What are the drivers for innovating the incumbent firms business model?
- How does communication and decision-making look like during the business model innovation processes in the incumbent firm?

Research question (1) aims to explore how strategic entrepreneurship theory can be applied to the context of business model innovation and more precisely how firms identify and exploit opportunities for innovating the business model. To answer this question, we will conduct a qualitative study on incumbent firms, and how they work with innovating the business model. Research question (2) and (3) act as sub-questions to (1). The purpose of these questions is to get a more comprehensive picture of the process of innovating the firm’s business model. Moreover, in order to answer research question (1) we need to know the drivers of innovation and thus, research question (2) becomes crucial. And, research question (3) becomes relevant in understanding the internal structures that enables question (1) and (2). Therefore, it is important to understand how these each question interrelate to each other. By answering these questions, this study aims to contribute new strategic and process elements to the business model innovation literature. Moreover, incorporating strategic entrepreneurship theory with the already existing resource and dynamic capability theories.
2. Literature Review

The purpose of this chapter is to provide a basis of what current literature has contributed to when it comes to business model, business model innovation and strategic entrepreneurship. Also, what supporting research has added to the theory of Strategy and Innovation. In turn, this will provide a basis for our research question and on how we build our research design. The literature review, in turn, helps the reader understand what already is known about business models and what concepts and theories that are relevant to our research purpose.

The structure of the literature review can be described as follows:

1. Linking to other academic fields
   1.1 Innovation management: A review and discussion describing the theory of innovation and innovation management. We adopt this academic field to better understand the innovation processes in firms, an integral part of our research aim. Part of our research question is looking at the business model innovation process within the firm. Therefore, we seek to innovation theory to better understand this process.

   1.2 Strategy: We review and discuss the most relevant and essential dimensions of strategy and how these might connect to business model innovation. Especially towards our research question about how business model innovation occurs in a firm.

2. Business model literature
   We review the current state of business model research. We look at the history and development of business models, and what the most accepted definitions are. Then we go on to describe the different levels of business models and how research has approached these different levels. Lastly, we describe and discuss some of the current business model approaches that have been most widely adopted in theory and practice. The purpose of including this is to build knowledge around the business model concept.

   To be able to understand how business model innovation works, one first has to have a solid understanding of the business model concept. To have an understanding of what the components of a business model are and what the business models primary function is for firms and society.

3. Business model innovation literature
   Being our main research topic, we conduct a thorough review of the current business model innovation literature. We highlight the different definitions, processes, and implementations of business model innovation. To keep a consistency in the literature review, we start off by describing the history and development of business model innovation. Then we explain some of the most common definitions of the concept, after that, we go on by describing and discussing different approaches to business model innovation. Lastly, we describe the process perspective of business model innovation; this is a fundamental part of our research purpose. Throughout this section, we illuminate the challenges and differences between incumbent and startup firms to motivate why the focus of our research question concerns incumbent firms.
4. Strategic entrepreneurship theory

As a big part of our research purpose and aim, we adopt a strategic entrepreneurship perspective. Therefore, we conduct a thorough review of strategic entrepreneurship theory and how it connects to business model innovation. We use the same arrangement as in previous parts where we start with a development description, and then we go on by elaborating on the different approaches to strategic entrepreneurship. We adopt this theory while answering our research question about how firms seek and grasp new opportunities within business model innovation.

5. Summary of the literature, critique and research question

Closing this chapter, we summarize the different literature and findings that have been highlighted. We discuss some analysis of the literature that we have reviewed. From there we connect back to our research question and further address issues and gaps related to our research questions that we wish to add additional insights to throughout our study. The purpose of these four steps is to further the understanding of business model innovation. This chapter helps the reader and us to have a structured discourse on the nature of business models and business model innovation.

2.1 Linking to other academic fields

2.1.1 Innovation management

To gain a more comprehensive understanding of how firms innovate their business model this study aims to link to the more traditional theory of innovation management. One of history’s most influential economist Schumpeter emphasized that innovation is one of the most critical dimensions of economic change. Innovation can occur in different intensity, either by incremental, radical, open or disruptive change (Trott, 2017, p. 17). Moreover, it can be seen as an iterative process of identification, development, and implementation of novel ideas within established firms (Garud, Tuertscher & Van de Ven, 2013, p. 775; Trott, 2017, p. 25). The process of innovation is not straightforward; instead, it is a made up of many different paths as well as setbacks, and thus involves managerial challenges as well (Garud et al., 2013, p. 778; Trott, 2017, p. 24). However, the process is not random either. Instead, the process is made up by repeated cycles of divergent and convergent phases. Divergence is driven by the expenditure of resources (people, time, ideas, and money). Convergence is driven by exogenous constraints (institutional rules and organizational mandates) and lastly endogenous limitations (resource limitations and the discovery of possibilities that focus attention). Trott (2017, p. 24) created an interactive model which shows that innovation can come from either internal activities or external drivers such as the market or new technology. Thus, all these sources are necessary for the firm to be able to create and capture value. The model also elaborates that the process is not linear but occurs in feedback loops between the firm’s activities. The process of successful innovation is, therefore, the encouragement to gather information from the environment and to facilitate the flow of knowledge between the firm’s different departments and activities (Trott, 2017, p. 25).

It has become more common to describe innovation as an organizational activity within research, and as such, the process has to be managed to continually be moved forward (Trott, 2012, p. 84). Simultaneously, the environment is always changing, so there are multiple aspects that a firm and its managers have to consider, i.e., they need to be comfortable with the idea that change will always occur in the organization (Bessant 2003, p. 762). However,
Bessant (2003) lays out different challenges that a firm continuously have to be aware of to cope and survive through the change from a managerial perspective.

The first challenges are to understand why and what to change in the firm, and not just shifting because the firm is in a changing environment, it has to have a purpose. Another important aspect is to grasp the concept of innovation; it is not only to seek opportunities, but it is also about taking advantage of those opportunities and implementing the change (Bessant, 2003, p. 762). When that is established within the firm, the next step is to form the organization in a way so that it is susceptible towards the changes that are needed. The way to go about that issue is to create routines and a culture where everybody works towards innovation and where it is self-evident that anyone can come with solutions and suggestions for improvements. Building on this idea that everybody can get involved, there is a higher chance that new ideas surface (Bessant, 2003, p. 762).

The last challenges that Bessant (2003) speaks about concerns more external factors, namely inter-organizational relationships and continuous learning. Caring for a firm’s inter-organizational relationships is essential both in the sense of supply-chains and towards potential co-developers of new products/services. If a firm changes something in the organization, it will most likely lead to a change for their suppliers as well, just as a change or improvement on the supplier's side can have an impact on the firm. When talking about inter-organizational relationships, the central aspect is to learn from each other or create something together that can benefit both parties. Continuous learning is about putting one’s ear to the ground and follow the development on the market and see what others are doing and then adapting those ideas to the firm (Bessant, 2003, p. 764).

Drawing parallels with innovation management and business model innovation. Innovation is either defined as a process or as a result, the former is, however, what we have described so far and is also the one most supported in the field of innovation (Trott, 2017, p. 15). Thus, business model innovation is strongly related to innovation management and, therefore, we might see a convergence towards a process dominated view in the novice field of business model innovation. The theory of innovation management also implies that firms that encourage the acquisition of external opportunities to the firm’s activities, and the communication of ideas between these activities are essential for successful business model innovation.

2.1.2 Business Strategy

The core meaning of strategy comes from the military and concerns how and where one should place its troops towards its opponents (Håkansson & Snehota, 2006, p. 258). But when it comes to business and business strategy, the definition is somewhat vague and ambiguous. The explanation that the researchers present is a combination of multiple definitions; “Strategy is the pattern in the stream of decisions and activities...that characterizes the fit an organization has to its environment...and the determinant of its goals.” The authors stress the impact that a firm's action patterns have towards their set goals and achievements related to their environment (Håkansson & Snehota, 2006, p. 258). Alternatively, as Mintzberg (1978, p. 935) puts it, a strategy is a set of conscious decisions and guidelines made to lead a firm to reach its goals.

In many ways, a business strategy can be seen as a protector of the business model. A business strategy is set in place to segment potential customers and markets, how to create value for the segments (value-chains), ways to isolate the customers and protect them from
competition as well as differentiate the firm to defend their business model from being copied (Teece, 2010, p. 180). However, a business strategy is a far more overreaching exercise than a business model; it is created to be an overarching strategy for a whole firm or a significant department. Thus, it has to be somewhat general and broad.

Casadesus-Masanell and Ricart (2010, p. 204) imply that a firm’s strategy will have an impact on which business model the firm will end up choosing, i.e., answering the questions; what are we going to do and who will we provide it to? The business model, on the other hand, is the realization of the strategy. So how are we delivering what the strategy is aiming to achieve? To some extent, one could say that the business model is supposed to work as a reflection of the strategy or the application of the strategy (Casadesus-Masanell & Ricart, 2010, p. 203).

How then can a firm avoid that competitors replicate their business model and out-compete them? The key word here, according to Casadesus-Masanell and Ricart (2010, p. 205) is consistency. A firm has to continually work with strategy, i.e., value and choosing different business models for specific situations and changes in their environment. These evaluations are an ongoing process, and firms have to be aware of everything that has, or might have, an impact on their business. So, the strategy is what makes a business model hard to imitate, the things that happen behind the curtain that other firms cannot see as quickly as the business model in action.

Teece (2010) presents a similar approach towards strategy and business model and how they come together, he calls it strategy analysis. As he sees it, a firm has to carefully analyze whether a particular business model fits into their strategy or not. The elements that are to be concerned are; does the business model match our segment market, does it create value to our intended customers, does help us to lock-in our customers in the segment and finally, how does it impact our business model from an imitability point of view. If the proposed business model passes through all these steps, a firm should implement the new business model (Teece, 2010, p. 182). Magretta (2002, p. 7) further explains the difference between strategy and business model by stating that the strategy is what makes you different from others. The example she gives is that of Walmart, is that Walmart took an existing business model and added their strategy, namely putting the stores in small towns where there was no other competition. The towns were big enough to keep the stores running but small enough so that competitors dismissed the towns. And that strategy is what made Walmart successful, not the business model itself (Magretta, 2002, p. 7).

Håkansson and Sneehota (2006, p. 267) emphasize the human factor, which also becomes an essential factor when it comes to strategy. All organizations are made out of humans, and they can actualize the strategy that will have the most significant impact on a firm's performance. In theory, one's actions are only a reaction to someone else's action which means that a firm will react upon what is known to them. It is therefore crucial for firms to have a strategy that encourages its employees to be active and participative in their line of work to seize opportunities when they arise around them.
2.2 Business Model

2.2.1 History and Development

Every firm has a business model to some degree which enables them to commercialize an idea. At its very core, the business model serves two essential functions, the creation, and capture of value. The one side of the business model defines a set of activities that will create value towards customers. The other side of the business model captures value from a portion of those activities for the firm. Both sides are equally important because if the firm cannot earn a profit from a particular activity, that activity will not be sustainable over time (Chesbrough, 2007, p. 12).

The business model concept has been around and written extensively about in research for over fifty years now. First coined by Bellman et al. (1957), the concept is now used in many different fields of study, e.g., entrepreneurship, management, and, innovation (Wirtz et al., 2016, p. 2). However, it was not until the mid-1990s that the concept was brought into a new light with the advance of the internet and has since then seen exponential growth in business research and practice (Zott et al., 2011, p. 1022). Conducting a search for academic journals using the term business model in the title, as Zott et al. (2011) had done, we found that 1,979 academic journals contained the term business model, ranging from 2009 to 2018. The search conducted by Zott et al., (2011) generated 1,202 articles from the year 2000 to 2009. Thus, showing that it is still a favorable and growing topic for researchers and practitioners as well as become a useful research area regarding business models on e-commerce, strategy and technology management (Zott et al., 2011, p. 1023).

2.2.2 Definitions of Business Model

There exist many different definitions of what a business model represents. The business model has been described as the architecture (Osterwalder & Pigneur, 2002), a conceptual tool or model (George & Bock, 2009; Osterwalder & Pigneur, 2002), a structural template (Amit & Zott, 2001), and many more definitions, these are however the most acknowledged ones. However, most attempts at defining the business model are often characterized as not limiting the scope of firm’s internal elements nor external environmental factors. Instead, they take on a holistic perspective that allows for an integrated view of the firm’s activities (Schneider & Spieth, 2013, p. 3). Chesbrough (2007, p. 13) describes the business model consisting of six functions. First, a business model has to articulate the value proposition. Second, identify the market segment, e.g., to whom, and what purpose. Thirdly, define the structure of the value chain that is required to create and distribute the offering. Also including additional assets needed to support the firm's position in the chain. Therefore, it needs to include suppliers, customers and everything from raw material to final product. Fourthly, the firm needs to specify the revenue generation mechanism, cost structure, and profit from the offering, considering the value proposition and value chain. Fifth, determine the position of the firm within the ecosystem, identifying potential substitutes and competitors, also linking suppliers and customers. Lastly, the firm has to formulate the competitive strategy, by which they will gain and hold an advantage over competitors.
Table 1: Business Model Definitions

<table>
<thead>
<tr>
<th>Author(s), Year</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amit &amp; Zott, 2001</td>
<td>The business model depicts “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (p. 511).</td>
</tr>
<tr>
<td>Osterwalder &amp; Pigneur, 2010</td>
<td>The business model is described as the rationale of how an organization creates, delivers and captures value.”</td>
</tr>
<tr>
<td>Teece, 2010</td>
<td>“The business model is the design or architecture of the value creation, delivery, and capture mechanisms its employees” (p. 191).</td>
</tr>
<tr>
<td>Johnson, Christensen &amp; Kagermann, 2008.</td>
<td>“Business models consist of four interlocking elements, that taken together, create and deliver value” (customer value proposition, profit formula, key resources and key processes)</td>
</tr>
</tbody>
</table>

2.2.3 Business model levels
The literature on business models focuses on three different levels of business models (fig. 1). These range from a very detailed product level, to the business/firm level to the very aggregate industry level. In the earlier years, the view of business model where seen as a small part of the firm, mainly within product development. However, this point of view has changed within research during the 21st century into a broader holistic perspective where the business model represents the whole firm (Zott & Amit, 2001; Wirtz et al., 2016, p. 3). Wirtz et al. (2016, p. 3) mean that there is now a more unified business model understanding. Primarily this is shown in the abstraction level used in viewing the business model.
The purpose of business models has increasingly placed itself more in between strategy and operational processes in an effort to combine these on a firm level. The aim is to show how the firm’s strategy directly reflects upon how the firm implement their processes (Wirtz et al., 2016, p. 3). Further on, Schneider and Spieth (2013, p. 4) shows the same patterns in their literature review, where researchers have come to a consensus that business model innovation concerns the firms core business rather than specific products. Zott and Amit (2010, p. 223) suggests that firms should look at the activities they perform instead of product by product, by having a more holistic view of the firm they imply that firm’s will, more easily find new opportunities to do business compared if they focus on smaller and isolated products/services.

2.2.4 Business model perspectives

Even though the majority of research on business models are becoming unanimous about seeing the business model as an issue that concerns the whole firm (Wirtz et al., 2010), not just a part of it, there are still a few different viewpoints on the topic. Teece (2010) emphasis on putting the customer at the heart of a firm’s business model, as well as Johnson et al. (2008) four-box framework and the business model canvas (Osterwalder & Pigneur, 2010) with a strong customer focus. The aspect of seeing the business model as a set of activities within the bigger picture outside the firm’s boundaries by Zott and Amit (2007; 2010).

Teece (2010) expands the understanding of business models by connecting the concept with business strategy, innovation management, and economic theory. He means that the way that firms operate in today's global economy has changed. Customers have a more prominent power towards firms when it comes to choosing between different products and services since there are more alternatives today. Mostly this is a result of new communication, computing technologies, and an increasingly globalized world. Thus, firms have to become more customer oriented since information technology offers a lower cost provision and better customer solutions (Teece, 2010 p. 172). Firms need to rethink how they can capture and deliver value from new products and services. If a firm does not have a well-developed business model in today's business environment, they will most likely fail to either deliver or
capture any value from their products or services (Teece, 2010 p. 172; Chesbrough, 2010, p. 355).

The business model should describe the logic of how the firm delivers value to customers, how it organizes itself to do so, and how the firm will capture a portion of the value it delivers (Teece, 2010, p.179; Johnson et al., 2008, p. 60). The business model is a reflection of management hypothesis about customer wants, how they want it, and what they are willing to pay for it. Moreover, the business model should explain how the firm can organize itself to best address these needs, and at the same time generate a revenue stream for the firm (Teece, 2010, p. 179). Designing the business model, figuring it out, implementing and redefining commercially viable architectures for revenues and cost are critical to a firm's success. Hence, a business model can act as a facilitator to innovation, but also represent innovation in itself. What is important to note is that even if a firm has superior technologies, products, people, governance, and leadership, it will still not be enough to achieve a sustainable profit if the firm's business model is not adequately adapted to the competitive environment (Teece, 2010, p.174). Even if a firm successfully develops a business model, it is insufficient in, and of, itself to assure competitive advantage, because the fact is that business models are often entirely transparent and accessible to imitate. Thus, it might be a matter of years or even months before a successful business model will, to some degree, be shared with the competitors. This is where strategy plays such an important part to help protect the business model from being imitated (Teece, 2010, p. 179).

According to Johnson et al. (2008, p. 60), the business model consists of four intertwined components, and when taken together, they create and delivers value. These four elements comprise of the customer value proposition, profit formula, key resources, and key processes (fig. 2). The most important part is to know your customers and create value for them, which concurs with Teece (2010, p. 175) view on the business model.

![Four-Box Model](image)

*Figure 2: The Four-Box Model (Johnson et al., 2008)*

All four parts are connected to each other and affect one and another; you cannot change one without it having an impact on the other part. However, on top of the pyramid sits the *Customer Value Proposition*. As previously stated, this is the most critical element to get right, because if you cannot get the customers to see the value of your offering, they will most likely look for another alternative. A successful firm is one that has found a way to create
value for a specific group of customers. Thus, a good customer value proposition defines and delivers a solution to a particular problem (Johnson et al., 2008, p. 60; Teece, 2010, p. 175; Chesbrough, 2007, p. 12).

Once you know the customers, the next step is to create the value in a way that still makes the firm profit from it; this is covered in the Profit Formula. Becoming the blueprint for how the firm intends to create and capture value for itself, and at the same time provide value to its customers. The profit formula itself consists of four elements; these are the revenue model how much money can be made, i.e., price x volume; cost structure, how cost is allocated, i.e., direct costs, indirect costs, and economies of scale. Furthermore, these two elements are driven by the firm’s key resources that are required in the business model. The other two elements of the profit formula are the margin model, i.e., achieving desired profit levels; and lastly, resource velocity, i.e., how fast resources need to be used (Johnson et al., 2008, p. 60).

The next aspect to consider is how the firm is going to deliver the value, who is going to do it and what does the processes look like (Chesbrough, 2010, p. 358), Johnson et al. (2008, p. 61) describes these questions within Key Resources and Key Processes. These two boxes are interlinked with each other and then, as a combination, connected to the other two parts in the model. Key resources consist of, e.g., people, technology, products, facilities, equipment, channels, and the brand. These are all resources that are required to deliver the value proposition. What is essential to keep in mind here is the focus on the KEY elements that create value for both the firm and the customer, and how they interact with each other. Key resources are the last element that describes the operational and managerial processes that allow firms to deliver value. The firm should have a process that will enable them to successfully repeat and increase the value of scale, e.g., tasks such as training, development, manufacturing, budgeting, planning, sales, and service. Other critical key processes include rules, metrics, and norms that are embedded in the firm (Johnson et al., 2008, p. 61).

This seemingly simple framework describes the firm's business model from a holistic perspective. The power, however, lays in the complex interdependencies of its parts. Making significant changes to any of the four elements will affect the others and the business model as a whole (Johnson et al., 2008, p. 61). Another business model framework that shares a similar perspective is the business model canvas by Osterwalder and Pigneur (2010), even though that model is more finely divided into nine parts, it still consists of the same matters and have similar connections between its parts.

The business model canvas is a visual tool where a firm can fill in how they will manage their business to deliver and capture value. It has become one of the most used models among both practitioners and researchers today. The model can help firms identify different processes between the business model components. Models like this one can be used as an experimental tool where a firm can test a business model, in theory, to see which parts works and which has to be changed (Chesbrough, 2009, p. 259). It includes; key partners, key activities, key resources, value propositions, cost structure, channels, customer relationship, customer segments and lastly revenue streams (fig. 3). If a firm makes a change in just one of the different parts, it has the potential to generate a new refined business model (Osterwalder & Pigneur, 2010, p. 15). They use a broader firm perspective, where the internal, as well as the external supply chain, is included in the focus of the firm as a whole. Thus, in line with how Wirtz et al. (2016) state that current literature is going, more towards a unified perspective where the levels have come closer to each other and have a more holistic view with a
company level focus. Osterwalder and Pigneur (2010, p. 14) describe the business model as “the rationale of how an organization creates, delivers and captures value.”

As can be seen in figure 3, the model is built up containing nine building blocks that include both the external and internal elements of the firm, through the whole supply chain process. These will be explained further in the coming section.

Osterwalder and Pigneur (2010, p. 20) state that firms should start on the right side of the model to find and get to know their Customer segment, just as Johnson et al. (2008) states in their model and Teece (2010, p. 175) expresses. Osterwalder and Pigneur (2010) mean that a firm might define many different customer segments in their business model and thus it is essential that the firm can make clear and conscious decisions about what segments to focus on and which segments to drop. The business model should be designed around a firm understanding of the customer’s needs (Teece, 2010, p. 175).

A significant aspect of the business model is the Value Proposition; it illustrates why customers choose to engage with a firm’s products and services. The value proposition describes the firm’s product and services that give them a competitive advantage towards their competitors (Osterwalder & Pigneur, 2010, p. 22). Creating value for the customers is a vital part of most research about business models (e.g., Teece, 2010; Johnson et al., 2008; Chesbrough, 2007).

The next two blocks illustrate the Channels and Customer Relationships that the firm has, these address the issue of how the firms deliver its value proposition. The channel consists of the communication, sales and distribution channels that the firms have. These steps describe what kind of relationship a firm has with its customers (Osterwalder & Pigneur, 2010, p. 28). Therefore, it is especially relevant in today’s society where firms have had to become more customer-centric (Teece, 2010, p. 175). The customer relationship that the company chooses will profoundly influence the overall customer experience. Osterwalder and Pigneur (2010, p. 30) explain that if the customers are the heart of the business, then the Revenue Stream is the arteries. A firm might have several revenue streams, and the question firms need to ask is how much the customer is genuinely willing to pay for the value offered and if they can generate revenue from an alternative source if necessary.
The next three parts include the things that make a firm unique; it is its *Key Resources* which is the essence of how a firm can create the value, reach the markets and maintain a good customer relationship. These key resources can be physical, financial, intellectual or human. Similar to the resources are the *Key Activities*. Osterwalder and Pigneur (2010, p. 37) describe these activities to be production, problem-solving and platform/network activities, etc. these will differ depending on what kind of firm it is. More often than not a firm needs help to create the value in the form of its *Key Partners*. This block describes the different partnerships a firm have with suppliers and other firms. These can be alliances such as strategic alliances, coopetition, joint ventures or buyer-supplier relationships etc. (Osterwalder & Pigneur, 2010, p. 39). These three parts can be linked to both Johnson et al. (2008, p. 61) part about key resources as well as parts of Zott and Amit (2010, p. 220) design elements.

The last building block, *Cost Structure*, describes all the cost associated to run the firm's business model. The other building blocks, such as creating and delivering value, customer relationships, and revenue streams all incur costs. Thus, firms have to calculate these costs together with the key resources, activities, and partnerships (Osterwalder & Pigneur, 2010, p. 41). The cost structure is emphasized in all versions of business models, it is not something that is unique to the business model canvas, yet it can be managed and planned in different ways (Johnson et al., 2008; Chesbrough, 2007; Teece, 2010; Zott & Amit, 2010)

Zott and Amit (2010) have a slightly different approach; they view a firm's business model as an activity system instead. A system of interdependent activities that stretches across the focal firm and spans its boundaries. The authors build a framework that highlights two parameters that firms need to consider (fig. 4). These two parameters are the (1) design elements: content, structure, and governance, describing the architecture of an activity system. (2) design themes: novelty, lock-in, complementarities, and efficiency, specifying the source of the activity systems values creation.

Zott and Amit (2010, p. 218) find that the interdependencies among the activities are central to the concept of an activity system. Thus, providing insight into the process that enables the evolution of a firm's activity system over time as the competitive environment changes. They further explain how leaders and managers can, and should, design the activities in a way so that all parts are dependent upon each other whether they are performed in-house or outsourced. In this dependency, firms should try to take advantage of their partners and suppliers to improve their business model design. By enhancing steps all along the supply chain of a business model, the firm has the potential to create a unique and competitive
Having the capability to see beyond the boundaries of one’s firm opens up for new opportunities (Zott & Amit, 2007, p. 195).

The activity system view of a business model is beneficial in more ways than one. First, it helps managers and entrepreneurs to make decisions when it comes to the business model design by focusing on activities, e.g., outsourcing vs. in-house or organizing specific organizational functions. Second, looking at the business model this way, makes the managers and entrepreneurs have holistic and systematic thinking when designing the business model. The authors illustrate this further by saying “look at the forest, not the trees - and get the overall design right, rather than optimizing details.” These two steps go under the umbrella term, business ecosystem, which includes more than the inside of a focal firm’s boundaries (Zott & Amit, 2013, p. 407). Third, an activity focus allows us to concentrate on the firm, who must decide on the business model design, e.g., how to link a new activity into the current business model and who should govern that activity (Zott & Amit, 2010, p. 223). Within the activity focus, Zott and Amit (2013, p. 408) developed three distinctive fits that have to be acknowledged and matched when working with a firm’s business model. The first type of fit is the one between the activity and the firm’s strategy, the second concerns how well the activities are reinforcing each other. The third concerns the supply chain and eliminating waste and unnecessary steps along the way.

The strategy part plays a significant role in the business model; a firm cannot simply pick up a new business model and use it as their own right away. According to Teece (2010, p. 180), the strategy analysis is an essential step when designing a competitively sustainable business model which is similar to the first activity fit (Zott and Amit, 2013, p. 408). The firm has to have an ongoing strategy where they work with long-term goals which include a business design that corresponds with its strategy (Teece, 2010, p. 180; Zott & Amit, 2010, p. 223). Because if the business model cannot survive what the strategy analysis imposes, then the business model will most likely be imitated and will not be sustainable. The firm’s strategy and long-term vision on how to work with the business model is the key to create value and to keep it from being copied by the competition.

So far, we have mostly discussed the business model as a holistic view of a firm’s activities. The next section of this thesis will instead look at the business model representing a new form of innovation. Thus, complementing more established subjects such as process, product and organizational innovation (Zott et al., 2011, p. 1034).

### 2.3 Business Model Innovation

#### 2.3.1 History and Development

Well established firms have been forced to realize that their conventional ways of doing business are failing and they need to find new ways to achieve competitive advantage. Besides developing new business ideas, firms need to find ways to re-deploy and use existing resources and capabilities to create new value offerings and value creation (Schneider & Spieth, 2013, p. 4). As time goes by a business model will naturally change to some extent, which leads to the concept of business model innovation. Even though business model and business model innovation are in no doubt related, the former is the innovation of the traditional business model. It is a new form of innovation that complements the more acknowledged subjects such as process, product and organizational innovation (Zott et al., 2011, p. 1035). Business model innovation introduces additional dimensions regarding
innovation and raises new theoretical and empirical questions such as what the drivers are as well as facilitators and barriers of business model innovation within a firm (Foss & Saebi, 2017, p. 201). These are some of the issues where we aim to contribute to our study.

The importance of business model innovation has gained traction both within research (e.g., Teece, 2010; Zott & Amit 2010, 2011; Chesbrough, 2010; Sosna et al., 2010) and among business leaders in the world (Pohle & Chapman, 2006). Pohle and Chapman (2006, p. 36) state that if a company works with the constant improvement of their current business model, they create agility and reactivity within the firm. Enabling the firm to act on trends that occur on the market in a much faster way, and to a lower cost than if they would have focused on product or service innovations. It has been found that innovative business models positively influence the performance of entrepreneurial firms and similarly established firms experience a positive return from innovating their business models (Zott & Amit, 2007, p. 181; Cucculelli & Bettinelli, 2015).

Nevertheless, there are challenges when it comes to developing, or refining, a firm’s business model both from external and internal issues. First of all, one needs to know the market well and base their decisions on correct information (Teece 2010, p. 175). Secondly, a business model is never perfect from the start; it has to continually be tested and refined. Thus, a firm needs to be patient. This part of the process should preferably be done in a controlled area of the firm initially before it gets implemented throughout the whole firm (Sosna et al., 2010, p. 389). Thirdly, the transition of the new business model has to happen relatively smooth so that it does not disturb the customers, nor the employees during the process (Teece, 2010, p. 184).

Since the market is continually developing, and new competition is constantly entering the market, one has to be able to change and adapt rapidly to survive (Sosna et al. 2010, p. 384). The authors further explain which problems that can occur in an established firm when trying to change their current business model. The built-in inertia that usually exists within established firms limits and hinders the implementations of the new business model. The risk that the new business model might be indirectly competing with the traditional and established one can lead to cannibalism of the firm's customers, which might create discord within the company and the different departments (Sosna et al., 2010, p. 384; Chesbrough, 2010).

2.3.2 Business Model Innovation Definitions

In a review of the current business model innovation literature, Foss & Saebi (2017) found that there exists a broad ambiguity of what business model innovation represents. They found that one research stream sees business model innovation as a process, while the other stream views business model innovation as an outcome. Even though both streams have their place in the literature, they have very different implications and require different approaches. In this thesis, however, we decide to look at business model innovation as a process instead of an outcome. Studies on business model innovation as a process (e.g., Demil & Lecocq, 2010; Doz & Kosonen, 2010) often take a dynamic approach and look into different organizational characteristics that either facilitate or hinder the business model innovation process.

Within those streams, there are two different viewpoints on the definition of business model innovation (table 2). One of them is stricter and concludes that innovation of a business model only takes place if it is new to the world or the industry in such a way that it disrupts the current state on the market (Markides, 2006, p. 20). The other way has a fuzzier approach and
claims that business model innovation is a process that can either lead to an entirely new business model or just a refined version of a firm's current business model (Zott & Amit, 2010). Either way, it is clear that business model innovation is about changing the way a firm is creating and capturing value for their customers and the firm. No matter if it is in a completely revolutionary way or an incremental adaptation of a firm's current business model following the current trends in the industry (Sosna, Trevinyo-Rodrigues & Velamuri, 2010, p. 284). Consciously renewing a firm's core business logic rather than limiting its scope of innovation on single products or services (Schneider & Spieth, 2013, p. 4). Since our research does not specify which type of business model innovation firms use, we aim to, just as Schneider and Spieth (2013, p. 15) express it, see business model innovation as a comprehensive concept that does not necessarily have to differ between incremental and disruptive changes.

Table 2: Business Model Innovation Definitions

<table>
<thead>
<tr>
<th>Author(s), Year</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casadesus-Masanell &amp; Zhu, 2013, p. 464</td>
<td>“At root, business model innovation refers to the search for new logics of the firm and new ways to create and capture value for its stakeholders; it focuses primarily on finding new ways to generate revenues and define value propositions for customers, suppliers, and partners.”</td>
</tr>
<tr>
<td>Markides, 2006, p. 20</td>
<td>“Business model innovation is the discovery of a fundamentally different business model in an existing business.”</td>
</tr>
<tr>
<td>Amit &amp; Zott, 2012</td>
<td>Innovate business model by redefining (a) content (adding new activities), (b) structure (linking activities differently), and (c) governance (changing parties that do the activities).</td>
</tr>
</tbody>
</table>

2.3.3 Levels of Business Model Innovation

On an external, macro level, one of the leading factors affecting business model innovation, concerns legislation. It can be competition law, e.g. alcohol restrictions, or labor law and taxations as in the case of Uber and Airbnb for Europe (Foss & Saebi, 2017, p. 219). There is also an aspect of privacy and security that comes into play, especially when it comes to gathering and handling information online. All of these factors play a significant role in a firm’s decision to enter a market, leave a market, or to change their business model to adapt to the new restrictions. Furthermore, Schlategger, Lüdeke-Freund, and Hansen (2012, p. 103) explain how these legislations most often get solved by a defensive approach, firms adapt their business models as a reaction towards the legislation instead of being proactive in their search for opportunities.

Other aspects that impact firms on a macro level is the development of new technology, environmental and social issues and the overall globalization of the market. These are all factors that a business model has to tackle and react upon to keep a firm successful (Osterwalder, 2004, p. 16). Calia, Guerrini, and Moura (2007, p. 431) give an example of how
a business opportunity and new technology, to a certain extent, changed a firm’s whole business model. The Authors goes on by stating the importance to adapt and reacting to changes in a firm’s surroundings to seize new opportunities in order to survive and thrive in any market.

Environmental and social aspects can force a change of a business model through external pressure, which in extension have an impact on the demand from customers (Osterwalder, 2004, p. 19). If a firm goes for low-cost production in a developing country where they can avoid environmental regulations or even labor restrictions, there is a high risk that it might blow back on the firm in the form of negative pressure from customers and the public. In such a situation a firm might have to change their business model in order to meet the customer's demands (Osterwalder, 2004, p. 19).

Agility and responsiveness are therefore required among incumbent firms due to the speed of change that has followed with the rapid technological development and the extensive globalization where consumers and other stakeholders continuously do business with firms all over the world (Osterwalder 2004, pp. 18-19). However, research suggests that an agile strategy and business model should be restricted to the firm. It is imperative to keep the core business in the firm while simultaneously changing the strategy and business model (Battistella, De Toni, De Zan and Pessot, 2017, p. 74; Sosna et al., 2010, p. 389).

If we take a step further down into the organization, we get to the micro level where more internal aspects such as organizational values, culture, and design come into play together with human capital and psychology (Foss & Saebi, 2017, p. 219). Until recent studies, business models and organizational design have been seen as two separate subjects within a firm, but according to Foss and Saebi (2017, p. 211), these two aspects are to be seen as interlinked. The main argumentation is that a change in the business model will most often have an impact on the organizational structure. It will also affect the coordination between different departments and the motivation among the employees. However, this is a subject that, in no small extent, have been neglected in research so far (Foss & Saebi, 2017, p. 219).

When working with business model innovation, there will always be some employees that will benefit more than others when a change happens and vice versa. According to Foss and Saebi (2017, p. 219), the employees that get affected negatively will be disproportionately more negative than what those who get affected positively will be positive. This phenomenon is called loss aversion and has to be overcome by managers and by changing leadership in order to go through with the transition from an old to a new business model. Thus, this time will be crucial for employees, as mentioned, but also for the manager in charge of the process since it is their job to make everything happen as smoothly as possible (Chesbrough, 2010, p. 361). Chesbrough (2010, p. 361) further explains that managers, in general, only work on his or her position for about 2-3 years. Complicating the situation even more since it can take much longer to go through all the steps necessary in the process of business model innovation, from exploring to implementing a new idea. Therefore, this is an aspect where we are hoping to bring in additional knowledge about the processes of communication and decision-making in the incumbent firm.

2.3.4 Approaches to Business Model Innovation

Business model innovation can still be seen to be in a nascent stage of development and displays many of the characteristics of an emerging research stream, most notably a lack of construct clarity (Foss & Saebi, 2017, p. 203). The existing concepts surrounding business
model innovation does not yet adequately support firms in innovating their business models (Frankenberger et al., 2013). However, there are some approaches to business model innovation that describe some fundamental processes and elements to innovating the business model. These approaches include looking at opportunities and barriers (Chesbrough, 2010), strategic interactions between incumbents and innovative new entrants (Casadesus-Masanell & Zhu, 2013), elements and dimensions (Wirtz & Daiser, 2017) different levels of business model complexity (Chesbrough, 2007).

Wirtz and Daiser (2017) recently contributed to a more integrated business model innovation conceptualization (fig. 5), by building an integrative framework that presents unifying insights of the available business model innovation frameworks. Their framework explains six key factors, elements, and dimensions of business model innovation and how they interact and relate to each other. These include environmental and central dimensions, as well as business model innovation -factors, -areas and -intensity.

*Environmental Business Model Innovation Dimensions:* This dimension becomes an important element to the framework since business model innovation involves both macro- and micro- drivers. The macro-level perspective takes into account Globalization, Technology, Environment and Regulatory/Economic issues. The business environment becomes increasingly dynamic, thus causing a continually changing stakeholder preferences (Teece, 2010). Therefore, firms are forced to innovate their business models continually. The micro-level elements relate to changing customer needs, competition, firm’s dynamics, and product/service innovation. In turn, this has led to considerable attention to technology-driven business model innovation (Chesbrough, 2010, p. 359).

*Central Business Model Innovation Dimensions:* The who, what and how is a central theme in the framework. The *Who* in this context relates to the target group and or customer (Teece, 2010; Chesbrough, 2010). The *What* refers to the firm’s value proposition. Lastly, the *How* relates to the value constellation. These three elements are what Johnson et al., (2008) summarizes the customer value proposition and what Zott and Amit (2012) refer to a firm’s customers, activities and value creation. The who, what, and how therefore represents a vital element of the central business model innovation dimension.

Wirtz and Daiser (2017) further add that an essential aspect of the business model innovation framework is that business models are not static, and that business model innovation can occur in different ways. Adding new activities in novel ways, or by changing one or more parties that perform the activities (Amit & Zott, 2012, p. 45). Also, business model innovation can have an impact on the business model innovation process itself, meaning the firms change the way the business model innovation has been previously conducted. By adapting the process to a new organizational, strategic, and or environmental setting (Teece, 2010). When dealing with business model innovation, the components and the process should be considered separately. Thus, forming the second element of the central business model dimensions, namely business model innovation areas (Wirtz & Daiser, 2017, p. 21). The business model innovation components mainly concern which parts that should be included in the business model to answer the *Who, What and How* questions i.e. how the service or product should be packaged and delivered. When it comes to the processes, the focus lies in the improvements of efficiency and effectiveness of the processes of innovating the business model. Moreover, it concerns change or adaption of the process to align it with new structures, strategies or environmental aspects (Wirtz & Daiser, 2017, p. 21).
Dynamics between environmental and central business model innovation dimensions: These two dimensions are inseparably intertwined and interact dynamically. Further shown by Chesbrough (2010, p. 354) saying that it is good business sense for firms to develop capabilities to innovate their business models. However, this requires that firms have relevant knowledge about the external and internal elements (Zott et al., 2011). Thus, firms need the skills to sense and identify business model innovation opportunities (Schneider & Spieth, 2013, p. 15), as well as change drivers (Frankenberger et al., 2013). Therefore, additional elements such as knowledge/information processing and sense-making also serve as an interface between the central business model innovation dimensions and environmental dimensions.

Business model innovation intensity: There are different intensities when it comes to business model innovation, it spans from highly disruptive to incremental. However, most business model innovations tend to be moderate or incremental. Others believe that business model innovation should be radical or disruptive (Markides, 2006). These insights are essential as different intensities of change relate to various risks and efforts. Moreover, this becomes an important element in the framework (Wirtz & Daiser, 2017, p. 23).

Business model innovation outcome and impact: Wirtz and Daiser (2017) identifies three key elements that are of importance to business model innovation. Sustainability, competitive advantage, and value creation/capture. Firms should take into account the factors that can protect and expands the sustainability of their business model. Thus, in line with Teece (2010) who talks about strategic analysis to protect the business model. Competitive advantage can be achieved in different ways such as producing copycats that limit the innovator’s ability to take advantage of its idea (Casadesus-Masanell & Zhu, 2013, p. 480), or business model innovation can create business models that are a competitive advantage themselves (Chesbrough, 2010). Value creation refers to the ways firms can capture some of the value they have created for their customers.

Wirtz and Daiser (2017) thus contribute by building an integrative business model innovation framework and also adding new areas that have not been considered previously, e.g., business model innovation areas and business model innovation intensity. The integrative framework provides a checklist of essential business model innovation elements that should be considered for a successful business model innovation.
One of the critical challenges with business model innovation is not the innovation itself, instead it is the conflict between the already existing business model and the new business model (Chesbrough, 2010, p. 358; Amit & Zott, 2012). The challenge is that the current business model will strongly influence the information that circles in and out of the firm’s decision process, creating a dominant logic on how the firm creates and captures value. On one side, this helps the firm operate in a chaotic environment, but on the other hand, it can lead to firms missing opportunities and finding of new value from their technologies that do not fit with the current business model (Chesbrough, 2010, p. 359).

The way for firms to overcome these barriers is to commit to experimentation with new business models. One such method is the mapping of different business models and clarifying the process that underlies each business model. Later the firm can experiment with the alternative combinations of the process. The business model canvas mentioned in the previous section is an example of this (Chesbrough, 2010, p. 359; Osterwalder & Pigneur, 2010). However, this is not enough to innovate a firm’s business model. Next, the firm needs processes and clear authority and decision-making in managers to turn the first step into actionable results. Here there are some different sets of processes. One set of processes relates to experimentation, e.g., discovery-driven planning. Here the firm should strive for a process that provides high fidelity as fast and cheap as possible. The aim is to gain cumulative learning from a series of failures before finding a viable new business model. Another process which is vital for firms changing their business models is that of leading change within the firm. Doz and Kosenen (2009) study this issue and argue that firms need strategic agility to be able to transform their business model. They mean that leaders need to have leadership meta-skills in their perceptions of the environment. Chesbrough (2010, p. 362) further states that firms need to address these leadership issues and ensure effective governance of business model innovation.
Further, Chesbrough developed a framework that intend help firms assess where their business models stand compared to its potential. Thus, allowing firms to define appropriate steps to further develop their business model (Chesbrough, 2007, p. 13). The framework consists of six types of business models which can be seen as going from fairly simple to more developed models:

*Type 1: Firm has an undifferentiated business model:* Firms that find themselves under this category are firms that do not have a well-articulated or distinct business model, and they also lack a process for managing their business model. Firms that operate under this category do so by competing on price and availability, and thus serves customers who only buy under that criteria. These firms do not do much different from the many other similar firms in their industry, restaurants and barber shops are examples of this type (Chesbrough, 2007, p. 13).

*Type 2: Firm has some differentiation in its business model:* There is some degree of differentiation in the firm's product or service, which in effect can lead to a different business model than type 1 firms. Firms operating at this level can often target a different and less congested segment. However, these firms often lack resources to invest in innovation to sustain this position and instead becomes “one hit wonders,” e.g., technology startups (Chesbrough, 2007, p. 14).

*Type 3: Firm develops a segmented business model:* Firms in the type three category can be seen as established firms that can compete in multiple segmented markets. The firm has a distinct and profitable business model and has a higher level of planning for future products and services. Problems, however, occur as the firm becomes vulnerable to new significant technology and market shifts that are beyond the firm's current activities (Chesbrough, 2007, p. 14).

*Type 4: Firm has an externally aware business model:* Firms operating under this type of business model have opened up to external ideas and technologies that can develop the firm. In effect, the firm has a more significant set of resources available. Firms have a more significant relationship with outsiders, benefiting in identifying external ideas and technologies. Make it routine to share real-time information with suppliers and customers (Chesbrough, 2007, p. 14).

*Type 5: Firm integrates its innovation process with its business model:* Here the business model becomes a key integrative part of the firm. Suppliers and customers have formalized institutional access to the firm’s innovation process and are also reciprocated by the customers and suppliers. At this stage, the firm is more open to experimenting with the business model, as well as they actively try to understand the supply chain all the way back to the raw material. These types of firms are searching for a significant market, technological shifts, and cost reduction opportunities. Firms seek to understand more profound unmet needs and opportunities in the market, e.g., firms moving from offering products to offering services (Chesbrough, 2007, p. 14).

*Type 6: Firms business model is an adaptive platform:* The last type of firm has a business model that is even more open and adaptive than type 4 and 5. The type 6 firm commits to experimenting with multiple business model variants and can take place in different forms such as firms utilizing corporate venture capital to explore business models in startup companies. Alternatively, firms can use spin-offs and joint ventures to commercialize technologies that are outside their current business model. Another alternative is that firms
create internal incubators to cultivate promising ideas that might not yet be ready for mass market commercialization. The firm’s key supplier and customers become business partners, thus entering a relationship where technical and business risks may be shared, e.g., Walmart and Intel are examples of this (Chesbrough, 2007, p. 15).

Casadesus-Masanell and Zhu (2013) look at business model innovation by comparing new entrant firms with incumbent firms. They found that it is only the entrant firms that can innovate the business model while incumbent firms do not actively elaborate upon new potential business models. If there is merely the incumbent firm on the market, then they will keep doing what they do indefinitely. However, if there is a new entrant on the market, the incumbent firm have the opportunity to imitate and change their business model alternatively keep their original in order to compete with the new entrant. Casadesus-Masanell and Zhu (2013, p. 742) show how an incumbent firm only has four alternatives to choose between when a new entrant firm arrives. (1) Continue with their traditional business model, (2) create a new brand with the old business model, (3) imitate the new entrants business model or (4) adjust their traditional business model to the new entrants. However, the incumbent firm’s decision will depend on what that the entrant firm does, because if entrant firm chooses to use the traditional business model, then the incumbent firm can only do the same or create a new brand but keep the old business model since they are unaware of any other alternative. In that case, they can only compete with price and quality, this is seen as the safest alternative for both firms, and they will most likely be able to coexist on the market (Casadesus-Masanell & Zhu, 2013, p. 473).

2.3.5 Business Model Innovation Process

The process of business model innovation is something that researchers have highlighted as an essential aspect, but that still needs more attention. It has been shown that innovation is known to challenge organizational processes (Damanpour, 1996, p. 695). Different tools are used to illustrate business models, e.g., Business model canvas, but they do not themselves promote experimentation and innovation based on those tools. There needs to exist a process and leadership to initiate the experiments and to take action (Chesbrough, 2010, p. 360). Schneider and Spieth (2013, p. 1) say, “There is a need for further research on the process and elements of business model innovation as well its enablers and effects in anticipation and response to increasing environmental volatility.”

Foss and Saebi (2017) have highlighted the different studies looking at the business model innovation as a process. These studies have been divided into four areas, and they have focused on; highlighting various stages of the business model innovation process (e.g., de Reuver et al., 2013; Frankenberger et al., 2013). Identifying the different organizational capabilities and processes required to support this change process (e.g., Achtenhagen et al., 2013; Demil & Lecocq, 2010). Importance of experimentation and learning (e.g., Sosna et al., 2010). Practitioner-oriented tools for managing the process (e.g., Deshler & Smith, 2011; Evans & Johnson, 2013). What these research streams have in common is that they often take a dynamic approach to business model innovation and view it as an organizational change process that requires appropriate capabilities, leadership, and learning mechanisms. They look at organizational characteristics that either facilitate or hinder the process. (Foss & Saebi, 2017, p. 208). Dynamic capabilities are the firm's potential to react to changes in their environment, to be agile. However, it is seldom stated how a company has to go about this issue to become dynamic in their business and reach sustained value creation. There are more questions than answers in this matter (Achtenhagen, Melin & Naldi, 2013, p. 431). Firms that
pursue new open innovation business models, also need to change the way of communication, rewarding employees for sharing and acquiring knowledge, and high level of delegation of decision rights (Foss et al., 2011, p. 980).

Frankenberger et al. (2013, p. 266) developed a framework that explains the process when innovating a firm's business model, called the 4I-framework (fig 6). They argued that the previous literature on business model innovation has been mostly characterized as taking a static approach to the concept. Their perspective instead views business model innovation as a process, where they try to understand the structure and challenges associated with business model innovation. By using the more traditional theory of the innovation process from other fields, they identified four stages of the process; initiation, ideation, integration, and implementation. The authors view the business model as consisting of four central dimensions. The Who (e.g. customers), the What (e.g. value proposition), the How (e.g. processes and activities), and the Why (e.g. cost structure), which is in line with other researchers (e.g. Teece, 2010; Chesbrough, 2010; Johnson et al., 2008; Osterwalder & Pigneur, 2010; Wirtz & Daiser, 2017; Zott & Amit, 2012). Thus, they also take on a holistic perspective of the business model that combine factors inside as well as outside the firm (Teece, 2010; Wirtz & Daiser, 2017).

The first stage, initiation describes a number of activities which focus on scanning and understanding external factors in the surrounding ecosystem of the innovating firm, such as competitors and customers as well as technological developments and how these may affect the firm's current business. The importance and role of the external environment are also highlighted by Zott and Amit (2009). Understanding the need of players is one of two challenges that is highlighted at this stage. Frankenberger et al., (2013) note that the needs and moves of customers, suppliers, and substitutes often marked the starting point of innovation. The other challenges that are highlighted in this stage are the identification of change drivers, e.g., technology changes and regulatory changes. Firms need to have the capability to identify these drivers in order to be able to respond with adequate innovations.

The second stage, ideation, describes the process of generating new ideas that can exploit the opportunities that have been identified in the initiation stage. Three challenges are highlighted at this stage, one being the difficulty to overcome the current business logic (Chesbrough, 2010) and the ability to think outside the box. Firms are locked into the current business model logic and industry laws, and in effect, they get challenged or questioned. The challenge here is, therefore, getting managers to think about innovation regarding the business model instead of solely focusing on product or service innovation. Also, to find useful tools and methods that can help capture and generate ideas that come from within the firm (Frankenberger et al., 2013, pp. 260-261).

The third stage, integration, approaches the questions; who does what, how do we do it, and why. This stage focuses on activities that develop a new business model based on the ideas identified in the ideation stage. The focus here lies on ensuring the alignment and consistency among these questions within the firm and finding partners that can support the firm along the way. Two challenges are associated with this stage; one challenge is integrating the pieces to the business model as a whole, this challenge is also highlighted by other researchers (e.g., Chesbrough, 2010; Zott et al., 2013). The other challenge in this stage is the integration of key partners and customers into the design of the new business model. These issues also strengthen the idea that business model is holistic and spans the firm’s boundaries (Zott and Amit, 2011; Teece, 2010).
The last stage, *implementation*, concerns the firm's ability to get all the employees to accept and believe in the new business model, referring to the challenge to overcome internal resistance (Chesbrough, 2010). To overcome this challenge the firm needs to communicate openly and be able to explain how the new business model will create value for the firm and its employees. Another essential part and challenge at this stage is the implementation approach. The firms need to be able to adjust and adapt the business model from what has been learned in the initial experimentation and trial-and-error phase (Sosna et al., 2010) to mitigate risk in the implementation process (Frankenberger et al., 2013, p. 261).

![Figure 6: Business Model Innovation Process (Frankenberger et al., 2013)](image)

It is important to understand that these four stages do not form a linear process. Instead, this framework shows an iterative process. Frankenberger et al., (2013) describe three major iterative loops that are built into the framework. The first refers to the alignment with the constantly changing business environment and generating ideas towards business model innovation. Secondly, the alignment between new ideas and the components of the business model, the internal fit that has to be achieved. Lastly, the alignment between the design stage and the realization stage has to be considered.

### 2.3.6 Theoretical perspectives of business model innovation

Two theoretical perspectives have been more dominant than any others within business model innovation; Resource-based view and dynamic capabilities view. However, the view of strategic entrepreneurship has recently been highlighted of having relevance to business model innovation as well (Schneider & Spieth, 2013, p. 15). We aim to address all of these although our primary focus will lie on strategic entrepreneurship.

**Resource-based view**

Having a resource-based view implies that when analyzing a firm one looks at what resources they have, both tangible and intangible instead of only looking at what products and services they are selling (Wernerfelt, 1984, p. 172). The idea is to see what a firm has at their disposal
and what they can do with, or without them to grasp opportunities. The resource-based view is a more internal approach where one looks what they have in-house and what the strengths and weaknesses are (Mahoney & Pandian, 1992, p. 365). It includes everything from physical assets to capabilities and knowledge of the employees that can be used to generate a strategy that improves the efficiency and effectivity (Barney, 1991, p. 101).

Wernerfelt (1984, p. 179) further describes how the key to overcoming barriers and entering new markets lies in acquiring resources. So, if one knows which resources they have and which that are needed to overcome the barriers, it becomes easier for a firm to attain the resources necessary. The resource-based view connects both internal and external factors, although the most focus is on the internal strengths and weaknesses, it is also about seeking opportunities and avoiding, or handling threats on the market (Barney, 1991, p. 99). The focus of resource-based view can be cooked down to how a firm utilize their resources and competencies in the most beneficial way (Schneider & Spieth, 2013, p. 19).

Dynamic Capabilities View

The view of dynamic capabilities builds on a firm’s ability to reuse, re-creating and developing its resources and assets, their ability to be agile (Schneider & Spieth, 2013, p. 19). Eisenhardt and Martin (2000, p. 1107) draws their definition from Teece (1997) and Henderson and Cockburn (1994) where their focus lies on a firm's processes to integrate, reconfigure and gain resources to match or create new markets. The processes are the firm’s strategy and routines that are used to meet the constant changes in the market, whether it is an aspect of developing, changing or dying.

Dynamic capabilities can be to co-create or co-evolve new products or services by working together with different departments within the firm or looking at old projects to see if there is anything they can reuse. It can also be to work outside of one’s firm to gain new knowledge and ideas, either through cooperation or just to get inspired (Eisenhardt & Martin, 2000, p. 1108). If this only happens once it is not a dynamic capability, however, if a firm develops the routines to have that mindset where they continuously and repeatedly look for unique collaborations, it is seen as a dynamic capability. Path-dependencies often explain a firm’s dynamic capabilities. They are traits that have developed over time within a firm as the knowledge that they have possessed and nurtured and has led them to the position they currently are in (Eisenhardt & Martin, 2000, p. 1108).

However, as technology has sped up the phase that markets shift and develops, Eisenhardt and Martin (2000, p. 1117) suggests that firms have a more unstructured way of gaining knowledge and changing their way of providing services and products. They have to be more exploitative in their way since the new markets are undiscovered to a greater extent than what they have been before. Hence the ability to be quick and agile has become more important and while they dynamic capabilities have been necessary before they have now become even more critical for firms to follow the phase on the market (Eisenhardt & Martin, 2000, p. 1117).
2.4 Strategic Entrepreneurship

2.4.1 History and development

As we have previously discussed, the literature on the business model innovation process has often consisted of either a resource-based perspective or a dynamic capabilities perspective. One perspective that has not yet been explored within the business model innovation context is the strategic entrepreneurship perspective. However, all three theoretical perspectives have their merits and provide a distinct approach to the business model innovation concept. Where the resource view focuses on how a firm employs existing resources and competencies, and the dynamic capabilities view, seeks to explore how the firms develop existing resources and operational capabilities (Schneider & Spieth, 2013, p. 19). It is important to understand that each perspective has its place in the business model context but that they look at the phenomenon from a different angle. Strategic entrepreneurship is a theory that was developed by Hitt and Ireland in the beginning of the 21st century, and since then has evolved into a more recognized theory of how firms can explore and exploit opportunities over time (Hitt et al., 2011, p. 57).

The strategic entrepreneurship perspective is of relevance within the business model innovation context because innovating the business model requires the firm to identify and anticipate developments within the constantly changing business environment (Schneider and Spieth, 2013, p. 21). Strategic entrepreneurship stresses the need for a firm to early detect and recognize opportunities and related challenges (Ireland & Webb, 2007). This perspective, therefore, helps to understand better the problems of initiating the innovation process of an established business model, which has been identified as consisting of several barriers and inertia (Chesbrough, 2010, p. 358). Thus, creating and capturing value as well as creating a competitive advantage is at the very core of strategic management (Hitt et al., 2011, p. 58).

What the strategic entrepreneurship perspective does differently than the resource-based and dynamic capabilities perspectives, is that it allows for simultaneous consideration of the firm’s internal situation as well as its external opportunities. The perspective consists of entrepreneurial opportunity seeking and strategic advantage seeking (Schneider & Spieth, 2013, p. 19). Thus, strategic entrepreneurship addresses the exploration and exploitation of relevant opportunities and how these opportunities face challenges regarding resistance towards new routines. Strategic entrepreneurship, therefore, addresses the entrepreneurial action of established firms and thus becomes relevant within the research of business model innovation. As firms are exposed to the uncertainty, they need to respond to the changing value creation by innovating their established ways of doing business (Schneider & Spieth, 2013, p. 19; Amit & Zott, 2010).

Strategic entrepreneurship is essentially two different research areas, strategic management, and entrepreneurship, but as Venkataraman and Sarasvathy (2001) so explicitly put it; “entrepreneurship research without integration of strategic perspective is like Romeo without a balcony.” The two streams have been developed separately up until the early 21st century, as two different subjects, but now researchers are trying to combine them. To put it simply, one could say that entrepreneurship is about creating value and ideas in a new way and strategy is about capturing that value within the firm to nurture and deliver it to the customer (Venkataraman & Sarasvathy, 2001, p. 3). The ambition of Venkataraman and Sarasvathy (2001) is to explain how these two knowledge streams overlap with each other and by having that viewpoint, they increase the understanding of strategic entrepreneurship. Moreover, the
entrepreneurship side involves the identification and exploitation of opportunities, and the strategic management side focuses on creating and sustaining the competitive advantage through the path in which opportunities are exploited. Thus, these two concepts become interrelated and help leaders and managers in firms to simultaneously address exploiting opportunities (entrepreneurship) and for what future competitive advantage can be developed (strategy). By doing this, established firms can learn to become more entrepreneurial in the practices (Hitt et al., 2011, p. 59).

2.4.2 Approaches of Strategic Entrepreneurship

Strategic entrepreneurship is entrepreneurial actions with a strategic perspective. It is when a company strives to find opportunities and new ideas to act upon and then conceptualize them in the firm’s business as a strategy (Hitt, Ireland, Camp & Sexton, 2001, p. 481). Historically, established firms have been superior in developing sustainable advantages in the form of strategy while new firms are prominent in developing new ideas and inventions, in other words, new firms have a more entrepreneurial approach (Ireland et al., 2003, p. 966). The authors present a figure early on in their article that explains the whole process, from opportunity acknowledgment to financial profits (fig. 7). To create an entrepreneurial mindset among all the employees in a firm is imperative to spot and seize opportunities when they arise. It is not something that only a few can do, instead it is something anyone within a firm can, and should, have the possibility to do according to Ireland et al. (2003, p. 698).

There are two ways to go about strategic entrepreneurship, it is either via exploration or exploitation, but it is not about choosing one over the other but instead handling them as two different parts (Ireland & Webb, 2007, p. 52). Exploration is about widening a firm’s knowledge, to diversify oneself and generate new insight into the current business. Ireland and Webb (2007, p. 52) talk about knowledge breadth which is when a firm acquires new knowledge to deepen their own understanding of external organizations. Historically the most common way to gain this knowledge is through mergers and acquisitions. However, since these tend to be less successful and somewhat complicated, firms have started working more with strategic alliances and joint ventures. Exploration is more common when times are changing, and the market is still figuring out which the dominant product or service will be (Ireland & Webb, 2007, p. 54; Ketchen et al., 2007, p. 373).

Exploitation, on the other hand, is a strategy to use when there is some stability on the market between fluctuations. Firms are incrementally seeking new knowledge about their competitors in order to refine their own business. The exploitation phase is more about improving internal processes to become more efficient and competitive (Ireland & Webb, 2007, p. 56). A commonly used trait is to indulge a firm’s employees to participate in different projects across departments to change knowledge and ideas.

Entrepreneurial opportunity is yet another aspect of this subject that lies as a foundation for strategic entrepreneurship. Entrepreneurial opportunity consists of ideas or beliefs that, when put into action, becomes a product/service that as to this point do not yet have a market (Sarasvathy, Dew, Velamuri & Venkataraman, 2003, p. 142). However, an opportunity is only an opportunity if an actor perceives it to be so. Moreover, it is when one acts upon the idea in the real world that it becomes a real advantage for a firm, i.e., a firm's strategy to conceptualize the opportunity (Sarasvathy et al. 2003, p. 143).
Entrepreneurial mindset includes something the authors call opportunity register; this is a place where employees can share ideas of potential opportunities. An idea that occurs in one department of a firm might be more beneficial and more natural to realize in a different department with other resources and capabilities. That is one of the founding ideas of getting the mindset throughout the whole firm which leads to the entrepreneurial culture in a firm (Ireland et al., 2003, p. 970). To create and sustain the entrepreneurial mindset and culture in a firm it has to be an inspiring, yet forgiving, environment. Thus, it can only be achieved via leaders and managers that promotes such environment together with an opportunity seeking strategy (Ireland et al., 2003, p. 971).

When these parts come together, managerial mindset and the entrepreneurial culture and leadership, the firm has to put their focus on how to manage their resources in a way so that they reap the benefits from it. There are three primary resources in a firm; financial-, human- and social capital (Ireland et al., 2003, p. 973). While financial capital varies from firm to firm it is still something that most firms can acquire in different ways in the form of investors, family members, and mergers etc. Human- and social capital, on the other hand, is something that is far more complicated to get your hands on. Human capital in the form of knowledge, skills, and know-how is hard to acquire, but it is more likely to generate a sustainable competitive advantage for a firm, yet it takes time to get and can be hard to manage. The firm’s capability to absorb the human knowledge will reflect its possibility to grasp opportunities that arise on the market. Even the ability to undertake and use the external knowledge that comes up from other firms is a perk of human capital. All of these traits of human capital are extremely hard to imitate which makes them more sustainable (Ireland et al., 2003, p. 974).

Social capital is often used to enhance the human capital and strengthen the bonds within a firm and its departments. In a way, social capital is what enables human capital in the way that it simplifies the sharing and learning of knowledge within the firm (Ireland et al., 2003, p. 976). Social capital also concerns the relationship with external organizations such as gatekeepers and enablers which are essential for a firm when distributing and commercializing innovations (Ireland et al., 2003, p. 976).

When the firm comes to an understanding of what they have and how they can use it to conceptualize an idea, they have to create and apply this innovation to the organization. Ireland et al. (2003, p. 980) describe that this is when Schumpeter’s theories from the 1940’s about creative destruction comes into play. To create something new one has to destroy their current state, and this is an ongoing process that never is completely finished. The easiest way to create something new is via bisociation, which is when the firms is combining two things,
earlier unknown to each other, to create an innovation. The more people in the firm that is aware of other departments work and can give input on new ideas, the bigger the chance becomes for a firm to come up with something new and revolutionary. Hence the human and social capital becomes imperative for a firm and its ability to manage these aspects (Ireland et al., 2003, p. 981).

When considering all of these aspects, a firm can create a unique advantage towards their competitors which will most likely lead to sustainable wealth creation for the firm (Ireland et al., 2003, p. 983).

However, it is commonly known that incumbent firms have an ability to generate new radical innovations but lacks the ability to seize the opportunities, e.g., Xerox and IBM with the Ethernet, laser printers, the personal computer etc. (Agarwal, Audretsch & Sarkar, 2010, p. 273). This sort of knowledge spillover has historically only been seen as a loss of knowledge for the incumbent firms and a seed for startup firms. All of 71 percent of new ventures have come in contact with the initial idea via their previous employer. The reason for this, that incumbent firms cannot incorporate the innovations in their business is, according to Agarwal et al. (2010, p. 275) the imperfection of incumbent firms and their incapability to capture the knowledge within. Thus, causing new firms to develop the idea outside the incumbent firm. Supporting the view of Casadesus-Masanell and Zhu (2013, p. 742) who states that incumbent firms are incapable of generating any radical business model innovation on their own and that they only mimic or adapt the innovations of startups.

Agarwal et al. (2010, p. 279) go on by stating that the strategic entrepreneurship is about creating a strategy and guidelines of how to generate knowledge. Moreover, even if there is a lot of spillover from good ideas, there is also something they choose to call knowledge spill-in were a firm gain knowledge from others in the same way as they are losing knowledge. There is a natural win-win situation here even though, at first sight, it might seem like a lose-win situation with spillover only from the incumbent firm. However, the authors mean that while a firm creates knowledge, they also learn how to gain knowledge, i.e., they learn how to snap-up knowledge from others as well in a more efficient way than other firms can who does not have the same emphasis on research and development (Agarwal et al., 2010, p. 279).

The concept of creative destruction that Schumpeter developed in the middle of the 20th century has implicitly knowledge spillover built-in in its theory, where new knowledge destroys the old way of working hence the importance of keeping knowledge spillover to a minimum is imperative. Agarwal et al. (2010, p. 280) use a different term, creative construction, to explain their view of a win-win situation concerning knowledge spillover and strategic entrepreneurship. They imply that due to the new entrant’s incapability to scale up and absorb all the new knowledge they produce there will be a spill in from the new entrants back to the incumbent firms as well as an increase in customers. Their suggestion is, therefore, to encourage their employees to create new ventures and startups to utilize the knowledge spillover and to create a strong connection to the venture. In that way, the incumbent firm and the startup are more likely to develop a good relationship with mutual knowledge exchange. Having a strategy for how to deal with this sort of knowledge and human capital is a vital part of strategic entrepreneurship (Agarwal et al. 2010, p. 282).

Ireland and Webb (2007, p. 53) elaborate further within the same area, they suggest that firms should create corporate venture capital programs where the incumbent firms encourage their employees, as well as others, to seek capital from the incumbent firm. In that way, the
incumbent firms will have the opportunity to have direct insight into the ventures and if a real opportunity arises the incumbent firm will have a first-mover advantage. Using this type of strategy, the incumbent firms can keep doing what they do best, scale up and use their resources in marketing and organizing while the startup ventures can innovate with constant cash flow. Ketchen, Ireland and Snow (2007, p. 381) elaborated further on this aspect and suggested that firms of different sizes should have a continuous collaboration in order to help each other to create and evolve new ideas constantly.

2.5 Literature Summary

The literature on business model, business model innovation and strategic entrepreneurship that has been reviewed so far in this thesis shows the vast scope that is incorporated under the business model umbrella. It becomes even more evident that when looking at these concepts in the real world, the business model becomes a complex system with interdependencies and effects throughout the whole firm and the firm’s ecosystem. Moreover, it can be agreed that innovating the business model is a significant undertaking that becomes more complex than innovating an isolated product or process (Frankenberger et al., 2013, p 252).

Throughout this thesis we will use three main models to explain and further elaborate on the situations within the incumbent firms and their approach towards business model innovation. The 4I-framework (fig. 6) by Frankenberger et al., (2013) consists of four phases that take place when a firm innovates their business model. The first step, initiation, addresses the external environment and other players on the market as well as the customer needs. During the ideation phase the emphasis lies on generating new ideas to face the changes that have been identified in the initiation phase, and overcoming the current way of thinking about business models. The third phase addresses the integration, finding out who is going to do what, how and why we are going to do it. When that is decided, the next step is to inform and identify partners and involving them in an early stage. The last step is the implementation of the new business model. In this phase the firm has to overcome the internal resistance that might arise towards the changes, as well as managing the roll-out phases by educating employees, removing potential bugs from prototypes etc. (Frankenberger et al., 2013).

Another model that is prominent in our thesis is the integrative business model innovation framework by Wirtz and Daiser (2017). The ambition of the model is to gather all previous research within business model innovation into one model which can be used to enhance the understanding of the concept, generate implications for both researchers and managers as well as being a guide for future research. Hence, the model has an extensive approach and addresses both the micro and macro environment and how those affects the business model. Further on it elaborates on how the different parts on an business model innovation process impacts each other and whether the intensity of the innovation generate a sustainable or competitive advantage in its nature.

Lastly, and the main theory is the strategic entrepreneurship framework by Ireland et al., (2003). The main idea with strategic entrepreneurship is that firms can implement strategies for both opportunity seeking and advantage seeking behavior within the firm which will lead to a better firm performance than the competition. Generally speaking, startup firms are better at opportunity-seeking behavior while incumbent firms are better at advantage-seeking but the theory suggests that all types of firms can do both simultaneously. The researchers stipulates that it starts with creating an entrepreneurial mindset within the firm and its employees, and then manifest it via the culture and the leadership throughout the firm. The next step is to
manage the firms resources strategically, i.e. reap the benefits of the firm’s financial-, human- and social capital, to create wealth for the firm and its customers. Strategic entrepreneurship’s main purpose is to help firms to create and sustain a competitive advantage while at the same time identifying and exploiting new opportunities (Hitt et al., 2011, p. 57).

The previous literature does, however, support our main purpose with this thesis. There is a need to better understand how incumbent firms can improve their strategies in order to more efficiently be able to innovate their existing business model. We thus build on the current literature on the business model and business model innovation and seek to provide additional insights to mainly the initiation and ideation stage of business model innovation. We do this by exploring these stages with a strategic entrepreneurship perspective, something that has yet not been done in previous literature but that has been highlighted as important. Through the strategic entrepreneurship perspective, we seek to understand how incumbent firms identify and exploit opportunities within their external and internal environment (initiation), also we find to understand who facilitates and initiates this process of business model innovation (ideation).
3. Methodology

This chapter focuses on the methodology aspect of this thesis. Including our research philosophy, research approach, design, choice of literature and search of the relevant literature. We then go on to describe the data collection (interview design and selection of participants), data analysis and ethical and quality considerations. The purpose of this chapter is to show the reader how we arrived at the findings and discussion of the thesis.

3.1 Research Philosophy

In this section, we will discuss our philosophical assumptions that shape the way we view the social world within business. It is essential for the readers to understand our assumptions and how these assumptions have shaped our research approach, design and, overall strategy. The research philosophy takes into account the source, nature, and development of knowledge (Collins & Hussey, 2014, p. 43) It is merely the belief one has about how data about a phenomenon should be collected, analyzed and used. The main issue with this section is not whether our research is philosophically informed, but rather that we can reflect on our philosophical assumptions and choices and be able to defend them in relation to other alternatives. Below we will discuss more in-depth the two scientific philosophies that guide our scientific reasoning. Ontology seeks to understand ‘what is out there,’ while epistemology seeks to understand ‘what is considered acceptable knowledge’ (Saunders et al., 2015, p. 110).

3.2 Ontology

The ontological viewpoint is concerned with ‘the science or study of being’ as it deals with the nature of reality (Bryman & Bell, 2015, p. 19). Saunders et al., (2015, p. 110) gives the following definition regarding ontology, “assumptions researchers have about the way the world operates and the commitment held to a particular view.” The central question here is whether social entities can or should be considered objective entities that have a reality external to social actors (Objectivism). Alternatively, the opposite which is if they can or should be regarded as social constructions built up from the perceptions and actions of social actors (Constructivism) (Bryman & Bell, 2015, p. 32).

The objective view concerning ontology sees that social phenomena and the meaning attached to it are independent of social actors. Further, this means that the social phenomena’s such as organizations have an existence that is independent of us individuals (Bryman & Bell, 2015, p. 32). The objectivist viewpoint sees us social actors following the rules and procedures that the social phenomena, in this case, the organization represents. The social actors learn and apply what the organization represents, if they stray from this belief then they might get reprimanded or let go. This viewpoint of reality also fits in with culture; the culture also represents a social phenomenon that is external from the social actors, e.g., social norms, beliefs and values in an organization (Bryman & Bell, 2015, p. 32). A researcher that has an objective approach when looking at a particular aspect of management for example. Would emphasize the structural elements of management, and therefore assume that management is similar in all organizations (Saunders et al., 2015, p. 110).

The alternative viewpoint is the constructivist view which challenges the objective view by stating that organizations and culture are not pre-determined. The constructivist instead views social actors as continually shaping the social phenomena such as organizations and culture.
Further, they view organizations and culture as an outcome of social actors and that they are in a constant state of revision (Bryman & Bell, 2015, p. 33). In the context of the organization, this constructivist view sees the organization as not having any pre-existing order, but instead see the organization as the rule and norms that are continually being worked and reshaped. The social order is in constant change because an organization’s agreements are regularly being renewed, revised and established. This view also follows the interpretivist perspective that emphasizes the need to explore the subjective meanings that motivate specific actions of social actors. This way the researcher can understand the actions (Saunders et al., 2015, p. 111).

It is, however, necessary to understand that there still exist formal properties such as rules, roles and organizational charts that constrain individual action, but this is not their primary reality. This view should not be taken to the extreme, for example, culture can have a reality that shapes the participation of certain individuals and their perspectives. However, it acts as a point of reference and is always in the process of being formed (Bryman & Bell, 2015, p. 33).

This study takes the ontological stance of the constructivist view of reality. The reason we choose this stance is that our study’s purpose and aim is to understand the opportunities, processes, and drivers of innovating the business model that exists within the firm’s boundaries. The way we gather this knowledge is by conducting interviews with managers and getting their perceptions about how these processes take shape. Taking on a constructivist view because we believe that the reality we seek is dependent on the social actors, or in this case the managers of the different firms that we have identified. We thus believe that the reality lies in the social actor’s own perceptions and experiences of the social phenomena which in this case would be the business model innovation process.

3.3 Epistemology

Epistemology concerns the question of what is or should be regarded acceptable knowledge in a field of study. Here the central debate is whether the social world can or should be studied according to the same principles and procedures as the natural sciences. On one side of the coin, there is the positivist; this position affirms the importance of imitating the natural sciences. On the other side of the coin, there is the interpretivist who believes that the subject matter of social sciences is fundamentally different from that of the natural sciences, and therefore requires a different logic (Bryman & Bell, 2015, p. 26). Saunders et al., (2015) provides us with an excellent example of these two perspectives, these are the ‘resource’ researcher and the ‘feelings’ researcher. The resource researcher (positivist) is interested in the collection and analysis of facts or real objects, e.g., computers, trucks, and machines, this constitutes sufficient knowledge. The feelings researcher (Interpretivist) however, places more emphasis on the feelings and attitudes of the social actors and would argue that they provide more insight surrounding a social phenomenon.

The positivist view cannot merely be described as a one-way approach to research. Instead, this view can take many forms, but at its core, it is the application of methods of the natural sciences to study the social reality. Positivism can contain both a deductive approach and inductive approach. However, the purpose of research is to test theories as well as to contribute, test and confirm laws. Knowledge is derived from positive information, because it can be scientifically verified (Collins & Hussey, 2014, p. 44). The challenges with positivism are that it is challenging to apply natural scientific principles to the study of social reality (Bryman & Bell, 2015, p. 27).
Another philosophical position that is closely related to the positivist view due to its scientific approach is realism. The main idea behind realism is what our senses show us to be reality, in fact, the truth, meaning that objects have an existence independent of the human mind (Saunders et al., 2015, p. 114). There are two different realist approaches; the first is the direct realist who believes that what we see is what we get. Moreover, there is the critical realist who thinks that what we experience are sensations, and not the things or objects directly. The main difference between these two approaches is that the critical realist experiences the world as there are things and those things convey sensations, but there is also the mental process that goes on after those sensations meet our senses. Here the direct realist would argue that the first part is the only relevant part (Saunders et al., 2015, p. 115).

The opposite view of the positivist is the interpretivist, who argues that the social sciences such as people and their institutions are fundamentally different from that of the natural sciences. Social reality is not objective but instead highly subjective because it is shaped by our perceptions (Collins & Hussey, 2014, p. 45). The interpretivist is instead interested in the understanding of human actions and not the forces that act on it (Bryman & Bell, 2015, p. 28). While a positivist would prefer a quantitative method approach to measure a social phenomenon, the interpretivist focuses more on understanding the complexities of the social phenomenon and would use a qualitative method that seeks to describe the phenomena (Collins & Hussey, 2014, p. 45). It is important to understand that even though these epistemological issues and differences do exist, one should not overstate them. These different stances represent tendencies not definitive points of correspondence (Bryman & Bell, 2015, p. 31).

As for our epistemological standpoint, we tend to lean more towards the interpretative research standpoint. As in our ontological view of the constructivist, we take on a more subjective perspective. Even though the positivist perspective has its merits, we cannot entirely agree with the natural sciences behavior of the positivist researcher. However, just as Bryman and Bell (2015) state that one should not take an extreme approach to one single position. We agree with this and therefore acknowledge that there are instances where objective social phenomena should shape and impact the social actors acting within it. Consequently, we do not believe that an entirely subjective or entirely objective stance will provide the sufficient answers. We further argue this point by saying that organizational behaviors cannot be reduced to simple tests that tell if something is true or false. This because there exist different realities, not just one. Also, these realities are understood and interpreted by the people who act upon them.

3.4 Research Approach

Our ambition with this study is to fill the theoretical gaps that we found concerning how firms explore and exploit opportunities to innovate their business model and how the decision-making process takes form during the business model innovation processes. There are different research approaches to consider; the two primary methods are deductive and inductive. The deductive approach comes from natural science and is about creating a theory and then testing whether it holds or not (Saunders et al., 2009, p. 124; Bryman & Bell, 2015, p. 26). Within a deductive approach, researchers are mainly working with hypotheses, either confirming them or falsifying them, throughout their research. A typical usage of a deductive method is to seek relationships between different variables, e.g., age and level of education or work hours and exhaustion (Saunders et al., 2009, p. 124).
Within a deductive approach, two other characteristics are notable, operationalized and quantifiable as well as a generalization. Where the first aspect places its focus on measurability and the strictness of numbers as well as quantity, the hypotheses should be confirmed or neglected with hard facts. The second aspect, generalization, concerns the magnitude of the study. To generalize a result the research needs to include a significant enough number of cases and variables, which differs depending on what the subject of the study is. Most deductive studies include a quantitative approach for those specific reasons (Saunders et al., 2009, p. 125).

When a researcher takes an inductive approach, they are instead focusing on sense-making of the data and understanding why a particular issue is occurring. Moreover, developing theory around the understanding (Saunders et al., 2009, p. 126; Mantere & Ketokivi, 2013, p. 71; Bryman & Bell, 2015, p. 26). The inductive approach spurs from social science and is mainly used to gain an understanding of an individual’s experiences, and therefore these studies mostly use interviews to gather data. The data is then later used to create theories of why a phenomenon is a way it is. The inductive research aims to understand a problem in a specific context. Hence the sample group would be rather small in comparison to a deductive study (Saunders et al., 2009, p. 126). There is also a third alternative, the abductive approach, which can be seen as a mix of induction and deduction to some extent. The researcher starts with creating a theory base and then goes back and forth between collecting data and theory. Moreover, analyzing it to find explanations as well as answers to their research questions and if necessary add new theories (Mantere & Ketokivi, 2013, p. 71; Bryman & Bell, 2015, p. 26; Kovács & Špens, 2005, p. 139).

The abductive approach is used to explore how and why something is the way it is, by both observing and looking at the facts via research literature and explain the phenomenon (Mantere & Ketokivi, 2013, p. 72). The abductive approach is seen as a narrative analyzing method where the researcher describes what he or she finds and then support it with the theory if there is any. There is no need to try and make one’s data concur with the theory as other alternatives have been accused of doing, there is an alternative to add new theories and explanations instead (Mantere & Ketokivi, 2013, p. 82). Bryman and Bell (2015, p. 27) explain the abductive approach as a puzzle that a researcher tries to put together. The researcher finds some pieces that go together via the theory but has to go out and find more pieces by collecting data, and then come back and try to put them together again; this is an ongoing process until the puzzle is completed. Opening up for the possibility to be surprised by the findings instead of confirming or disconfirming presumptions as inductive and deductive approaches tend to do (Bryman & Bell, 2015, p. 27).

To find the answer to the research questions we do not seek to test a theory in a deductive manner entirely, nor are we aiming to understand and inductively build a theory where one start with the data and ends up in theory. However, since we have a subjective and interpretivist perspective in our study, we tend to lean more towards an inductive approach. As Saunders et al., (2009, p. 127) stipulate, it is common to combine the two approaches in one way or another, and sometimes it is even more advantageous since it gives the research more flexibility. In our study, we aim to understand what drives incumbent firms to act in a certain way, what that process looks like. By having both an inductive and deductive approach, we can start in the literature to find probable cause, then go out and conduct our interviews to find out if the respondents experiences match the literature or if we need to seek out more information on the subject, or even add new knowledge to the field.
3.5 Research Design

There are two different primary types of research strategies, a qualitative and a quantitative approach. However, there is also a third strategy, mixed method, which combines the two pre-mentioned approaches. The simplest way to distinguish the two main strategies from one another is to say that quantitative research employs a measurable approach while a qualitative approach does not (Bryman & Bell, 2011, p. 37). A quantitative approach is generally used to test theory and hypothesis in a deductive manner. The quantitative approach spurs from the natural sciences, hence it has a positivistic manner where numbers and statistics can falsify or confirm the pre-determined hypothesis. The ontological viewpoint in quantitative approach tends to be objectivism where the individual has little or no impact on the social situations in a firm (Bryman & Bell, 2011, p. 38). A qualitative approach, however, often aims at generating or adding theory and have rejected the positivistic view of natural science. The qualitative approach is more often dominated by an interpretivist view and aims to explore humans understanding and perceptions of its social world. Moreover, this also means that humans are responsible for creating their social world which gives a qualitative approach a more constructivist ontological viewpoint (Bryman & Bell, 2011, p. 38).

The purpose of this study is to explore and expand the understanding of how incumbent firms explore and exploit opportunities to innovate their business models, and what the significant drivers for these changes are. Moreover, to generate a more general view of the communication and decision-making process that spans over multiple departments in the incumbent firm. Further on we aim to see if there are any differences or similarities between the industries that the incumbent firms operated within. Therefore, our research design will adopt a qualitative approach to understand these phenomena’s and to best answer the research questions. Moreover, the research takes on a cross-sectional approach, meaning that we look at the phenomenon at a particular point in time instead of exploring it over a longer time (Saunders et al., 2009, p. 155). It is, however, important to note here that allocating one’s research strategy to one approach is way too simplistic (Yin, 2003). Therefore, we take inspiration and techniques from other research approaches as well.

When conducting research, it will most likely have either an exploratory, explanatory, descriptive or a mixed nature. In our research, we mainly adopt an exploratory approach for answering our research questions. An exploratory study seeks to find out what is happening or to gain new insight into a particular phenomenon. It is also useful when one wants to clarify one’s understanding of a particular problem and to find out the precise nature of it. What also characterizes an exploratory approach is that the focus begins being relatively broad from the start and becomes narrower as the research progresses. Exploratory studies often use methods involving the search of literature, interviewing experts on the subject and conducting interviews with people from the field that is supposed to be studied (Saunders et al., 2009, p. 140).

When trying to understand a phenomenon in its natural setting and to create a more in-depth understanding case studies are often preferred (Collins & Hussey, 2014, p. 68). According to Saunders et al. (2009, p. 146) case studies are the most beneficial when having an exploratory approach. Although we are not applying a strict case study, we still seek inspiration from it into our qualitative interview study since it is a strategy within qualitative. Most notable is that we use triangulation to produce the empirical findings.
The reason for us to lean towards a case approach is that we expect it to advance our understanding of the research phenomenon. Case studies can be either quantitative, qualitative or a mix of both (Ghauri & Firth, 2009, p. 30). In this study, however, we deal with a more qualitative study, since we have a more exploratory approach and trying to understand how these processes take place within a firm and who initiates and facilitates them. Case studies are also preferred when research seeks to find out why an organization is acting in a particular way, and when 'what' ‘how’ and ‘why’ questions want to be answered. Also, when the research is on a current phenomenon in a real-life context (Saunders et al., 2009, p. 146; Yin, 2009, p. 8). A case study method is also preferable and well suited when it comes to international business research (Ghauri & Firth, 2009, p. 32).

The most common method to use when conducting a case study is to use triangulation. Triangulation is the usage of multiple sources of data to enhance the validity and credibility of the research. Triangulation can be to use both interviews and a survey, having two researchers investigating the same issue, or using experts as respondents. Merely just having more than one data source, e.g., financial reports, archives, operating statements (Collins & Hussey, 2014, p. 71; Ghauri & Firth, 2009, p. 31). Triangulation is often required when dealing with case studies to see if the results are telling the researcher what they think that the results are (Saunders et al., 2009, p. 146). An example could be to conduct interviews with a group of people at a firm and then to collect data in the form of internal documents to see if the answers are aligned with the numbers or the company policies that have been obtained. The advantage of triangulation is that it can produce a more complete, holistic, and contextual portrait of the phenomenon under study (Ghauri & Firth, 2009, p. 37).

When conducting a qualitative study, it is important to separate what is the object and what is the subject of one’s research. The object is the firms where one does the interviews, and then the objects are used to understand the subject of one’s research (Thomas, 2011, p. 512). So, in our research, the firms would be the object that we study and the subject, or topic, of the report, is who initiates, and facilitates business model innovation within the firm. Moreover, as we have stated, we see this study as being a qualitative study that explores individuals perception of a certain phenomenon. We, however, adopt certain case study approaches such as triangulation to answer our research questions. Nevertheless, we don’t view the research as a pure case study as that would involves more in-depth analysis and comparison between the incumbent firms.

3.6 Literature search and Choice

The initial phase of our search for a research topic was spurred from within ourselves. We had a dialogue about what our primary interests were and in which areas we believed we had the most knowledge. A few areas came to the table, but two stood out, business model innovation and managing change. These are both subjects that have been frequent in our education. They have also had a big presence in media in recent time following the explosion of firms that essentially only provide a platform for others to use e.g. Facebook, Airbnb, Uber, Amazon etc. This type of process, to start with one’s interests and knowledge and then scanning current trends, is called rational thinking process according to Saunders et al. (2009, p. 25). The second step is to oversee the literature in that area, preferably starting with literature review from the last 5-10 years to potentially find some research areas that are less developed or even concrete research questions (Saunders et al. 2009, p. 75). We focused on recent literature reviews, mainly from 2010 and forward to find areas where research was calling for
answers. The subject that was most in line with our interests and knowledge, was business model innovation processes from a practical viewpoint.

From the literature reviews, we were guided to the core literature in these areas and the leading researchers within business model innovation. The primary sources of acquiring knowledge were Ebsco host, Google Scholar, and the University library’s search engine. From there on we focused our search on the keywords that we had found from the literature review articles. We created a word cloud, where we took all the keywords from the main articles to see which words were most commonly used and then we let those word lead us forward in the search for articles. That process is recognized as one of the key features in the initial phase when trying to find relevant articles (Saunders et al., 2009, p. 76; Bryman & Bell, 2015, p. 108). The words we found were; business model, business model innovation, innovation processes, innovation management, strategic entrepreneurship, dynamic capabilities, and business innovation. The leading journals that have been used are; Long range planning, Strategic management journal, Journal of management, and International journal of innovation management. By only using these search engines and journal we ensured that all the articles were peer-reviewed, this was also double checked by only searching for peer-reviewed articles by using that function in the search engines. The choice to mainly use journals led us to the usage of secondary sources in our thesis (Saunders et al., 2009, p. 70).

Saunders et al. (2009, p. 65) state that it is essential to include, or at least acknowledge, the leading researchers within the field one is supposed to conduct their research within to ensure the credibility of your thesis, no matter the age of the article. From the literature review, some researchers stood out more than others as the primary influencers, among them, are; Osterwalder and Pigneur (2010), Chesbrough (2010), Zott and Amit (2010), Teece (2010), and Ireland et al. (2003). These can be seen as the “rock stars” in the field of business models and business model innovation and strategic entrepreneurship. They have been cited the most, and both professionals, as well as researchers, have adopted their work. Therefore, they have become paramount in our study of these phenomena’s. During this phase a natural funnel was created, as we started broad with business models in general, we then narrowed further down our research to find more specific gaps in the research. Which can be seen as a process of a critical review, when a researcher reads through the literature and selects which articles are relevant and not for their specific research questions (Saunders et al., 2009, p. 66). This process helped us to see the blind-spots within in this field of research and all the literature. Even those we have chosen not to include, have helped us gain more understanding on the topic an ultimately help us to narrow down our research question even further just as Saunders et al. (2009, p. 60) proposes.

When conducting an interpretivist study, there is a need for a broad and open research question. Collins and Hussey (2014, p. 106) imply that a beneficial way of starting your research question is by using the words What and How and avoiding any words that suggest a relationship between two parameters. It is common to use an overarching question that is a bit more general with two or more specific sub-questions that narrow down the research area. In our study, we have done just that, with a primary research question that is more general and two sub-questions that are more specific and narrow.
3.7 Quality Criteria

The quality of research is essential, without quality there will not be a trusted knowledge contribution, so how does one secure that it is a report of high quality? There are slightly different aspects that have to be acknowledged when it comes to quantitative versus qualitative research (Bryman & Bell, 2015, p. 49). Reliability and validity were created for a positivistic quantitative approach where the numbers are essential, and every answer can and should be possible to be supported by hard data. Therefore, it does not fit with qualitative research that focuses on experiences and soft data. Since the qualitative research is more context based and meant to understand specific situations, there has to be other criteria to guarantee the quality of the study (Bryman & Bell, 2015, p. 49). Bryman (2012, p. 390) elaborates upon two different approaches that tackle this issue, one of which adjust the traditional view with reliability and validity but divides them into internal and external, and the other builds around two new primary criteria’s, trustworthiness and authenticity. In our study, we have chosen to go on the second path and follow trustworthiness and authenticity. Hence, we will explain those concepts a bit further.

*Trustworthiness* consists of four sub-categories; credibility, transferability, dependability, and confirmability. Credibility concerns internal validity, and touches upon the issue of whether or not the data and the information can be trusted, whether it is presented truthfully or not by the researchers. To ensure this in a research Bryman (2012, p. 390) states that it is essential to follow the “canon of good practice,” i.e., to support the regulations, standards, and guidelines within your research area. On top of that, it is essential to have more than one source of data that secure that what one has found is truthful. Which can be done via triangulation or by submitting the findings to a person or a faculty that has a higher status within the field of your study, e.g., journal magazines, professors. The second sub-category is transferability, it includes the external validity instead, how generalizable is the study? Can others use the information we gather in their research or profession? (Code, 2014, p. 89; Bryman, 2012, p. 49). Since a qualitative study most often only includes a smaller group of people, within a particular context, at a specific point in time, this issue becomes somewhat complicated to address for a qualitative study. However, Bryman (2012, p. 392) suggests that the researcher should provide a so-called full description, i.e., a thorough explanation of the situation and the culture where the respondent’s acts. Thus, enabling the reader to reflect upon whether or not they can transfer the knowledge to their own situation.

The third sub-category is dependability, which is equivalent to reliability in quantitative research. It concerns the trustworthiness of a study and the independence to some degree. If an independent researcher looks at our data they should come to the same conclusion as we have, which would ensure that we have used and interpret the data correctly (Cope, 2014, p. 89). To make that possible demands that the researcher makes all their collected data available for others to review. However, this is a time-consuming process that rarely takes place, but the data should be accessible in case of that process should be followed through (Bryman, 2012, p. 392). The fourth sub-category is confirmability, which is about showing the reader that the data and information presented in the study is not biased or changed by the researcher, and that it shows what the respondents stated. To secure this, coding and schematization can be used when analyzing the result. The usage of actual quotes from the respondents instead of summarizations strengthens the argumentation and is therefore preferable concerning confirmability and trustworthiness (Bryman, 2012, p. 393; Cope, 2014, p. 89).
Authenticity is the second criteria which include fairness about the reporting of the collected data and its social context. Does it give a fair picture of how the researched context looks? It also concerns whether the study brings a greater understanding of why the results are the way they are connected to the environment and social situation (Bryman, 2012, p. 393). Authenticity is about reporting the results in full and in the same way as the respondent meant when they said them. It is not only what the respondents say, if possible the feelings and the emotions that the respondents signal should be included as well. However, it is also common that someone says one thing with their mouth and another with his or her body language and this should be included in the study if possible (Cope, 2014, p. 89).

3.8 Ethical Consideration

The ethical aspects that come with conducting a qualitative study are numerous, from how to treat and approach the people that one will interview to how to handle the information one collects and everything in between (Bryman & Bell, 2015, p. 129). Our ambition has been to have a deontological view throughout the whole process. It means that we never try to deceive or withhold information from the respondents (Saunders et al., 2009, 186). Our questions have been reviewed several times to get them as neutral as possible so that we do not lead the respondents to give us the answers that we are searching for.

One way of establishing our deontological view is by adopting an informed consensus approach when the initial contact is made with the respondents (Kvale & Brinkmann, 2009, p. 68). The researcher is as transparent as possible with their intentions of the interview. What the data will be used for as well as making sure that the respondent is participating voluntarily and can choose to leave the interview at any time (Saunders et al., 2009, p. 190; Kvale & Brinkmann, 2009, p. 70). Another aspect of conducting interviews is making sure that the respondents, if they wish, can be anonymous both as a person and the firm that they represent. However, anonymity per se is impossible to get when conducting interviews due to the face-to-face interaction, but confidentiality is what we have reached for. With confidentiality, the goal is that under no circumstances can the respondent be identified in the finalized report. Only the researcher and the respondent itself should be able to know who gave the answers and the interview (Bell & Waters, 2014, p. 64; Kvale & Brinkmann, 2009, p. 72). It is a critical issue since it enables the respondents to answer as truthfully as they possibly can without worrying about it being traced back to them and it protects them from potential harm, whether it is physical, mental or career-wise (Bryman & Bell, 2015, p. 135).

To ensure that we act as correctly as possibly Saunders et al. (2009, p. 184) propose to follow your institution’s guidelines or the codex for your specific field of research, and so we did. We followed the Codex, the Swedish scientific counsel (Vetenskapsrådet, 2018) as well as our department’s code of ethics from Umeå School of Business, Economics, and statistics.

3.9 Data Collection

There are two different ways to collect data, secondary or primary data (Saunders et al., 2009, p. 256). Secondary data is when the researcher gathers and reanalyzes old data from others research to find answers to his or her research question. It can include both summarized data from published thesis as well as raw data material. Primary data, on the other hand, is new data generated by researchers themselves, this approach is necessary when trying to find explanations in new areas where there is a shortage of research or when the research investigates a specific context (Saunders et al., 2009, p. 256).
As has been stated before, we are conducting an exploratory study, where we aim to gain a deeper and more practical understanding of what drives firms to work with business model innovation and how that process looks. Due to this we are more or less required to conduct interviews since that is the best way to gain an understanding of motivators whether they be from organizations or by individuals. When it comes to understanding processes and human behavior, as it does in our case, the proposed approach is by doing semi-structured interviews (Saunders et al., 2009, p. 323). We also seek to understand the process and driver in different industries which makes a qualitative study a more preferred alternative. It has become the most common way to investigate differences between various organizations within in social science, and it is favorable when trying to improve theory building (Bryman, 2012, p. 74).

Moreover, because we are conducting a qualitative study, we have to reach some of triangulation to gain credibility for the study. Referring to the usage of more than one source of data, e.g., interviews with both experts and professionals and using internal as well as external documents, this enhances the credibility of the study as previously mentioned (Bryman, 2012, p. 392; Saunders et al., 2009, p. 146). Therefore, we will collect both primary and secondary data. The secondary data will come from organizational documents, guidelines, and annual reports concerning the firm’s routines, strategies, and activities that affect their business model and the innovation thereof. These types of secondary data documents are preferred according to Saunders et al. (2009, p. 258) when controlling if the respondent’s answers are in line with the documents.

Our primary data collection will, however, come from conducted interviews with top-level managers at multi-national incumbent firms from different industries. The reason for this is to see if there are any similarities and differences between them when it comes to business model innovation. By conducting interviews, we increase our ability to understand the incumbent firms and the people that we are interviewing. There are three different ways of doing an interview; structured, semi-structured and unstructured. We have decided to perform semi-structured interviews which enable us to follow the respondent in a better way and ask follow-up questions, while also giving the respondents the freedom to go into new areas (Bryman, 2012, p. 212). Semi-structured interviews are built up with a few overarching subjects and within each subject, there are multiple questions. However, these questions are not set in stone and can be altered, changed or removed during the interview to make the interview flow better and to keep a balance between the researcher and the respondent (Bryman, 2012, p. 212). Also, we decided to conduct a semi-structured interview since the other two alternatives do not align with our research design, a completely structured interview would not give us the flexibility that is necessary when investigating processes and people’s perceptions. Moreover, an un-structured interview would make the discussion too open, and there would be a risk that some aspects would be forgotten or neglected.

3.10 Interview Design

A significant part of our qualitative study involves interviewing managers within large multinational and incumbent firms. We apply a semi-structured interview approach instead of an unstructured interview approach when designing our interview. The reason for this is that a multi-case study requires some structure to ensure cross-case comparability (Bryman & Bell, 2012, p. 472). To get a certain amount of structure, we have designed an interview guide. The interview guide acts more as a list of memory prompts and is not meant to be followed by a
structured interview schedule. We have however structured it in a particular order of topic areas that we want to focus on, and that relates to our research questions.

Our research guide can be divided into six blocks. The first block of the interview is designed to introduce the research topic to the respondent. We present what the study is about and the background to the study, also introducing ourselves to the respondent. The purpose of this is to get the respondent familiarized with the research context and purpose. This block also adds the ethical and confidentiality issues so that the respondent can feel comfortable when answering the questions. The second block of the interview guide is to collect ‘factsheet’ information (Bryman & Bell, 2012, p. 473). This information is of both general kind, e.g., name, age, gender, and a specific kind, e.g., position in the firm, number of years employed, previous work experience, what industry does the firm compete in, size of the firm, and geographically placed. We use this information to contextualize the respondent’s answers.

During the third block of the interview guide, we dive into the research topic and look to gain more knowledge about how the respondent views the business model concept in regards to the firm. The aim is to get a good conversation going about the business model concept and to what degree the firm has integrated the business model concept. In this section, we also seek to identify how the respondent views the business model’s strengths and weaknesses and if he/she sees any limitations to the current business model. Also, we seek to understand how the firm works with the business model regarding tools being used. After gaining some knowledge about the current business model of the firm and how the respondent views the business model regarding limitations and strengths, we go into block four. Here we seek to gain more knowledge surrounding business model innovation. Using mainly probing questions to understand how and if the firm has adopted an agenda toward innovating the business model compared to product and service innovation. We then use follow-up questions to try to get practical examples of past projects where the firm has changed components of its business model. In this block we also want to gain knowledge about what are the drivers of business model innovation and if they believe that the firm’s business model is sustainable in its current form.

After block three and four, we hopefully have gained sufficient knowledge about how the firms see and work with business models and business model innovation. The fifth block of the interview then goes into questions regarding strategic entrepreneurship and how it can be applied to the business model innovation process. Thus, in this block, we seek to gain knowledge about how the firms identify change drivers in their ecosystem and what kind of strategies they adapt to exploit these opportunities. We also look to identify what kind of internal process the firm has from identifying opportunities to implementing these opportunities. The questions in this part of the interview are mainly adopted from the business model innovation framework of Frankenberger et al., (2013) and strategic entrepreneurship theory (Ireland et al., 2003). The last block of the research guide brings the interview to an end. However, this block is essential, because we ask the respondents if they have any other aspects regarding the business model that they would want to add to the interview. Also, we ask the respondents if possible that they can provide us with some additional material regarding the firm’s business model, e.g., documents. Lastly, we ask if it is okay that we contact them further if we would need some additional information and or revisit a question that needs more elaboration.
3.11 Participants and Selection

When selecting participants for the study, we use a purposive sampling approach. This type of sampling does not seek participants on a random basis such is the case in probability sampling. Instead, purposive sampling makes its selection of units (e.g., people, firms, and documents) with a direct reference to the research question (Bryman & Bell, 2012, p. 416). Therefore, our research question(s) gives us an indication of what units we need to sample from. In this case, we have identified that we need to interview high-level managers within the multinational and incumbent firm. The reason for selecting these types of people is because they work directly or indirectly with the firm’s strategy and thus can provide us with the most knowledge based on our research question. Also, our reason for a purposive sampling is that probability sampling is rarely used in a qualitative study due to its constraints. It is nearly impossible to map out the population from a random sample. Besides the limitations, a purposive sampling is preferred because we want to gain access to a wide range of individuals that are as relevant as possible to the research question (Bryman & Bell, 2012, p. 416).

We base our sampling from both a context and participant perspective. Thus, from a contextual perspective, we have chosen to look at incumbent and multinational firms. The reason for this is that these types of firms operate in a highly dynamic environment and are highly exposed to external change drivers. Also, these types of firms already have an established business model or multiple business models. Therefore, these types of firms become highly relevant to our research question(s). From a participant perspective, we have decided to focus on top-level managers within these firms. These managers work directly and indirectly with the firm’s strategy and therefore become highly relevant for answering our research question(s). The sampling of context and then participants is a common strategy in qualitative research (Bryman and Bell, 2012, p. 417).

When using a non-random sampling, the suitable number of participants is quite ambiguous, and there exists no specific rule. The focus instead lies in the logical relationship between the sampling technique employed and the primary purpose of the study and the research questions. Questions that need to be asked are if the data and resources will be useful to the study and if it has credibility. Different from a quantitative study, the understanding and insights gained from a qualitative study will have to do with the data collection and analytical skills, rather than the size of the sample (Saunders et al., 2009, p. 232). Bryman and Bell (2012, p. 436) find that the appropriate sample size ranges in opinion, but that is stretches from 5-95 interviews. There is, therefore, no limit on sample size. Instead, it is when the researcher feels that the data has reached saturation. Thus, if saturation is the criteria, then specifying a minimum or a maximum number of sample size is pointless.

In accordance to reach triangulation in our study, we have chosen to include respondents from both incumbent firms and experts who have worked either as consultants or held multiple CEO positions in incumbent firms for the majority of their careers. On top of that we will compare it with the literature from earlier research as well as documents and annual reports from the different firms. The reason for having this approach is to see if there are any differences between the people who work within incumbent firms with the view of the experts and the literature. In our mind there will be a disparity between who the respondents who work for the firms experience their environment and the view of the experts who can has a more detached role towards a firm and can have a bird view of a whole organization. Adding the secondary data in form of earlier literature and policy documents and annual reports will
strengthen our statements the research as a whole and it will hopefully shine light on the results while making them clearer.

We have chosen the participants for this study by using the set of criteria mentioned above to identify these types of firms and managers. By tapping into our networks of contact we managed to get participants that were mainly second-degree contacts. We got in touch with them and schedule times for the interviews. Being that these firms were mostly based in the southern parts of Sweden such as Stockholm, Vasteras, and Gothenburg, we travelled to these locations to conduct face-to-face interviews. Two of the interviews were conducted via Skype as these companies had headquarters outside of Sweden.

3.12 Data Analysis

Analyzing qualitative data can be a difficult task as there are no clear-cut rules on how such an analysis should be conducted (Bryman & Bell, 2012, p. 565). Unlike quantitative data that is based on meaning derived from numbers. Qualitative data is based on meanings expressed through words and non-standardized data, and this needs to be classified into categories (Saunders et al., 2009, p. 482). The process of analyzing qualitative data should begin at the same time as collecting the data as well as afterward (Kvale & Brinkman, 2009, p. 241). The two most widely used strategies for analyzing qualitative data is by either doing a thematic analysis or using grounded theory approach. Grounded theory is usually seen as being the most popular in qualitative research. Researcher usually use grounded theory to develop an inductive theoretical analysis of the collected data and then gather further data to check these analyses (Silverman, 2010, p. 292). Thematic analysis on the other hand, is more flexible and intends to analyze a text by identifying reoccurring words or statements in the data at hand. The themes that emerge spurs from the previous knowledge of the researchers and their interpretation of the data (Braun & Clarke, 2006, p. 80). In our thesis we draw our inspiration mainly from the thematic analysis, by working through the transcribed interviews and finding statements that occurred and was found in all the interviews.

According to Yin (2011, 179) the analyzing of qualitative data flows through five different phases: compilation of the data, dismantling the data, remounting the data, interpretation of the data and finally making conclusions. These phases are not linear but slightly flexible, and one can go back and forth between the different phases. The first phase, the compilation of data, is about gathering all the notes from interviews, transcriptions, and any other data to get an overview of everything that you have and start making notes or conclusions from the data. The second phase, also called coding, is about dismantling one’s data and putting labels on different topics that the research finds interesting. The third phase, remounting the data, is about making sense of the coding that one has done and finding patterns. It can be to categorize them or finding different themes to get a better understanding of the concepts. In this section, it can be beneficial to use different diagrams, models or tables to organize the data (Yin, 2011, p. 181).

The last two phases are a bit different and are more about using the new codes and finding a way to present the data in a readable form. It starts with the fourth phase which concerns the interpretation of the data, trying to figure out what the data says, where it leads the research, and how will it be presented, in which order. Moreover, how can the data be presented so that it reflects the data in a fair and credible way? According to Yin (2011, p. 204), there are two ways of presenting the data, either via a descriptive approach or an explanatory approach. The descriptive approach mainly describes how a situation, or a phenomenon is, and it might come
with suggestions to change for the future. An explanatory approach, however, is more concerned about finding out why a situation is a way it is. The fifth and last phase is making conclusions from the data. In this phase, it comes down to drawing conclusions and giving possible suggestions for future research or managerial implications. The researcher should connect back to the theoretical framework and earlier studies on the subject to confirm or question them compared to their research (Yin, 2011, p. 218).

In our study, we started out by transcribing our interviews and making notes and comments throughout the process. Afterward, we sorted them out and started to collect them into one document before we began to dismantle them. During the second phase we went through everything separately marking texts and coding the texts and then we compared with each other if we had highlighted the same things. Our next step was to put down the coding of our interviews on a whiteboard to get a better overview of all the different aspects that had been highlighted to seek similarities and re-grouping the codes into different themes. When we found our six themes; Communication & structure, Strategy, Change processes, Drivers, Culture & leadership, and value, we started to connect them to the different theoretical models that we are using in the thesis and thinking about how we would present the data. The reason for connecting communication and structure into one category was because during the interviews and the coding we found that those subjects were intertwined, communication either hindered or enabled the current structure. When the respondents spoke about structure and hierarchy within the firms, it was most often linked to the possibility to interact with leaders and getting a response when presenting an idea. Therefore, we decided to present communication and structure as one. Culture and leadership also became a unified topic due to the respondent's answers. When they spoke about leadership and different leadership styles, the topic of culture was always mentioned one way or another. Moreover, the culture was explained as a mean to change the leadership and vice versa, hence the merging of the subjects.

The forthcoming chapter, empirical findings, will present the data categorized from the mentioned themes as sub-headings. The main headings under empirical findings, will be connected to our research questions, starting with the first question concerning exploring and exploiting opportunities followed by the drivers of incumbent firms to innovate their business model and lastly, the decision-making process during business model innovation. Also, we will present the answers from the incumbent firms and the experts separately, this in order to illuminate the differences between the two groups and make it easier to follow for the reader.
4. Empirical Findings

In this section, the empirical findings based on interviews with the different incumbent firms and experts, as well as the data such as strategic initiatives, business objectives, and press release will be presented. We present our results with the research questions. The first part of this chapter introduces the interview process, and we discuss the interpretations of the interviews in more detail, showing what themes emerged from the interviews. The section then goes on to present the findings according to the theoretical frameworks and methodological choice.

4.1 Interview process

The process of conducting interviews for this research was stretched out over a 5-6-week timeframe. The whole process consisted of six interviews, where four were made with top-level managers of incumbent and multi-national firms, the other two interviews were with experts in the area of research. With experts, we mean individuals that have had significant experience dealing with and leading strategic questions in incumbent firms. Either by having a leading role in these kinds of firms or by having consultancy rolls. Expert 1 is Swedish and has over 40 years’ experience in large incumbent firms and holding many CEO and board roles. Expert 2 is an American that also has over forty years of experience in incumbent firms, working as a consultant for numerous Fortune 500 firms. Within the four incumbent firms, the managers that we interviewed all held a leading position and had been in their respective firms ranging from three to twenty years, thus having substantial knowledge about the firm. Moreover, the individuals that we interviewed in the incumbent firms all had different expertise and worked in different functions of their firms. However, we thought this would be beneficial to the study as it would give us insights into different areas of the business model. What was most important was that they all had a significant role in working with the firm’s strategy.

4.1.2 Description of the four incumbent firms

**Technology Co:** is a Swedish and Swish established incumbent firm that is a technology leader and pioneer in the market. The firm is active in over a 100 countries, has over 135,000 employees, and its customers stretch over many different industries.

**Software Co:** is a German-based multinational incumbent firm that is an enterprise software leader on the global market. The firm has over 378,000 customers worldwide, and more than 88,500 employees.

**Banking Co:** is a Swedish bank with almost 12,000 employees around the world. Their primary business is in located in Sweden and the Nordic countries, but they are present in more than ten other European countries as well as some countries in Asia and the United States.

**Production Co:** is an incumbent firm which manufacturers industrial tools and equipment for different production industries. They are active in more than 180 countries, and their headquarters is located in Sweden. They have approximately 45,000 employees worldwide.
Table 3: Interview Summary

<table>
<thead>
<tr>
<th>Code</th>
<th>Date</th>
<th>Length</th>
<th>Mode</th>
<th>Recorded</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology Co.</td>
<td>2018-03-27</td>
<td>01:01:06</td>
<td>Personal</td>
<td>Yes</td>
<td>Top-level manager</td>
</tr>
<tr>
<td>Productivity Co.</td>
<td>2018-03-31</td>
<td>00:47:12</td>
<td>Personal</td>
<td>Yes</td>
<td>Top-level manager</td>
</tr>
<tr>
<td>Banking Co.</td>
<td>2018-03-28</td>
<td>00:42:42</td>
<td>Personal</td>
<td>Yes</td>
<td>Top-level manager</td>
</tr>
<tr>
<td>Software Co.</td>
<td>2018-04-26</td>
<td>00:51:20</td>
<td>Skype</td>
<td>Yes</td>
<td>Top-level manager</td>
</tr>
<tr>
<td>Expert 1</td>
<td>2018-04-05</td>
<td>00:36:54</td>
<td>Phone</td>
<td>Yes</td>
<td>Expert</td>
</tr>
<tr>
<td>Expert 2</td>
<td>2018-04-11</td>
<td>00:50:55</td>
<td>Skype</td>
<td>Yes</td>
<td>Expert</td>
</tr>
</tbody>
</table>

The interviews were conducted partly in Sweden, two of the interviews were conducted with respondents living in the United States through Skype. The interview process was relatively straightforward. As the respondents were top-level managers in incumbent firms, this meant that we had to be highly flexible and adaptable after their schedule. We preferred personal interviews. However, this was not always possible, and therefore we had to conduct one of the interviews through Skype and one through the phone. We did not experience any difficulties in conducting the interviews. All the interviews were conducted in an environment of the respondents choosing and could be done without any interruptions.

As previously discussed in the method chapter, we used a semi-structured interview guide to better lead the discussion. However, we also wanted the respondents to talk openly about the topic, and therefore the guide acted more like a memory pad for us. We started each interview by letting the respondent explain their role in the firm, how long they had worked at the firm and what their earlier experiences were in and outside of the firm. Then we went on to have a more open discussion on how they worked with the business model, strategy, and different processes within and outside the firm.

During the analysis phase of the research, we started to demount the transcribed discussions. From this, some common themes started to emerge from the respondent’s answers. These themes that emerged were; strategic issues, change process, drivers, value, communication & structure, and culture and leadership. We will further present these themes with the research questions.

4.2 Exploring opportunities to innovate the business model

In this section, we present the data from the conducted interviews that are connected to the first research question of this study. The two themes came out of the codification connects to how firms explore opportunities to innovate their business model; these were Strategy and Change process. The two themes will act as subheadings, and within each subheading, we will present the data from the incumbent firms and the expert’s point of view separately.
4.2.1 Strategy

Here we present the aspect of strategy which connects to exploring and exploiting opportunities to innovate a firm’s business model. Questions that were asked here aimed at identifying how the incumbent firm’s used strategies to explore opportunities both externally and internally. Another purpose of these questions was to get more definite answers about specific strategies that they use, e.g., Mergers & Acquisitions, Strategic Alliances, and Corporate Venture Capital. The answers here are both from the interviews, and also from firm-specific reports.

All the respondents of the incumbent firms stated that the drivers to develop further as a firm was to offer higher value for their customers. The Banking Co, the Software Co, and the Technology Co expressed that they had specific models for creating that value for their customers, value-by-selling, business model canvas, and a value proposition canvas. However, they expressed different tactics to reach that goal. While Technology Co and Productivity Co both invested heavily into research and development of their products and services, the Banking Co instead scanned what others are doing on the market and tried to find ways to gain access to it. The Software Co gained most of their knowledge via acquisitions, and continuously scanning the market for exciting startups. That is not to say that either firm only did one over the other, but their primary focus was on those areas for the respondents. It was clear that the Technology Co, Software Co, and Productivity Co had strategies to be at the forefront of their respective industries, doing so by being proactive in implementing new technology into their products and services. Banking Co strategy was more defensive and conservative. They did not want to be the pioneer in developing and implementing new technology. Instead, they waited until the risk became more tolerable for them.

Software Co: “As I see it since we are a software company, it is a lot about new technology. However, in the end, we have to think about our partners, we are a selling-organization, and we have an existing customer-base which has to be taken into consideration before applying new technologies. So even if we know that this new product will be extremely good, it is not sure that we will release it right away”.

An essential part of the incumbent firm’s strategies is to follow the market and see what others were doing and which direction they are taking. To keep track of what is happening and finding new ideas the incumbent firms are observing and communicating with subcontractors, collaborating firms, competitors, and firms within adjacent industries. By doing this, they gain knowledge about other firm’s developments on the market, as well as the status of their own business. Thus, they can compare themselves to it, to see which parts they can develop further and where they are one step ahead of the competition. One way to gain this type of knowledge was to attend different conferences, both industry-specific and general technology conferences, which was something that all respondents acknowledged. By working in this way, to scan the market and see what others are doing, the firms could keep up with change and exploit the opportunities but also to minimize risk. As the respondent from the bank so explicitly said it;

Banking Co: “we will not be first with the latest, we do not work that way because we believe that by not being first you will avoid getting burned in the same way as some others have because of a product did not become the success they thought it would.”
Mergers and acquisitions were something that all the firms acknowledged as a strategy, both to gain market shares and to acquire new knowledge and technology. However, if a merger or an acquired firm did not pan out as it initially was planned, there were no difficulties to dispose of the firm and find another firm to work with or potentially buy. Another tactic to gain access to knowledge and technology was to join into alliances, as big and known firms they all mentioned that they had good possibilities to enter alliances and did so on occasions. Some examples of that were from the Banking Co who went into an alliance with multiple other banks to get Swish to work for their customers on the Swedish market, and the Technology Co gave an example where they worked together with Microsoft.

When a firm went through a more significant change in their business model, they all confirmed that they took help from consultants and they all saw the benefits of it. In this way, the consultants could come in with fresh ideas about how to do business and how to organize the firm, and they do this by using acknowledged and tested models. The Software Co gave a slightly different view on how to use consultants. They took them in to get updated data about the market and to gain access to potential customers or partners. Another aspect was that of structure and time, the respondent from the Productivity Co expressed it in the following way:

**Productivity Co:** ‘I can often see that when we take in consultants, we get a higher pressure within the firm to deliver from the internal units. You can see a distinct effect of having consultants in a project, perhaps it is because of the significant cost that they bring to the firm, but we keep the timeline much better’.

When executing these new changes, whether it is a process, business model changes or product development, they all stated that there is an initial phase where they can do beta-testing which is isolated to see if the change will work and get rid of potential bugs. The incumbent firms also implied that they brought in consultants because they themselves did not have enough knowledge about making significant changes to the business model. Technology Co said that when they make changes to the smaller business models within different functions, they can do that internally. However, when it comes to making significant changes to the firm’s structure, they have to take in experts who can advise them. The Software Co explained that they have a database with approximately 120 different business models, so when a change or a new product is developed, they can try different business models to see which has the best fit and gets them in the directions they want to go.

When it comes to long-term goals and strategies, the respondents had slightly different views on it. While the Banking Co avoided setting budgets and goals, because they saw it as self-fulfilling prophecies, the other firms continuously worked with one-, three- and five-year strategies to communicate internally which direction they aim to go in the future.

**The experts** – view on strategy within incumbent firms show a slightly different view, they claimed that incumbent firms are in something called a competency trap. What this means is that a firm has invested too much in the old ways and old technologies that they are unwilling, or unable, to change into the new ways, the cost is simply too high. Due to this, the only thing an incumbent firm can do on their own is to fine-tune the machinery and make incremental changes to keep up with the market until it disappears. That is also the main argument for firms to hire consultants according to the Experts, to get new ideas and a fresh view of the market and current trends. Consultants can continuously follow the market and trends with a broader view, which gives them a different perspective on the future than that of a firm who might only look at the trends in their current market. Both experts mean that firms have to
study and follow the market to understand what the customers want. So, the market is the driver for innovation, but the initiation to change has to come from within the firm. Moreover, the incumbent firms have to understand its actual position on that market to set up realistic goals that they can strive for within the coming years. If a firm does this, they both show that they plan for the future, and it also gives them a clear goal to strive for, so they can more easily set up a strategy. Later on, the firm has to figure out whether they can reach their goals via acquisitions or if they can build it from within, alternatively create a spin-off.

The focus of incumbent firm’s business models also has to change according to the Experts, in general, they focus on product development and process refinement when it should be on market positioning and the future. Firms have to switch the way they see opportunities by looking at improving the process and the interface/software and let someone else make the products. The firms should look at their business model and change it so that it is looking towards the future, where can the firm be, and what the firm needs to deliver to get there. Moreover, the firm has to have a looping system to follow the process and make adjustment along the way to reach the set goals.

**Expert 1** “…I am sure that question does not get discussed in the Business Model, they only do product development and process description in there, but that is not what’s important you should focus on your position, on the market and how you can change it in a few years, that shows that you are in the race! Otherwise, your competitors will surpass you.”

Both experts agree that there should be a standing discussion point at each meeting where there is an opportunity to speak about anything and everything, without anyone getting judged. The firms should discuss where they are going in the future and the new exciting things that they have seen on the market and how the firm can exploit and incorporate them. The firm has to remove the fear that exists today among firms and its employees, the fear to bet on the wrong horse and make a bad decision. The best way to do this, according to the experts, is to have a strategy that makes old and young people work together as equals. Expert 2 gives an example of how to tackle the issue with integrating the young people in a firm;

**Expert 2** “the best sign is that you have the HR units, you know, the managers saying who is open-minded and flexible and easy to work with the younger people well, as a colleague and not a boss. Moreover, those are the people that should be flares for the future”.

Both experts address the importance to have a long-term view of their business and their strategy. According to them, many firms tend to focus on the short-term profits over the long-term profits to report good numbers to Wall Street and the shareholders. In their opinion firms should instead try to see into the future and use the current profits to plan for future change. Expert 2 gives an example of the Norwegian oil industry who invested most of their profits into technology, infrastructure, financial and education which made the whole country prosper. This type of innovative mindset will become more critical in the future due to the speed of change and the globalized world where competition can come from anywhere.

Lastly, the experts speak about growth and development strategies more practically, mergers and acquisitions, research and development, corporate venture capital and startups. Both experts were skeptic towards corporate venture capital in their purest form, partly because of the managerial implications it can bring to the central firm and partly due to the initial risk and low return on investment. However, expert 2 thought that a firm could see a startup or a separate venture capital as an external research and development department, in that way the
firm can handpick the “winners” and incorporate them into the firm. Alternatively, they both spoke about to build or buy tactics when growing and changing as a firm. Building in-house can be hard and complicated due to the competency trap but creating a spin-off with some younger people might work. Expert 2 goes on to give an example when Nokia created a spin-off with young people with an average age of 24, which in turn created the Nokia phone. Thus, they were able to diversify from their then current business of rubber, cable and forestry manufacturing and it could only be done by disconnecting the young people from the core firm. Some incumbent firms can, however, be negative towards spin-off since they could potentially cannibalize their current operations. However, as expert 2 puts it: “which is better, that you as firm cannibalize your own operations or that the competition does it for you?” The most common way, however, is to acquire the technology or processes that the firm needs and then incorporate it into the current business. Expert 2 talks about the current trends and drivers, and mentions Block Chain and Big Data, and means that banks will be smart and do mergers & acquisitions with promising young tech companies to keep up.

4.2.2 Change Process
To get a better understanding of how the process of change took place within the incumbent firms, and their attitude towards change, questions were asked about the previous changes, their view on new technologies and how they adapt to and incorporate them.

What we found was that all the incumbent firms worked with continuous change processes within the organization, small improvements and incremental change happened all the time. These smaller improvements were kept and controlled in-house, i.e., no consultants were hired for this process at neither firm. The Technology Co even had a portion of their scheduled time for business development and improvement, although the respondent said that this time seldom got used due to an overload of work in their designated operations. Also, as mentioned before, whenever there had been a massive change within the firm on a corporate level they hired external consultants. The Technology Co, however, used to have an internal consultancy group but it had been removed, first internationally and eventually in Sweden as well.

Technology Co “…I mostly believe that it (change) happens in small steps internally but now and then, when the feeling is right, we take a bigger grasp and make a big change, and that is when we hire external consultants”.

Although all the respondents spoke about change and continually adapting to their customer’s needs, they simultaneously spoke about a built-in resistance to change and hinders that have made it harder to make changes. It has become harder to make a change due to a more top-down structure, but also due to conscious choices, such as the one from the Banking Co. The bank sees that people are doing more transactions online, use less physical cash and that their competitors are closing down offices all over the world, however, they believe in tradition and that their customers appreciate the services they offer. Whether this will be a successful choice or not, only the future can tell, but it can be seen as an inherited resistance to change which is built into the organizational culture.

The Productivity Co and the Technology Co both expressed that they had specific processes where someone could present a solution or a problem and whereas there was a process on how the idea got approached and solved within the firm. However, they only had it within specific departments, such as the IT-department where the end-user came with ideas, or complications, and the support team looked into potential solutions. Other than that, they had
cross-functional teams, where leaders of the different departments met every quarter and gave input on the new ideas that had been generated within the firm. In the Technology Co, they had specific processes where they worked with a product chief who had a product team, and they together brainstormed ideas. At the Software Co, the respondent explained that if an employee had an idea, then the respondent presented it to his managers and if they approved to it the person who came up with the idea got the chance to lead that project. The Banking Co, on the other hand, did not have any specific processes, it was more up to oneself to promote an idea to their superiors who had to take it to the next level and so on. Although, the respondent mentioned that they had cross-functional meetings at the Banking Co as well, where people from different departments potentially could lift new ideas, but it was a more formal structure to the meetings.

The firms reacted differently concerning the topic of regulations, standards, and laws. The Banking Co, the Software Co, and the Productivity Co all said that they reacted to the laws and regulations set by others, mostly governmental institutions. The software Co even stated that regulations were one of the major factors that had an impact on their firm when it came to innovating their business model. In the case of the bank, they even had to make structural changes due to new European regulation that has forced them to become more hierarchical. The Technology Co, on the other hand, said that they try to drive their products and services to set standards and regulations that other have to follow, so they acted more proactively in comparison.

**The experts** – paint a picture similar to the one that the firms do, that incumbent firms make small changes and adjustments to their current business until there is no more market left. They are then forced to do a significant shift, which describes incumbent firms as users of a slightly defensive approach towards change. The inherited resistance to change, both due to the competency trap and the fear of losing one’s job and missing an opportunity to advance within the firm, makes the employees take the comfortable and safe way. Expert 2 talks about making the change and stresses the importance to educate the whole firm in order to succeed. It cannot only be a few guys down at the research and development department that knows about the new products. Instead, everybody has to be aware and savvy around them. According to the experts, the firms today are more aware of what is happening around them than before. However, they still have trouble making the necessary changes, and the changes happen faster today. The business today is leaning more towards bites over atoms, as expert 2 expressed it, which means that value is generated within software and technology rather than physical products. He also goes on to say that incumbent firms are in a period of disruptive change with technologies such as Artificial Intelligence and Block Chain that are getting more powerful. Therefore, firms need to be aware and educated to figure it out before they get destroyed.

**Expert 2** “in many cases you have to hire new people and fire old people, to lay off a lot of analog people and hire digital people, and we are talking about the whole company, not just one or two people. Most companies cannot afford to do that or aren’t willing to do that because it is too disruptive”.

The suggestions that the experts have is for firms to create worst-case scenarios. Set up a team of consultants or young people within the organization and ask them how they would outcompete their own firm. Then discuss how they can benefit from this knowledge and how to avoid it ever to happen, in that way the firms can take control of their own situation. By
doing this, they might be able to create a new business model separately from their current one, but with the intention to merge or substitute the old business model in the future.

Something that expert 2 stressed, is to be clear as a leader about what is happening and when the change is taking place, and then give the employees options. Ask the them who will be willing to change and who will not. Because some people in their 50-60’s might retire before the full implementation so they can keep at it, business as usual, in order to keep the current revenue while the younger part of the workforce gets educated in the new ways. However, there is yet another problem, how does a firm make a change without letting the competition know what is happening and change before you?

4.3 Drivers for innovating the incumbent firm’s business model

This section presents the findings from the interviews in connection with this thesis second research question. From the interviews and analysis, two themes emerged that consider specific drivers for innovating the incumbent firm’s business model. The findings are presented from the incumbent firm’s view and also the expert’s point of view. The two themes that emerged were Drivers and Value creation and capture to business model innovation.

4.3.1 Drivers

A central question for this study is to understand what the drivers are for innovating the business model. Therefore, we asked the respondents what they saw as the primary drivers of changing the business model. Also, we asked what they believed drove innovation within the firm and who initiates the process. The respondent’s answers to these questions were somewhat different. For Technology Co the most significant driver was new technologies on the market. “As we want to be the technology leader on the market, it is always new technologies, meaning to compete with cutting-edge technology.” Productivity Co was also talking along these lines, saying that technology is a big driver for them, e.g., smart machines and robotics. They also meant that drivers came from within the firm where they gave an example of a big restructuring and change project that they did to create more value for their customers. Banking Co was more in line with saying that a big change driver for them were regulatory changes which forced them to change. Banking Co - “Banks are under attack, no but there are many regulations, but the banks have themselves to blame in some sense.” Software Co merely meant that the most significant driver was money, and the second most significant driver was regulations. He went on to say that it is in that order because regulations can be overturned if there is enough money to do so. Therefore, money becomes the most significant driver for the incumbent firm. Software Co also says that technology is a significant driver that is transforming both the way society and the way incumbent firms are doing business. Therefore, incumbent firms need to digitally transform their business process and business models to be able to succeed in today’s marketplace.

All the incumbent firms had some common themes in their answers as well. Gathered by the incumbent firm’s answers, customers changing needs were a significant driver for all the firms. Both the Productivity Co and Software Co talked about efficiency as a driver. By making themselves more efficient, they became more profitable while simultaneously offering a better service to their customers. Also, digitalization could be seen to be a big driver for the incumbent firms. Banking Co, however, seemed to have the most significant issues to keep up with that driver.
**Banking Co:** “It is an interesting transition at the moment, working with a bank and especially those products that I am working with today. We see a big digitalization, and we see that real money is disappearing at an unprecedented speed.”

Expert 2 means that firms nowadays have become much better at identifying change drivers on the market. However, even though they are better at identifying the drivers, that does not mean that they are always able to implement them into their existing business model. Software Co provides an excellent example of this issue stating:

**Software Co:** “Will this change fit our strategy, and not only our strategy, does it fit the culture in the firm and so on. We are a big firm with almost 100.000 employees. We are pretty big on the stock exchange as a public company, which means that we need to think about what we are saying publicly all the time. Those elements play a big factor in the end.”

Thus, even though the incumbent firms are often well aware of the change drivers and trends in the marketplace, this does not guarantee that they can and will change. Expert 2 also stated the same as Banking Co had, saying that the most significant changes are usually external, regulatory and political drivers. These drivers usually happen much faster than other drivers. Saying that other significant changes on the market that are consumer based or the entrance of new competitors happen much slower, yet faster than what they have done historically. In line with Technology Co and Productivity Co, he also means that technology and digitalization is a significant driver. Giving an example of the car industry and saying that fifty percent of the value in cars nowadays is all electronics, which used to be only five to ten percent, and that soon will be up toward eighty percent. Expert 1 was also saying that the primary drivers right now is technology and digitalization. However, he meant that the most significant drivers have to come within the firm. Stating that the firm has to know how the market is changing and what the customers are doing in order to localize areas they can change within.

**Expert 2:** “I think that now they are much more sophisticated than they were 20-30 years ago because they have seen many failures, and so we have many case studies of old companies like Kodak and others, which failed”

4.3.2 Value Creation and Capture

The most central aspect of a firm’s business model is to understand how they can create and capture value. Thus, it became a natural theme that emerged out of the discussions with the respondents. It becomes essential as it shows the strategic position of the incumbent firms. Technology Co was saying that their brand is in itself a significant value driver, stating that it is associated with cutting-edge technology. They go on by saying that their most prominent value proposition and business model, in general, is that they invest highly in research and development to be the leader in the market. However, the Technology Co also mentioned that they had a focus on the customer to find out what value is for them and how the firm can enhance those aspects. Productivity Co also meant that their most significant advantage was the technology in their products and saying that they strive to be the market leader in their products. Productivity Co said that they had made significant changes in the organization in order to become more service and customer oriented and by doing this they have created more customer value. It was clear that Banking Co value came from having a strong focus on their customer instead of having a focus on sales goals, where they meant that other banks had gone in the other direction. It shows that the incumbent firms have shifted direction in creating and capturing value by becoming more service oriented and implementing that into their business models.
Banking Co: “A product does not have any value on its own, what is important for us is that the customer journey looks good. For example, when you buy your first house, then we want to see how that customer journey looks like, what do you need to do it in a good way.”

Software Co talked a lot about moving to more open technology to create value. With this, he meant that today firms products and business models are focused on locking in the customers. Moreover, he meant that this is a way that has worked before but is changing. Instead, firms need to have products and services that are more open and gives the customer more leveraging power to change between products and services. Thus, this was a distinct strategy to create value for its customers that was different from its competitors. Software Co meant that this is the way that the market is going, however, it is going to take time. The incumbent firm used four elements to measure the value that they create and capture, which could be seen in both financial and non-financial indicators. These were value by growth, e.g., investing in new disruptive technologies, profitability, e.g., revenue streams from their customers, customer loyalty, e.g., making sure they are driving customer value, and last employee engagement, e.g., recruiting right talent and letting them provide innovative power to the firm.

Table 4: Value Creation and Value Capture

<table>
<thead>
<tr>
<th>Code</th>
<th>Value Creation</th>
<th>Value Capture</th>
<th>Value Proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking Co</td>
<td>Creating value through personal connection.</td>
<td>Special market segment. Seek a more affluent customer base.</td>
<td>Personal bank. The customer is the main focus. Provides a full-service solution for its customers.</td>
</tr>
<tr>
<td>Productivity Co</td>
<td>Technology in their products. Product and technology driven firm.</td>
<td>Strategic partnerships with supplier, sub-contractors and joint venture partners.</td>
<td>Cutting edge technology and customer centric.</td>
</tr>
<tr>
<td>Software Co</td>
<td>Market-leading applications. Supporting their customers digital transformation. More open software.</td>
<td>Investing in disruptive technologies, recruiting and retaining the right talent. Focused on driving customer value.</td>
<td>Enterprise software to manage business operations and customer relations</td>
</tr>
</tbody>
</table>

Expert 1 stated that for firms to create and deliver value, they have to innovate the way they deliver and build products and services by looking at the market. Thus, building upon what Banking Co said about products not having any value in itself. Expert 1 meant that it is more critical in today’s society that firms change the way it acts and delivers value and not in the products or services themselves. He states that a clear competitive advantage is when an
incumbent firm has the ability to deliver and capture more value than their competitors by creating a better experience towards its customers. Another aspect that he stated was essential in creating value was that leaders had to develop more courage and boldness in taking chances, if they do not, then the firm will not create or capture any new value. Expert 2 also stated that leaders need to change and become bolder, to be able to make the difficult changes in the existing business model. Expert 2 specified that in order to create and capture value in the firm, it is more important to have the knowledge and innovative thinking, then it is to have physical assets.

**Expert 1 on creating value:** “Firms have to go towards the market development and look at what the market is demanding and try to adapt its products. They need to figure out how they can skip two steps against the market and develop a product where you can skip these two steps.”

### 4.4 Decision-making process in the incumbent firm

The last theme connects to the thesis third research question by looking at the communication and decision-making process in the firm when it comes to business model innovation. During the analysis, we found that two sub-themes emerged out of this question, these are; communication & structure, and culture & leadership. Questions in this context were aimed to ask the respondents about how they perceived the decision-making process in the firm. Also, the respondents were asked about how they perceived that the firm promotes creativity and openness towards coming up with and developing new ideas.

#### 4.4.1 Communication & Structure

To gain a deeper understanding of how the incumbent firms work with business model innovation inside the firm, we asked the respondents questions surrounding the structural aspects of the firms, as well as how decisions were mainly made within the firm. When asking these types of questions, we tried to connect back to the theoretical frameworks that we have used, such as the strategic entrepreneurship (fig. 7) and the 4I framework (fig. 6), as well as the integrative business model innovation framework (fig. 5).

The incumbent firms all spoke about a decentralization within the firm which enabled them to make decisions closer to their customers and become agiler. Although the decentralization made them more adaptable, the Banking Co also indicated that due to their decentralization it was sometimes unclear who actually was in charge and could take the big decisions. However, they also spoke about a more rigorous organization that had become top-down structured in recent years. The Technology Co and Production Co both states that the reason for that was because of their global growth and the speed that comes with it, while the Banking Co said that they had been forced due to new regulations for banks. This change has also led to that the firms have become slower in their processes and that decisions have to come more from the top of the firm.

Software Co stated that communication could be hard in the incumbent firm. In this managers case, he sat in an executive circle where he could bring forth ideas that would either get rejected or accepted. The manager meant that there are both benefits and disadvantages with this. The benefits were that one meets people that can indeed affect the firm’s products and strategy. However, the negative part was that these meeting and discussions rarely led to anything real, most monthly meetings were actually useless. Software Co: *It is something that*
is changing and getting improved... However, in large incumbent firms like ourselves, it takes time, that is the way it is.”

When it came to the structure of Software Co, the findings were pretty similar to the other incumbent firms. Even though they were a multinational firm, they had a reasonably centralized structure. Most of the leadership decisions came from Germany which was not strange as it is a German firm. They used a German model where they had a supervisory board, then the CEO who is the leader of the executive board. The respondent goes on by saying that that it is very centralized at the top, however, when moving lower down in the firm, it becomes more decentralized due to different business demands.

**Technology Co:** “It has changed a lot, mostly because the firm has become more global which has led to a change in culture and where the decisions come from, because it is a matrix organization.”

What was notable in the respondent’s answers when describing the business model was that they could not give a simple answer. The reason for this was that the firms are so big and complicated that they have several business models at different levels of the firm. Technology Co stated that they have four entirely different functions, that act in different industries, and thus they all have very different business models. Also, within those functions, they have different business models aimed at different customer segments. The respondent went on to say that one can view these business models as being on the firm level which requires extensive change. Then there are the business models on a product and service level that does not require the same extensive change as on firm level. Instead, these changes on product and service level can be done fast and do not require the same level of decision-making.

When discussing this topic with the experts, their answers provided an exciting view that was different from the incumbent’s answers. Expert 1 stated that the process in incumbent firms are too complicated and rigid today. He continued by saying that there is a significant need to have new processes that promote change and the ability to identify and exploit opportunities on the market. Unfortunately, that is rarely the case in incumbent firms, in his experience, most organizations are somewhat square in their way of thinking and prefer only slightly to adjust the current way of working. In today’s incumbent firms, meetings are rigid, and new ideas do not come up as they could, here expert 1 sees a need for a different structure. Expert 2 was on the same line, saying that there is a needs to have a bottom-up approach. By having a bottom-up approach you can attack the problem with a solution directly which you then can bring to the board and explain, here is the problem and this is the solution. Both experts were saying that firms need to be able to find a better balance between the young and new people that have fresh new ideas, with the older generation that does not want to change from what they already know. Therefore, it is the most significant dilemma today in incumbent firms. The experts are also adamant in saying that the structure and process of the firms are way too rigid for today’s fast and dynamic market.

**Expert 2:** “Hopefully you can get the mid-level, you know the 45-year-old something that’s going to be around for a while to join the younger teams. However, then they also have to be equal and listen to them too, and that is hard professionally because most professionals are proud, a little bit arrogant. Because they have been around a long time and close-minded, and they do not risk it, and they do not like taking orders and listening to younger people. That is the biggest problem I see.”
4.4.2 Culture & Leadership

A significant part of the interview was to find out how the respondents viewed the culture and leadership of the firm. The reason we wanted to get their perceptions on this was to get a more in-depth understanding of the decision-making process and how it connects the ideation phase of business model innovation.

All the incumbent firms said that there was a great open culture in their firms. When asking them if they believed that anyone in the firm could come with new ideas that could potentially improve the business model, they all believed that was the case. Productivity Co said, “It is absolutely an open and good culture to come with suggestions and ideas.” Banking Co said that she believed there was an open culture to develop ideas but could not give any examples of when it had happened. Banking Co said that it is possible that the bank will see someone develop an idea internally in the future, but that they are not there yet, and it felt pretty far away. The Banking Co had a culture that builds on tradition and history which could be seen when the respondent spoke about specific issues saying that we are a traditional bank who believe on the physical meeting with customers and a customer should be able to withdraw money at all our offices.

**Productivity Co:** “Idea to Project as it is called, is when you send in your idea, and then it gets evaluated by the IT-function to see if there already exists a solution or if it is something that they can develop and evaluate. If so, then it goes through the organizational process.”

Technology Co felt that the firm still has, and historically has had an open culture that promotes new ideas from its employees. However, the current direction of the firm is going towards a more centralized and top-down structure which has led to less flexibility for the different functions. Technology Co had a business development process for developing new ideas internally, with this process, the firm communicates the firm’s strategy through the organization. From there they build teams that can develop ideas based on what they know. It is a structured process where leaders meet with the teams and discuss the strategy based on that they develop new ideas. They also had a strategy within the firm where they give every employee the chance to use 5 percent of their time to work on their own ideas, which is a strategy to develop new ideas for the firm.

**Technology Co:** “There can come business ideas, I mean you can develop business models from the bottom as well. There is a great openness within Technology Co, it is not always top-down, there are big engagement and opportunities to say I have found something that I think is important, and Technology Co listens to that.”

Based on the findings from Software Co, there was also a culture that promoted innovation from its employees. The respondent stated that his employees can come with suggestions and ideas to him and that he acts as their voice to the higher level of executives in the firm. He also means that this can be different depending on the leader. His leadership philosophy is to help coach his employees if they have an idea that they want to execute. If the idea is something that is not appreciated in the firm than the employee can either go on by solving the problem or abandoning the idea, either way, they have learned something from the process. However, he also means that there are other leaders that instead take the credit and if the something goes wrong then they blame their employees. As Software Co is a large multinational firm, it has both types of leaders.
Once again the experts gave somewhat contradictory answers against what the incumbent firms said. When expert 2 was discussing leadership in incumbent firms, the most significant problem he saw was that the leaders and firm gets stuck in the competency trap. He meant that top management will not change, or that it is almost impossible to change, and that is why the firms need to have a strong and active CEO who is smart and can innovate for the future and work with younger people. Again, saying that it is crucial for firms to work with younger people that have less invested in the firm and that are more fearless. Both experts went in on these points and saying that in today’s incumbent firms, the problem is that there are too much conformity and fear at the top. People do not want to take risks because they want to move up in the firm and can’t afford to screw up. Expert 1 goes on by saying that there is a big difference in agility and culture when it comes to startups and incumbent firms. With this, he means that incumbent firms need to become more entrepreneurial in their structure and environment. There needs to be a change in leadership and philosophy within these firms.

What was evident with both experts’ answers was that incumbent firms had to adopt a more open view and culture of change. If firms cannot show courage and move forward, then they cannot create any new value. Firms need to change patterns of leadership and change the culture so that ideas can be generated from all levels of the firm. The culture needs to be one where people are not afraid of coming with new ideas and being judged, there needs to be a culture that promotes ideas to be tested.

**Expert 1:** “There is a need to adopt more entrepreneurship in incumbent firms. They are sitting in rigid structures today, and there is where the problem lays.”

The empirical results in this section thus highlight different elements and aspects that are important when it comes to innovating the business model. Much of the results from the respondents show strategic elements that the incumbent firms have ingrained into the organization. In the next section, we will analysis and discuss these empirical findings together with the previous literature and frameworks. Moreover, we will use the experts’ answers to highlight and strengthen what aspects of the incumbent firms that need to change in order to become better at identifying and exploiting opportunities and drivers in their environment. Further, we argue for what needs to change in incumbent firms and how they can efficiently apply strategic entrepreneurship into their strategic thinking.
5. Discussion

In this chapter, we discuss the empirical findings together with the theoretical frameworks that have been brought forth in the theoretical section. Most importantly, we will show how these findings can be connected back to the strategic entrepreneurship framework. Further, we will discuss the empirical findings and strategic entrepreneurship theory with the existing business model and business model innovation frameworks. By doing this, we contribute by rising the abstraction level of how incumbent firms can improve their ability to innovate the business model.

Concerning the research question and purpose of this thesis, the empirical findings have allowed us to gain a deeper understanding of how the process of business model innovation works in incumbent firms. The results have also contributed to a better understanding of how incumbent firms work with exploring and exploiting opportunities on the market. The purpose of this chapter is to build upon those empirical findings and connect them back to the theoretical frameworks and thus contribute to new insights. Most significantly, bringing strategic entrepreneurship into the business model context. The main insights of the study are threefold: first, we show how incumbent firms explore and exploit opportunities. Second, we identify what the primary drivers are for incumbent firms to innovate their business model. Thirdly, we describe how the decision-making process looks like within the incumbent firm when it comes to business model innovation. We answer these questions by combining the empirical findings with the existing theory in the fields of business model, innovation, strategy, and entrepreneurship.

Our findings show that the process of business model innovation in incumbent firms is a complex phenomenon in which firms struggle. We illustrate our findings by using mainly three separate theoretical frameworks; these are the 4I framework (fig. 6) by Frankenberger et al., (2013), integrative business model innovation framework (fig. 5) by Wirtz and Daiser (2017), and strategic entrepreneurship framework (fig. 7) by Ireland et al., (2003). These frameworks together with our findings create a more holistic view of the business model innovation process within incumbent firms. Also, it strengthens the argument for implementing a strategic entrepreneurship perspective to the process, which was called upon by Schneider and Spieth (2013, p. 19). Thus, complementing the already existing resource- and dynamic- perspectives. We show that the strategic entrepreneurship perspective becomes useful for incumbent firms, as it allows for simultaneous consideration of the incumbent firm’s internal situation and external opportunities. The perspective also highlights the entrepreneurial action of incumbent firms. With this, we bring further insight into how incumbent firms that are exposed to uncertainty need to reconfigure their established ways of doing business to respond to changing sources of value creation (Schneider & Spieth, 2013, p. 19).

Our study provides a comprehensive view of the challenges that incumbent firms face when dealing with change and innovation. While there are many other previous contributions in the business model field that highlight similar challenges, there is none that take on the strategic entrepreneurship view of the firm. In the following part, we elaborate on these aspects in more detail.
5.1 Exploring Opportunities to Innovate the Business Model

Our main research question was aimed to understand how incumbent firms explore opportunities to innovate their business model. It is a question that has not been adequately explored in previous research. The reason why this question becomes so crucial for incumbent firms is that change is increasing rapidly, and firms need to adapt much faster as a result. By asking this question, we wanted to understand how incumbent firms were adapting to this new market, what kind of strategies they were deploying together with their business model. Business model innovation is already seen as a vital competency for firms to successfully act and react in today’s dynamic market and competitive landscape (Wirtz & Daiser, 2017, p. 21). Therefore, understanding how to explore and exploit opportunities becomes a vital question for incumbent firms. Furthermore, we have divided the respondents into two groups, incumbent firms and experts, partly because the incumbent firms mainly describe how it is in their firm while the experts give suggestions on how it could and should be in incumbent firms, and partly to make the discussion easier to follow.

5.1.2 Dynamics Between Central and Environmental Business Model Innovation Dimensions

When discussing the external and internal elements of the incumbent firm with the respondents, and how they perceived the firm’s skill to sense and identify opportunities to innovate the business model. Two themes emerged from the analysis and empirical results, and these were strategy and change process. These elements of business model innovation can directly be applied to what Wirtz and Daiser (2017, p. 21) find to be the dynamics between a firm’s central business model innovation elements and the environmental elements. Environmental in this case means macro, e.g., technology, industry/market shifts, regulatory issues, and micro factors, e.g., changing customer needs, product and service innovation, competition and firm dynamics. One of the central business model innovation elements refers to the techniques and tools that firms use to explore and exploit the environmental dimension. In this thesis and from the empirical results this can be referred to the different types of strategies that the incumbent firms deployed to take advantage of market opportunities.

All the incumbent firms acknowledged that the environments that they acted in were rapidly changing, and they discussed different ways in which they have created new knowledge and renewal in the firms. Both Technology Co and Productivity Co used specific models for creating value for their customers, and these were value-by-selling and value proposition canvas. Software Co used the business model canvas as a strategy as well as design-thinking to see how they can continue to develop the business models of the firm towards the dynamic markets that they were active. The business models of Technology Co, Productivity Co and Software Co was built to be aggressive and to innovate their products and services internally. Therefore, these firms invested heavily in research and development to be able to be the market leader in their respective industries. Whereas Banking Co had a clear defensive and conservative strategy, they were more careful in implementing new technologies within their existing business model. Instead, they had a strategy where they scanned the market for new technologies and trends and more incrementally integrated these into their business model. The Software Co was in an exponential phase at the moment where they acquired startups to gain access to new technologies as a part of their strategy, while simultaneously making strategic alliances and partnerships. The Software Co ideas to almost see startups as their research and development unit corresponds with the view of the experts which concurs with Ireland and Webb (2007, p. 53) view on using startups and venture capitals as research and development departments for incumbent firms. These kinds of strategies can also be
connected to Eppler et al., (2011, p. 1324) who explains that tools and methods can help firms provide structure and guidance for systematic knowledge creation. Thus, it helps firms to pool information both externally and internally.

The respondent from the Software Co stressed the importance of taking into consideration the partner and customer side when applying new technology to their service or product. Sometimes they even decided not to implement new technologies because of the concern from their customers. The respondent pointed out that if they change one part of the business model, or implemented new technologies, it would have a ripple effect of the whole offering to their customers and partners, so they had to analyze the situation thoroughly before making any changes. This statement affirms the complexity in Wirtz and Daiser’s (2017) model whereas the micro and macro dimensions have an impact on each other. While something happens on a macro level, it affects the micro level for a firm and vice versa, just as Johnson et al. (2008, p. 61) explain in their model concerning interdependencies. Another aspect that came up during the interview was risk aversion in different forms. Some of the respondents spoke about a thorough review of the innovations before any implementation, and if the innovation did not fit into all their steps and requirements, it did not get the green light to go on into development and implementation. This type of cautious behavior might hinder the firms from moving forward even though the firms avoid potential losses, the aspect of missed opportunities is by far more significant according to the experts.

The experts stated that the way that incumbent firms today grow and create innovation is by having an aggressive acquisition strategy. Thus, this is in line with Technology Co, Productivity Co, and Software Co whom all have an aggressive acquisition strategy. Technology Co, however, also said that they seek external knowledge by having partnerships and cooperating closely with researchers and universities as well. Wirtz and Daiser (2017, p. 22) imply that it is an essential dimension for incumbent firms to have techniques and tools to gather information and having a process to transform it to applicable knowledge. The experts, however, painted a different picture than the incumbent firms. They meant that the process of creating and exploiting new knowledge was a challenge for large firms. These firms tend to fall into a competency trap expert 2 said. Chesbrough (2007, p. 16), strengthens this point by stating that incumbent firms struggle to innovate their business model because of the inertia that exists. He means that top managers have reached their position through the current business model and they know exactly how it works and how to exploit its advantages. Therefore, they become less comfortable with anything that differs from that model.

Another aspect that the experts bring up is, as they see it, that incumbent firms in general focus too much on short-term profits and reporting good numbers for their shareholders and the stock market. If they instead would focus on a more long-term strategy, where the focus of the business model is on the market and the environment instead of product and service development, it would benefit the firms in a more sustainable way. Moreover, if the incumbent firm’s lets go of the short-term view, it would be easier to have a more open and forgiving atmosphere at the firm so that employees would dare to, and have the chance to, promote new ideas and findings in their surroundings and hopefully avoid the competency trap. This way would lead the incumbent firm to have a broader view on the market, both the micro and the macro view, which is imperative according to Wirtz and Daiser (2017, p. 22). Moreover, this is something that strategic entrepreneurship also places a big focus on (Ireland et al., 2003, p. 970).
5.1.3 Business Model Innovation Intensity

Another issue that was discussed and analyzed from the respondent’s answers is how radical or intense their past business model changes had been. Most business model innovations are expected to be incremental, meaning they only require some business model modifications (Wirtz & Daiser, 2017, p. 23). This aspect becomes essential to understand because the different intensity will be associated with different levels of risk and efforts to change. Most changes to the business model were incremental based on the respondent’s answers. Technology Co meant that most changes are rather small and occur in the lower levels of the business models. Thus, these changes could be done internally by the firm itself and did not require too much effort. However, when the more significant changes happened, they needed to bring in consultants that could help them in the process, a theme that was prevalent in all the incumbent firms. They all talked about making incremental changes to the existing business models, and on occasion when they had to make more radical changes, they would bring in consultants to assist them.

Again, the experts strengthened this fact by stating that incumbent firms have invested too much in their existing business models that they become barriers in themselves and very hard to change. So, the only thing these incumbent firms can do is to continue to improve upon their existing business model and make incremental changes to keep up with the market until it disappears entirely. The expert also states that it is not that the incumbent firms do not know that they need to change, but instead that they are not able to because of too many barriers in the existing business model. Christensen et al., (2016, p. 4), highlight this problem by saying that business models are by their very nature designed not to change, and as time goes by the business model becomes less flexible and resistant to change.

5.1.4 Managing resources strategically

A critical aspect of strategic entrepreneurship is to understand how firms can manage their resources strategically, and this is adopted directly from the resource-based view (Ireland et al., 2003, p. 937). When we talk about resources, we mean tangible and intangible assets that an incumbent firm uses when choosing and implementing its strategies. A crucial aspect for incumbent firms becomes their ability to manage their resources strategically. There are three types of capabilities that the incumbent firms have to manage successfully, and these are; Financial, Human, and Social capital.

Financial Capital. One of the more significant advantages of an incumbent firm is that they often have different monetary resources that they can use to develop and implement strategies. Thus, incumbent firms that have substantial financial resources have the ability to identify and exploit entrepreneurial opportunities (Ireland et al., 2003, p. 273). With financial capital, the incumbent firms can acquire significant tangible and intangible resources. In the case of the respondents, this was an aspect that all the incumbent firms identified as a clear strategy which they used frequently. By taking advantage of their financial resources, all the respondents stated that they could exploit opportunities on the market that enhanced their business model. A challenge here for the incumbent firms is, however, that they need to be able to distribute their financial resources to new ventures that might be independent of the current firm. The amount of financial capital will thus depend on the quality, width, and depth of the incumbent firm’s human capital and social capital. One example of this was at the Software Co; they had a fund where employees could apply for a grant to start up a new idea. Both experts meant that incumbent firms have to become better at this. Today they believed that most incumbent firms focused on short-term profits and reporting good numbers to the
shareholders. They instead believed that incumbent firms need to be better at seeing into the future and use their current profits to plan for future change.

**Human Capital.** Arguably the most valuable resource for a firm is the human capital. This type of resource was discussed a lot during our interviews with the incumbent firms. It is no surprise that it is a resource that is critical to their success. Human capital is the knowledge and skill of the firm’s entire workforce (Ireland et al., 2003, p. 974). Most of a firm’s knowledge and skill resides in its human capital, and it is the tacit knowledge that a firm possesses that is the source of competitive advantage. Tacit knowledge represents what the firm knows, how to compete in its industry, to innovate, and to identify and exploit opportunities. Therefore, a firm’s ability to access and absorb knowledge will affect the firm’s effort to create value. The Technology firm stated that they put a lot of resources into this by working closely with researchers and universities to generate and to absorb new knowledge into their firm. Expert 1 found this to be one of the crucial aspects that incumbent firms have to change. He meant that firms need to become better at utilizing the internal knowledge to gain new knowledge that resides outside the firm. Doing this would, in turn, contribute to the development of innovation, especially in such a rapidly changing knowledge environment. Expert 2 was on the same point saying that incumbent firms and the individuals working within them must have the capacity to absorb new knowledge into their operations to create innovation. These arguments link to the need for incumbent firms needing to have absorptive capacities to recognize and exploit opportunities (Ireland et al., 2003, p. 975).

**Social Capital.** The third resource that becomes vital for the incumbent firms is social capital, which is the set of relationships between individuals and between individuals and the incumbent firm. Social capital becomes the entire set of value-creating resources that accrue to the incumbent firm due to its network of intra-firm and inter-firm relationships. In turn, this helps the incumbent firm to gain access to, and control of resources to absorb knowledge (Ireland et al., 2003, p. 976). Social capital was also a key aspect that emerged from the interviews and analysis, both experts stating that the horizontal and vertical collaboration needs to improve. Improving collaboration among personnel would lead to positive outcomes in social capital facilitating value-creating activities. Thus, incumbent firms should rely on their internal social capital to transform knowledge in a way that will support them in exploiting opportunities. Internal social capital is therefore closely related to the incumbent firm’s absorptive capacity (Ireland et al., 2003, p. 976). An aspect that expert 2 emphasized was to get the old and the young people to work together to nurture and exploit the experienced with the new employees. External social capital, e.g., strategic alliances, also become essential as important as incumbent firms rely on these as a source of new knowledge, as well as to exploit opportunities.

5.1.5 Applying creativity and developing innovation

We have seen several examples of innovative first movers that have destroyed incumbents’ market power and thus reaped monopoly advantages and abnormal profits because of rivals lagged responses, e.g., Airbnb, Uber, and Amazon. What these kinds of firms have done is to create innovative solutions that eliminate obsolete goods, services, and production methods. Thus, this becomes an endless cycle as, eventually, even newer and more efficient advances will destroy those innovations (Ireland et al., 2003, p. 980). Hence, for incumbent firms to survive these waves of creative destruction, and instead serve as a catalyst for those gales, incumbent firms need to become more creative to develop innovation.
**Bisociation.** In order for the incumbent firms to become more effective in creating innovation, a part of the actions that should be taken is a process called bisociation. Bisociation occurs when individuals combine two or more previously unrelated matrices of skills and information to identify an opportunity, or to help shape competitive advantage for the firm. Thus, following a conscious and sequential process of experimentation and reasoning, bisociation can help in the development and use of innovation (Ireland et al., 2003, p. 981). From the respondents in our research, the closest things we could relate to be the cross-functional teams that existed within all the firms to some extent. However, the most apparent relation might be connected to the Technology Co who arranged meetings between employees and researchers as well as connections to particular universities to get new input on the industry.

**Creativity.** As the empirical results shows, incumbent firms should foster a more creative environment for the employees. Creativity has become even more critical for incumbent firms that operate in markets with several opportunities to differentiate its goods and services. Creativity should also be seen as an ongoing process rather than the outcome of single acts. It becomes the basis for innovation and is supported when the incumbent’s resources are managed strategically. From the results, we could see that the incumbent firms mostly described creativity coming from organizational actors that had substantial knowledge in a given area. Thus, this will most likely produce sustaining innovation for the firms, which was the case in many of the respondent’s answers. However, what strategic entrepreneurship implies is that having organizational actors with a breadth of knowledge across different disciplines will more likely create creativity in a way that leads to disruptive innovation (Ireland et al., 2003, p. 981). The experts once again emphasized the importance of having a mixed age spectrum within the firm and getting them to work with each other to generate creativity and development together with a forgiving environment where it is okay to fail from time to time.

There are two types of innovation that incumbent firms can engage in; disruptive and sustainable innovation (Christensen, 1997). As we have shown from the empirical findings, incumbent firms mostly partake in sustaining innovation which leads to an incremental change to the business model. Incremental change is, therefore, a product of learning how to exploit better existing capabilities in the incumbent firm, which can contribute to a competitive advantage. However, disruptive innovation comes more from the incumbent’s ability to identify and exploit opportunities through new combinations of resources that create new capabilities, which in turn creates competitive advantage. So, if the incumbent firms would start focusing more on the market and future, as the experts propose, instead of product development and short-term profits, they, would have a more significant opportunity to create more disruptive innovations. Therefore, if incumbent firms can apply strategic entrepreneurship efficiently, they will be able to engage in both disruptive and sustaining business model innovation (Ireland et al., 2003, p. 981).

From our empirical findings, we could see that the incumbent firms that were market leaders in their respective industries, focused mainly on improving their current goods and services. Consequently, this is what makes disruptive innovation possible for new entrants, because the incumbents fail to recognize less complicated, more convenient, and more affordable innovations that would satisfy basic customer needs (Ireland et al., 2003, p. 982). Expert 1 provided an excellent example in this context, a firm he was leading was able to simplify and eliminate specific components of the business model which gave them a competitive advantage. Only by genuinely integrating opportunity-seeking behavior with advantage-
seeking behavior can a firm develop disruptive business model innovation. Thus, disruptive innovation is a product of strategic entrepreneurship. However, as we saw with our empirical findings, top-managers in incumbent firms tend to view disruptive innovation as a threat to the firm’s current business model. Based on the results from the interviewed experts, this seems to be one of the most significant barriers for incumbent firms towards innovating their business model. Managers that have been in the firms for more prolonged periods tend to see that the firm’s present performance validates its current business model which corresponds with Chesbrough (2007, p. 16) ideas concerning inertia within incumbent firms.

Sustainable innovation is, however, not a bad strategy for incumbent firms. It helps incumbent firms to earn higher margins by providing better products and services to their customers. Incremental improvements thus help incumbent firms to extend its existing competitive advantages, as the case was for the incumbent firms in this study. At some point, however, these kinds of incremental improvements exceed customers’ needs and thus creating an entry point for disruptive innovation (Ireland et al., 2003, p. 982). Therefore, successfully practicing strategic entrepreneurship can help incumbent firms to find a balance between pursuing sustaining innovation and disruptive innovation. Thus, too much emphasis on sustaining innovation will result in the incumbent firm failing to recognize and exploit new opportunities. Moreover, too much emphasis on pursuing disruptive innovation will make it difficult for the incumbent firm to sustain competitive advantages that they produce, and to maximize value from those innovations. Implementing an effective use of strategic entrepreneurship into the incumbent firm should thus lead to a comprehensive and integrated commitment to both sustaining and disruptive innovation that drives value creation and capture (Ireland et al., 2003, p. 983). Which is something that expert 2 mentions when he talks about a firm having both, a part of one’s workforce which keeps working with the old and established ways to generate revenue and to keep up appearances. And on the other hand, a different part of the firm which focuses on innovating and applying new models and processes. Thus, finding a balance is essential for the incumbent firm.

5.2 Drivers for Innovating the Business Model

To understand why and how incumbent firms explore and exploit opportunities one has to understand the underlying drivers and what kind of value they strive towards creating and capturing to support those possibilities. In this section we will discuss and analyze the data gathered from those subjects and connect them back to the three frameworks that are central to this study; The 4I-framework of business model innovation process (fig. 6) by Frankenberger et al. (2013), The integrative business model innovation framework (fig. 5) by Wirtz and Daiser (2017), and Strategic entrepreneurship framework (fig. 7) by Ireland et al. (2003). Due to different viewpoints on what drives incumbent firms to innovate among the respondents, we decided to keep the experts separated from the other respondents to enable a clearer discussion and comparison between the two viewpoints.

5.2.1 Environmental Business Model Innovation Dimensions

The main driver of innovating the business model that all the respondents acknowledged, was the development of new technologies. Especially this was emphasized by the Technology Co and Software Co, since their area of expertise concerns that specific issue and have the ambition to be market leaders. The Productivity Co also stressed the importance of new technologies within their products and the way of delivering their service as a significant driver. Thus, connecting back to earlier research that points towards the fact the incumbent firms are driven by new technologies (Chesbrough, 2010, p. 359;). When looking at Wirtz and
Daiser’s model (2017), we can see a connection between the environmental business innovation model dimension, that cover macro and micro markets as drivers. External business model innovation factors, e.g., deregulations and globalization, have led to a more dynamic market. Thus, this leads to continually changing stakeholder preferences. Therefore, the incumbent firm’s business model is concerned with the interaction with the firm’s environment. As the previous literature and this study shows, business model innovation that is driven by technology has gotten more attention by the firms. Even though the technology itself does not have a single objective value, firms are more aware today that it can be commercialized through their business models (Chesbrough, 2010). Also, many incumbent firms are more aware that technology may pose a severe threat, or opportunity, to entire industries as business models that are built up by technology usually spread out over entire markets (Wirtz and Daiser, 2017, p. 19).

In our study, all the respondent firms relate to the macro aspects of the model, i.e., regulatory changes, technology developments mainly, but also globalization and industry/market shifts. When the respondents talked about digitalization, they all hinted that it had a significant impact on their business during the last 10 to 15 years. It has forced a change in their way of communicating and market their products and services, but also it has opened up to new possibilities to integrate it into the firm’s products and services in different ways. Software Co means that to create sustainable success, they need to prepare for the future. They mean that technology is transforming how they and society as a whole are doing business. Big Data, the Internet of Things, and Artificial Intelligence together with social trends are driving the way we are living and working. Scanning the market and exploiting new technologies which this implies, can also be connected to what Ireland et al., (2003) identifies as an entrepreneurial mindset whereas firms encourage their employees to both explore and exploit new ideas and technologies that surround them. The critical connection here, something that all the respondent firms explained that they had, is that anyone within the firm can come up with a suggestion for improvements or changes.

On the other side of that same model, there are the micro factors in the environment, the ones that affect a firm’s initiatives to change their business model (Wirtz & Daiser, 2017). Among these factors, the customer needs are essential just as all the respondent firms imply. They all have the drive to make their products and services meet the customers need to improve the customer value. Something that the Banking Co especially stresses in their business model. They do not speak about products or sales targets, but rather the “customer journey” which has a more holistic view of a person’s interaction with the bank, from the first contact into an infinite future. The other respondent firms also speak about improving their products and services to generate high customer value, but they see product and service development more as a means to reach those goals. Software Co saying that firms need to become agiler and laser-focused on driving customer value. Incumbent firms also need to become more data-driven and run the firm on real-time information to react to market and customer changing demands. Thus, incumbent firms have to create innovation capabilities towards their business model by continuously creating new products and services, and entering new business areas (Wirtz and Daiser, 2017, p 19).

From the expert’s point of view, technology development was the most significant driver for incumbent firms today. However, expert 1 stated that the will to change has to come from within the firm but be based on what happens on the market and one’s knowledge about the customers. Expert 2, while acknowledging technology as a significant driver, he also stressed the political and regulatory changes and insinuated that those changes had the most significant
and most drastic impact on incumbent firms which concurs with Foss and Saebi (2017, p. 219) view on regulations as the biggest driver. However, expert 2 still saw technological development as the most common and ongoing driver for incumbent firms. Both experts spoke about the transition from analog to digital as a current central issue for incumbent firms, stating that the value of products is shifting from raw material into pure technology. In other words, one could say that the main drivers, according to the experts, comes from the macro environment within Wirtz and Daiser’s model (2017).

5.2.2 Business model innovation factors

The business model innovation factors are about value, to whom shall we deliver it? What is our value proposition? Also, how should we deliver the value? (Wirtz & Daiser, 2017). While all the incumbent firms in this study agree that they had a strong customer focus, the aspect on how to deliver that value differentiate them. The Technology Co points out that the way they create value is via delivering high technology products, so they spend significant amounts on research and development at their firm. They also imply that their brand in itself generates value, due to their history and reliability in providing high tech products of premium quality. The Productivity Co also agrees that technology is vital to them, they speak about incorporating technology into their products to make it better and more user-friendly, and that is how they create value for their customers. The Banking Co offers value by keeping the face-to-face meetings with their customers and creating an understanding of their customers need to offer what the individual customer wants. The overarching themes seem to be constant in the incumbent firms, but the way they deliver value to their customers change over time, mostly due to technology and the demand from their customers which corresponds with the central parts of Wirtz and Daiser’s (2017) business model innovation dimensions.

The Experts speak about the issue with a more open view, but they both state that most value no longer lies in the products or services, but instead in the way those are delivered and how technology is integrated. They mean that incumbent firms need to have a better understanding of what the market is asking for and what the competition is doing in order to generate actual value that benefits the customers and the firm itself. According to expert 1 one’s firm only has to deliver slightly higher value than that of the competition, so to be blunt, a firm does not have to deliver the best they can as long as they are better than the competition. However, the most important thing according to the experts is to have leaders that are bold and strong so that they can push through an actual change in how a firm thinks about value and delivering that value to the customers.

5.2.3 Initiation and Ideation phase

Initiation
From the empirical results, we can see that all the incumbent firms have different ambitions to innovate their products and services to offer better value to their customers changing needs. Thus, this can be applied to what Frankenberger et al. (2013) mean is one of the change drivers in the initiation phase of innovating the business model. The initiation phase relates to the firm’s ability to monitor and understand the surrounding environment. From our findings, we could see that a challenge for some of the incumbent firms seemed to be to understand the need of different stakeholders. Moreover, this is in line with what Frankenberger et al., (2013) found in their study as well. The stakeholder’s needs and moves directly or indirectly influence the incumbent firms and become the starting point for making changes to the business model. Another part of the initiation phase is to scan the firms surrounding and see what competitors are doing as well as what technological developments that are emerging
(Frankenberger et al., 2013). Thus, another challenge was to identify the change drivers, and which to integrate into the business model. The incumbent firms all addressed different ways in which they monitored their different stakeholders. Software Co, for example, has invested in over 130 technology firms in five continents that are in the growth stage, a strategy from their side to better understand and keep up with new trends in the market. As mentioned earlier with Banking Co, the regulatory change had brought new competition into the market, and thus, Banking Co had to make changes to the business model. The respondents all addressed that going to conferences was an integral part when scanning the market, to both see what others are doing, and to see what technological developments are emerging. The firms did this to find out if there was something that they could imitate and incorporate into their own business.

Expert 1 heavily addresses the need to understand one’s firm’s position on the market, setting up goals and, to be able to actualize strategies to reach the goals. The most important driver is therefore, the understanding of the changing market around your firm. Which can be connected to the initiation phase in Frankenberger et al., (2013) model concerning spotting change drivers and acting upon them. Expert 2 believes that incumbent firms have become better at spotting change and change drivers compared to 15-20 years ago. However, he still thinks that they have built-in inertia due to their size and sometimes their traditions that makes it hard to adapt and change with these new shifts.

**Ideation**

The next challenge for incumbent firms is how they transform opportunities on the market or from the initiation phase into ideas for the business model. From our empirical findings, we could see that one of the more significant challenges was overcoming current business model and thinking outside the box. According to the Experts, the most significant issue is, as mentioned before, concerns how to impose a strong leadership and find leaders who can see change, and who wants to change. The firms also have to search for possibilities to take advantage of and incorporate technology and digitalization into their offerings to a greater extent. By doing that, there is a possibility to not just catch up with competition but to skip ahead of them in one leap.

Software Co provided an example of how they practice in coming up with new ideas. They use the design thinking concept as a primary strategy for generating ideas in the business model. With design thinking, they go through the process of identifying what the customer wants, how to deliver it to the customer, what is the costs associated, and so on. It becomes a brainstorming session that stretches over several days. Based on the empirical results, we could also identify that the incumbent firms had problems in thinking in business model terms. Most of the answers to these kinds of ideation processes were aimed at product development when solving a problem. Thus, this shows that it is still hard for managers to have a business model thinking attitude (Frankenberger et al., 2013, p. 261).

5.2.4 Entrepreneurial mindset

When it comes to the entrepreneurial mindset in incumbent firms, concerning strategic entrepreneurship, it is essential for a firm to be able to spot opportunities in one’s surroundings. Being able to recognize opportunities becomes a key activity to create value, and thus becomes a common outcome of an entrepreneurial mindset (Ireland et al., 2003, p. 968). So far in this thesis, we have shown that changing demographics, social changes, emergence of new segments, regulatory and technology changes are all important drivers for the incumbent firms. The reason for this is that these changes may create new opportunities
for the incumbent firms. Therefore, it is vital for incumbent firms to have an entrepreneurial mindset. However, as in the context of the incumbent firms, we have seen that there are different levels of entrepreneurial mindset depending on the firm and industry. Both Productivity Co and Banking Co mention that they have cross-functional teams and to brainstorm and look for opportunities. The Productivity Co especially talks about this and how different departments can come with their expertise during the development phase of a product or service. All respondent firms, however, spoke about an open environment whereas anyone could come up with suggestions and they were encouraged to do so, which is an important part of manifesting the entrepreneurial mindset according to Ireland et al., (2003, p. 970).

The experts, on the other hand, had a different view on this part. They saw the importance of having cross-functional teams and how that could generate new and improved ideas, but they did not believe that that was the case in today’s incumbent firms. From their experience, most incumbent firms are rigid and top-down structured which makes it hard for people further down the line to have an impact.

Entrepreneurial alertness. Incumbent firms that have the ability to identify when a new business model becomes feasible possess entrepreneurial alertness. Kirzner (1997) meant that entrepreneurial alertness could be seen as “flashes of superior insight.” Thus, if incumbent firms possess entrepreneurial alertness, this, in turn, can promote and stimulate the development of entrepreneurial culture and leadership in the organization. For a firm to implement these capabilities, they need to; instill a passion for pursuing entrepreneurial opportunities, and for seeking disruption to the current conduct of business. Pursue the most promising opportunities and maintain an inventory of those opportunities which they can pursue when they can offer a competitive advantage. Have a constant focus on execution, analyze and move quickly to exploit them rather than over-analyzing them. Lastly, engage everyone in the incumbent firm to identify and pursue opportunities (Ireland et al., 2003, p. 968). Software Co said for example that they have to invest in disruptive technologies by using an “open innovation” approach that focuses on both internal and external startups.

Real options logic. Commonly known as a term of financial assets where an option is the right, but not the obligation, to buy or sell an asset. In this context, the asset is regarded as, e.g., human, organizational, or physical capital. Incumbent firms can use real options logic to enhance their strategic flexibility when it comes to dealing with uncertainties associated with identifying and pursuing opportunities (Ireland et al., 2003, p. 969). For example, Software Co highly invests and supports entrepreneurs that aspire to build industry-leading businesses. By doing so, they can pursue opportunities which can help fuel growth by adding expertise, relationships, and capital. Thus, they can find a balance between risk and return, to pursue these further in the future or by dropping them without losing too much. By adopting a real options logic, the limited investment the incumbent firms make into the opportunity will provide information that suggests potential value creation and further investment in the identified opportunity (Ireland et al., 2003, p. 969).

Entrepreneurial framework. In order for the incumbent firm to create value through an entrepreneurial mindset, it will need to be applied to the context of an entrepreneurial framework. With this Ireland et al., (2003, p. 969), mean that the actions firm’s takes such as setting goals, establishing an opportunity register, and determining the timing with launching the strategy required to exploit the opportunity. Thus, the entrepreneurial framework should be used by all parts of the incumbent firms and across projects and time to ensure common
treatment. By setting value-creating goals, will enable the firm to understand the process and outcomes of goals they strive to achieve when pursuing opportunities. Moreover, by having an opportunity register the firm can make visible the opportunities to multiple parties, by doing so, groups that already possess the capabilities needed to pursue them can. Thus, opportunities that have been identified in one part of the incumbent firm can be exploited by another division in which the opportunity can better be exploited. Lastly, orientation to the timing to exploit opportunities will differ between firms. For instance, incumbent firms such as Software Co and Technology Co would use a prospector strategy, focusing on assessing and using opportunities to act quickly to become the first mover. However, incumbent firms such as Banking Co would be more concerned about the timing of exploiting an opportunity, and therefore use a defensive strategy and aim to be a second mover once the opportunity has demonstrated market viability (Ireland et al., 2003, p. 970).

5.2.5 Value creation and capture

According to Ireland et al. (2003, p. 980) view on strategic entrepreneurship, value creation is the output of all the previous steps in the model and concerns how a firm capture and creates value. From the incumbent firm’s point of view, they all have slightly different approaches even though all have value capture and creation in the back of their heads.

The Banking Co is differentiating themselves from the competition by keeping the interaction between customer and employees. They also direct themselves towards a more affluent customers base who makes more significant investments, which demands a more personal communication. The Technology Co works with something they call “value-by-selling” which targets the customers early in the process and tries to provide a service that fulfills the customers all needs. The Productivity Co, on the other hand, works with availability and accessibility, by setting up strategic partnerships and having distribution centers in all parts of the world they can provide their customers with faster deliveries as well as always being reachable no matter the times zone of the problem. To connect back to the strategic entrepreneurship, firms need to have a strategy for how to seek opportunities and take advantage of these in the firm. The strategies are different from firm to firm, but they need to be structured and planned to enhance the chances of taking advantage of the changes and create and capture value for the firm (Ireland et al. (2003, p. 983).

The experts again mention the importance to look at the market, find out what is happening and understand one’s customers in order to change the firm’s business model so that they can exploit opportunities when they arise before them. Incumbent firms need to see beyond the products and services to focus on how they will deliver their value instead. If they do that, then the incumbent firms can find new opportunities to capture value.

5.3 Decision-Making Process during the Business Model Innovation Processes

Connecting back to our third and final research question, we treat the topic of leadership and culture, as well as communication and structure. These subjects are all connected to how the decision-making process takes form in incumbent firms. This aspect took a prominent part of the interviews, especially with the experts since they had numerous ideas and suggestions on how firms have to change the process to become better at improving the business model. Therefore, it becomes even more important to separate the respondents into two different groups in this section.
5.3.1 Business Model Innovation Areas

When it comes to structure and communication, the respondents all spoke about a certain level of decentralization which enabled them to be more agile and adaptive towards their customers. However, they also stated that due to recent changes all of them had become more centralized. From the Software Co, Productivity Co and Technology Co point of view, it was due to their global growth that demanded a stronger core to keep control of the business. In the Banking Co case, they had been forced to do structural changes due to new European regulations, which demanded ownership and control. Although, they all considered that the atmosphere was open and saw no difficulties to speak with a superior manager if necessary. They all believed that they had the potential to impact the firm’s current business model with new suggestions and ideas. However, from the respondent’s answers, we got the feeling that the possible suggestions and solutions rarely came from the employees at the bottom, but instead, it was up to engineers or management to suggest the changes. At the Software Co, the control was centralized at the top, but the firm becomes decentralized rather quickly according to the respondent.

The aspect of business model innovation area consists of the business model components, which is affected by the macro environment, and the business model innovation process that is affected by the micro environment (Wirtz & Daiser, 2017, p. 23). There can potentially be a connection between the lack of techniques and tools at the incumbent firms and the feeling of not getting any response, or the ability to make an impact, on the current ways of doing business. An aspect that Chesbrough (2010, p. 359) mentions as important for firms when changing their business. The people who work with the business model components, i.e., knowledge and information processing and sense-making, usually have a higher position in the firm working with marketing or structural change according to the respondents. The Software Co, however, mentioned that they have a more significant possibility to affect the business model, at least on the products and services that they themselves work with due to the firm’s database with multiple business models to choose from.

The experts have a different view on how it works in incumbent firms, they both state that incumbent firms are rigid and top-down structured. It seems to be a bit flatter in the Nordic countries, but overall it is mainly the board members and the managers who make the changes when they have to be done in their experience. Their suggestions are to generate an environment where it is encouraged to come with new ideas, to make mistakes, and to stay updated on what happens on the market. Expert 1 expresses that there is a need for a new process that can identify and exploit opportunities faster when they are arising. Thus, this is what Wirtz and Daiser (2017) mean when they are speaking about the need for change in business model innovation processes and the business model components. Firms have to be adaptable and changeable to be able to follow the changes in their environment. However, to reach this change, both the experts agree that the structure has to change in incumbent firms. According to the experts the incumbent firms have to become more bottom-up structured, or at least increase the possibility to spawn ideas from the bottom as well as the top. The two main solutions to achieving that, according to the experts, is to change the environment so that it becomes more forgiving and encouraging towards new ideas from all employees, via structures and processes. The other is to create a culture and leadership that fosters that type of behavior.
5.3.2 Integration and Implementation

When incumbent firms make changes to their business model, whether it is by mergers and acquisitions, or by internal changes, the integration process becomes a vital step. The integration and implementation phases in Frankenberger et al. (2013, p. 262) model describes the activities that focus on the development of a new business model. Thus, answering the Who, What, How, and Why of the business model and making sure that there are consistency and alignment between them, as well as how to roll-out the new business model and getting the employees on board with the changes (Frankenberger et al., 2013, p. 262). The respondent firms all described bits and pieces of these issues, but none of them painted a full picture for us during the interviews, which indicates that this phase is a challenge for them. Being that these firms have more than one business model, the challenge becomes how to integrate all the dimensions of a new business model to the concerned business models. The Productivity Co spoke about different roll-out projects during the change of computer systems in where they tried it in different markets before they applied it into the rest of the firm. The Technology Co spoke more about testing new products on small markets and beta-testing before full implementation. The Software Co worked with spin-out and spin-in, where they developed new ideas outside the firm as corporate venture capital, and if it became successful, they implemented it into the Software Co. The Banking Co have a smaller clearance for errors, so they did most of their beta-testing in-house during the production, and not on their customers. Which probably give them a skew picture of what works and not, but due to the security concerning the monetary aspect and personal information it is motivated to go about it that way. The fact that all firms at least used these approaches to some extent corresponds with what Frankenberger et al., (2013, p. 263) and Sosna et al., (2010, p. 389) state as important steps to a successful implementation of change.

Teece (2010, p. 172) states that without a well-developed business model, the firm will fail to deliver and capture value. Zott and Amit (2009) are on some track with the boundary spanning view of the business model, and they also mean that the business model must be able to create and capture value for all the stakeholder. Expert 2 meant that a way to deal with these complexities is to create the new business model as a separate part of the existing business model. By doing this, one does not force new business model elements on the established business model, which may cause resistance and miss-alignment. Trying to integrate a new business model in-house might be hard and complicated due to the competency trap and barriers among the employees as having been pointed out by Chesbrough (2010, p. 361). Therefore, by creating a new business model that is separated from the central firm makes for a more natural integration process which can, if necessary, be implemented at a later stage. Thus, incumbent firms have to be able to identify whether an innovation aligns with the existing priorities of the established business model. If not, then the innovation or business model should be developed outside the incumbent firm’s current business model (Christensen et al., 2016, p. 12).

In the face of resistance, however, the incumbent firms themselves did not see any hinders besides the recent increase towards a more top-down structure. The expert’s however, was confident that incumbent firms are filled with resistance. Expert 2 stated that the competence trap was the most significant hindrance to change and could not stress it enough. Managers and boards are afraid of disruptive change because it makes their knowledge obsolete, and it threatens their existence at the firm. The aspect of fear towards change and inherited resistance in the structure that the experts have experienced correlates with earlier research (Schneider & Spieth, 2013, p. 19; Amit & Zott, 2010). Another aspect that expert 2 stated was that incumbent firms have become better at identifying change and innovations that might
disrupt the market, but when it comes to managing these opportunities, it varies a lot from firm to firm how they act upon them. Which is precisely what Frankenberger et al. (2013, p. 263) state as a necessary part of the integration phase, to manage the identified opportunity because it is not enough to spot the change, the firm has to react upon it.

5.3.3 Entrepreneurial Culture and Leadership

Organizational culture is a set of values that everybody in the organization shares, which creates norms of how a person should behave at the workplace or in the organization (Ireland et al., 2003, p. 970). As noted by all the incumbent firms in our study, there was a culture and leadership which promoted innovation and development. However, they also stated that it had been different before, it used to be more open and more accessible to communicate one’s idea, but due to structural changes and global growth it had now become more complicated and rigid. Which corresponds with Christensen et al. (2016) view on business models and firm’s ways of evolving towards a crystallized state. Ireland et al. (2003, p. 970) stress the importance of having an entrepreneurial culture and leadership and how that creates an environment that encourages risk-taking, where failure is accepted, learning is promoted, and where continuous search for opportunities to be exploited is favored.

On this topic the experts agree with the literature, they are both pressing on the subject of having a more forgiving atmosphere in incumbent firms. They are addressing the issue of fear within organizations, how people are too afraid to take any chances because they have too much invested into their career, and a mistake might cost them their potential advancement within the firm. Expert 2 calls it the competency trap when the leaders and managers have too much knowledge about the old way of doing business that they cannot, or will not, change, and they see innovations as a threat to their own existence which connects with the ideas of Chesbrough (2010, p. 361). Herein lies the same issues that Ireland et al. (2003, p. 970) speak about, there is a need for a more open and forgiving culture in today’s incumbent firms. Expert 2 also speaks about a culture where rank should have less meaning because it acts as a hinder of development. The expert’s insight is that firms need to mix the old people with the young in order to spread the knowledge amongst them. The old people have considerable experience and knowledge about the firm and the old ways, its history, but the young people know the future. Therefore, there has to be a culture which makes these people work together as equals to make full use of the competence of the firm’s employees. Moreover, as mentioned before, the need for a strong and bold leader is essential in times of changes as both experts stated.

All the respondent firms spoke about cross-functional teams, but at different levels, which might enable bisociation and creation of new products which is one of the main components in business model innovation according to Ireland et al. (2003, p. 981). The Banking Co implied that the cross-functional meetings were more formal meetings and were somewhat about informing the other departments about what was going on than to get input from them. At the productivity Co, there were cross-functional meetings for the different product developments concerning the more significant products. During those meetings, there was a possibility to come with input about the construction from one’s area of expertise. At the Software Co, they had cross-functional meetings at a higher level between seniors, but at these meetings, the respondent could bring up ideas that came from his department, i.e., people lower in the hierarchy, not give suggestions to other departments. The Technology Co mentioned internal conferences, collaborations with universities and an atmosphere where a service technician can come with suggestions to problems they face during their work, which generates new solutions and innovations. However, few of these firms described an
environment where people get together and spawned ideas from different departments in the purest form of bisociation as Ireland et al. (20039, p. 981) describes it. Ireland et al. (2003, p. 982) goes on by describing two different types of innovation, disruptive and sustaining innovation, and according to our interpretation of the interviews, we believe that the incumbent firms are mainly conducting sustaining innovation which is equivalent to incremental change.

The experts both paint a similar picture that incumbent firms, in general, only conduct incremental changes by fine-tuning their existing business model until the market is gone. The reason for this is, as mentioned before, the fear of the unknown and the competency trap whereas the management has invested too much into the old ways of doing business. This view corresponds with what Ireland et al. (2003, p. 982) describe as the reason for applying strategic entrepreneurship to incumbent firms. They stipulate that incumbent firms, in general, end up in a static state of mind. When they are expert within their field, they can only conduct development in that specific field, hence leading the firm only to do incremental fine-tuning of their current business model.

Ireland et al. (2003, p. 982) state that disruptive change will only be seen as a real threat to the incumbent firm when it has gained enough traction so that customers are demanding the new alternative over their original product or service. However, when this happens, it is too late for the incumbent firm to adapt their business model to the disruptive one, so they have to make yet another disruptive innovation to outcompete the newcomer, but this rarely happens. Moreover, that is why strategic entrepreneurship is so important for incumbent firms, so that they always scan the market and seek opportunities and take advantage of them before it is too late (Ireland et al., 2003, p. 982). The experts push on the same issues, saying that incumbent firms need processes for continually scanning the markets, and setting a clear goal to where they want to be in the future and continuously review those goals. By doing that the incumbent firms will find opportunities to both explore and exploit.
6. Conclusion

In the concluding chapter, we summarize what the major contributions this thesis has brought forth. We will discuss the challenges, limitations, and future research on the business model innovation topic together with strategic entrepreneurship theory. Thus, this thesis has been a first step in integrating strategic entrepreneurship theory with business model innovation. By doing so, we have shed new light on the business model context and contributed to a better understanding of the challenges and opportunities that incumbent firms face.

The primary purpose of this thesis has been to understand how incumbent firms explore and exploit opportunities to innovate their business model. Thus, to understand this, we have looked at understanding what the drivers are for innovating the incumbent firm’s business model. As well as, looking at how the decision-making and communication looks during the business model innovation process in the incumbent firm. By asking these questions, we have aimed to explore how strategic entrepreneurship theory can be applied to the context of business model innovation and more precisely how incumbent firms can identify and exploit opportunities for innovating their business models. To get a more in-depth understanding of the phenomena the purpose of our other research questions were to get a complete picture of the process of innovating the business model. Moreover, by answering these questions, we have aimed to contribute to new strategic and process elements of the business model innovation literature. Thus, for the first time incorporating strategic entrepreneurship theory with the already existing resource and dynamic capability theories.

To answer the research questions and purpose of this thesis, a qualitative study with an exploratory approach was conducted. The empirical data from this study was collected from six respondents in total, as well as internal and external documents from each incumbent firm. Four of the respondents represented four different incumbent firms from different industries. The other two respondents were viewed as experts, as they had over 40 years of experience either leading or consulting incumbent firms. These three different sources of input provided us with essential as well as interesting insights of how the incumbent firms operate and implements strategies. Getting insight from four different incumbent firms that act in entirely different industries also gave the study a broader picture of how incumbent firms act depending on their industry.

6.1 Research Questions and Study Purpose

Before presenting the findings for the research question, one significant finding can be drawn from this study’s discussion and analysis. There is currently no literature at the moment that applies strategic entrepreneurship with business model innovation in the context of incumbent firms or any other context for that matter. The most that previous literature has contributed to this topic is Schneider and Spieth (2013) literature analysis on business model innovation where they suggest that future research should look to apply a strategic entrepreneurship perspective. Moreover, this would allow for simultaneous consideration of the firm’s internal situation and external opportunities as its core. Based on the discussion and analysis from the experts in this study, we can show that strategic entrepreneurship should be applied into the business model innovation context as it explicitly shows the entrepreneurial actions of the incumbent firms. We have argued and demonstrated that strategic entrepreneurship becomes particularly suitable with business model innovation when incumbent firms are faced with uncertainty. Therefore, incumbent firms are required to respond to the changing source of value creation by rethinking their established ways of doing business.
6.1.2 Exploring and exploiting opportunities to innovate the business model

As previous research on how firms explore and exploit opportunities have been limited, this thesis has aimed to shed light on that question. The empirical findings from this study show that the incumbent firm’s external and internal environment affects its ability to discover or create opportunities, as well as exploiting those opportunities. Today’s dynamic and complex competitive environment is producing multiple challenges for incumbent firms seeking to create value and wealth. Thus, to quote Henry Chesbrough (2010, p. 358) - “why don’t more organizations conduct more experiments to probe for potential new business models before their traditional ones become redundant?” What was prevalent in this thesis and to answer this statement, it is not that incumbent firms do not try to change. We saw multiple instances where the incumbent firms’ used strategies to take advantage of new changes and trends. Incumbent firms used cooperative strategies such strategic alliances to build capabilities that could facilitate new competitive advantages. However, in the end, it comes back to what previous research has already demonstrated, incumbent firms face significant barriers to innovate their business models (Chesbrough, 2010, p. 358). And this is because the strategy, culture, and structures are not built for changing the established business model. Thus, the empirical finding from our study further strengthens Christensen (1997) notion that is it not the incumbent firm’s inability to conceive the disruptive innovation. Instead, it is the tensions and conflict between the disruptive innovation and the existing business model that is already established for the existing technology, acting as a barrier to exploit the new technology. In this study, we show that by implementing effective strategic entrepreneurship into the organization, firms can achieve a balance between opportunity-seeking and advantage-seeking behavior which is associated with strategic entrepreneurship.

6.1.3 Drivers for innovating the business model

In regard to this thesis second research question, we could identify that the drivers that the incumbent firms and experts brought forth confirm this study’s primary purpose of implementing strategic entrepreneurship. The purpose of this questions was to understand what the underlying drivers were to explore and exploit opportunities. As we have seen, technology has been by far the most significant driver for every incumbent firm. Technology is always changing and thus becomes hard for incumbent firms to know where to place their bets. Besides technology, changing demographics, social changes, new segments, and regulatory were all seen as important drivers. The challenge, however, was how they could exploit these drivers into opportunities. What we have shown here is that incumbent firms can apply strategic entrepreneurship that allows the firm to apply their knowledge and capabilities in the current environment while also exploring opportunities to exploit in the future. To do this, we have demonstrated that incumbent firms can apply new knowledge and new capabilities.

Another aspect that emerged from this research question was how incumbent firms create and capture value. As this is the most significant aspect of a business model, it was essential to understand how the incumbent firms viewed value. We could identify that the incumbent firms had become more customer-centric in the way that they generate and deliver their products and services. Even though the incumbent firms mentioned technology as the most significant driver to change, it is seldom a technology breakthrough that a business model originates from. Instead, it usually begins with the questions of what customer needs will the business model address? (Zott & Amit, 2012, p. 45). Therefore, we would argue that customers and changing needs would be the most significant driver to change and that this is interrelated with technology advances. Thus, to efficiently innovate the business model,
leaders need to proactively address the evolving customer needs, by looking ahead, understanding and sensing the market trends. By doing this, the incumbent firm can more efficiently create and capture value.

6.1.4 Decision-making process during the business model innovation processes

The third research question in this thesis explores how decision-making and structure in incumbent firms affect the innovation process of the business model. Based on the analysis and answers from the respondents we could confirm that incumbent firms have significant barriers that might hinder them from efficiently and effectively being able to innovate their business model.

The most significant results from the third research question were to understand how the communication and structure looked like in the incumbent firms. We could confirm that incumbent firms have complex structures that can slow down communication within the firm. Also, these complex structures might lead to new ideas and suggestions often being hindered. We saw that leading change in the organization is a significant challenge in today’s incumbent firms. Who becomes responsible for business model experimentation is still a question that doesn’t get fully answered in this study. As the incumbent firms had multiple business models, decision-making became a complicated issue. When it came to more significant changes to the firm and its business model, they would often bring in consultants to assist them. Thus, we can show that the knowledge and thinking around business models are still somewhat ambiguous for managers and firms.

We suggest in this study that incumbent firms need to implement an entrepreneurial culture and leadership. Effective leadership will be required to develop and grow new business models, and to do so leadership need to adopt more entrepreneurial characteristics to lead established firms. With an entrepreneurial culture, we mean a place where new ideas and creativity is indeed expected from the employees. Incumbent firms need to become better at emphasizing that risk-taking is encouraged, failure is tolerated, and that learning is promoted. Firms need to get away from the dominant logic that they are in and instead see continuous change as a conveyor of opportunities. When it comes to resources, incumbent firms often have the advantage of having financial slack, which in turn can facilitate the development of innovation.

6.2 Theoretical Contributions

As this study focuses on business model innovation, our contribution lies in the addition of strategic entrepreneurship on the subject at hand. To our knowledge, it is an area that has not been approached earlier but has been requested by researchers within the field of business model innovation. This study contributes to the practical implications of strategic entrepreneurship within business model innovation. Secondly, we have embraced the issue concerning incumbent firm’s drivers to innovate their business model; an aspect that also has been sought for in research. These two areas are the main research gaps that we identified initially in this study. Here we aim to explain what our contributions are, and how they add to existing knowledge within the area towards filling the identified research gaps.

By conducting in-depth interviews with both leaders in multi-national incumbent firms, as well as experts within the field that have more than 40 years of experience of leading and consulting incumbent firms, we have added the practical approach that previous research has
lacked before. And by having this bilateral approach, with both leaders from incumbent firms and experts, we can provide insight on how both employees see their environment and how experts see the same environment but from the outside with a birds eye view. As mentioned before, this is an approach that has not been handled previously within research but sought for since the emergence of strategic entrepreneurship (Ireland et al., 2003; Schneider & Spieth, 2013).

The main issue within strategic entrepreneurship concerns the firm's ability to both explore and exploit opportunities when they arise in the firm’s environment. Our study adds knowledge within this topic, through this thesis we have started to establish an understanding on how incumbent firms act upon these aspects. Ireland et al., (2003, p. 970) stresses the importance to not do one or the other, but to continually explore and exploit the surroundings simultaneously. Our understanding on this matter is that incumbent firms mainly engages in exploiting their environment to improve their business model. Thus, this can be connected to incumbent firms defensive versus offensive approach towards innovation mentioned by Christensen et al., (2016, p. 2). Here we can see that incumbent firms have a more defensive attitude towards innovation which confirms and strengthens Christensen et al., (2016, p. 2) research.

Another research gap that was highlighted in the introductory chapter was that of the underlying drivers towards innovation within incumbent firms. Here we can conclude that the drivers shift from industry to industry. However, all of them indicated that technology was a primary driver together with customer needs, for future innovations within their firms. Thereby we are both confirming and contributing to the understanding of drivers for incumbent firms to change their business models.

6.3 Practical and Social Contributions

We have shown with this study that strategic entrepreneurship is an organizational process that incumbent firms can use to reduce and take advantage of uncertainty and ambiguity, thus creating and capturing more value. Implementing strategic entrepreneurship into business model innovation can be seen to lead to many social contributions as well. If incumbent firms can better identify and exploit opportunities and have a more dynamic business model, this will, in turn, create more value for the customers. Also, by implementing a more entrepreneurial environment that promotes new ideas and taking chances will most likely lead to individuals taking more action which will improve social conditions. Therefore, the findings from this study highlight both micro social contributions, e.g., employees, and macro social contributions, e.g., customer changing needs. Social as well as economic value can be created in a more local or global context and becomes vital for the continuous social development. And thus, highlighting the social contributions of this thesis.

The primary objectives of this study where threefold – namely, to understand how incumbent firms explore and exploit opportunities to innovate their business model, what drives the incumbent firms towards innovations in their business model and lastly, how does the decision-making process look like during the business model innovation process in incumbent firms. We will now present the practical implications that this study provides by connecting to these three questions separately.

(I) As the study shows, all of the incumbent firms used exploiting strategies as their primary way of finding and using new opportunities. However, these changes were
primarily incremental which can lead to more crystalized business models that eventually bring the firm into a market that no longer exists. What our study shows is that incumbent firms should apply strategic entrepreneurship into their way of working with business model innovation to find a balance between exploiting and exploring new ways of developing their business model. Also, by implementing strategic entrepreneurship firms can better identify disruptive innovation with incremental innovation. What the recommendations say from both the experts and previous research is that incumbent firms need to be more explorative as well, either on their own or by acquiring innovative startups and then incorporate them into the existing business, both the knowledge and the mindset. Incumbent firms and their leaders should try to encourage and promote a forgiving atmosphere where employees feel comfortable to present ideas without the fear of potentially making a mistake. If they do so, and that becomes part of the culture of the firm, then the incumbent firms are more likely to foster an entrepreneurial mindset and culture which brings more potential innovations to the table. Another aspect that came from the experts was the importance of mixing the age groups at the workplace and get them to see each other as equals. Since the younger people at a firm have a more significant stake in the future while the older employees have the experience, it would be beneficial to get these age groups to work together.

(II) In this thesis, we confirm what earlier research has stated, that the primary driver for innovation within incumbent firms is technology or new technology connected to what their customers’ demands and needs. However, according to the experts, the incumbent firms should shift focus towards the market and the trends. If a firm analyzes the market and its trends to see what is happening and where we are going into the future more closely, they have the opportunity to be one step ahead of the competition and be a part of the development instead of riding in the backseat. Which corresponds with the strategic entrepreneurship, to continually explore new areas while simultaneously exploiting the opportunities that arise along the way in an early stage. By applying a strategic entrepreneurship approach in the incumbent firms, they would be more alert and flexible concerning changes which would lead to a more sustainable competitive advantage.

(III) For the last research question, regarding the decision-making process, both the experts and previous research implies the need for a more bottom-up approach where anyone in the firm should be able to make decisions and give suggestions. According to the incumbent firms in this study, there used to be flatter structures, but in recent years all of the firms had seen a shift towards a more hierarchical structure. There is a need for a change towards a more entrepreneurial approach to be able to react faster to the market and have the ability to drive innovation forward in the incumbent firm, as the startup firms are doing today. But this demands a change in culture and leadership within the incumbent firms, as mentioned before, it has to be a more forgiving and encouraging atmosphere where employees are given the opportunity to lift their ideas and that there are processes in place to utilize the ideas. Another aspect that was seen as a commonality for all the incumbent firms was that they hire consultants to lead more significant changes in the firm. The benefits from this is not only to get a broader and more objective view on the firm, but also to enhance the seriousness into the change process.
6.5 Limitations and Suggestions for Future Research

Since this has been an exploratory study with a cross-sectional approach, we have been able to introduce the subject concerning the link between business model innovation and strategic entrepreneurship in a broader light. However, our study only included one respondent from each incumbent firm which can be seen as a limitation which might affect the validity of this study. We, however, strengthen this by applying triangulation to validate the empirical findings better. The data we have collected only consists of the subjective insights from the respondents who participated in the study which is something that has to be taken in consideration. The fact that the respondents, in three out of the four cases, had solely worked for the specific firm, and had done so over a vast period of time, may have had an impact on their capability to give an objective view and ability to put their firm in relation to other firms.

Further on, we see a limitation in the aspect of only doing one interview at a specific point in time, there is always the possibility that we interviewed the respondent during a time that affected their answers in a negative or positive way due to recent events at the firm or in their personal life. The aspect of this could be minimalized if the study took on a single case study or by having a longitudinal approach. Further, we call for a more in-depth case study, perhaps within one firm or one industry, to get a better understanding of the impact of leadership and culture on business model innovation connected to strategic entrepreneurship. Our study, although rather unanimous, had some differences between the firms in the different industries, this was our intention as we wanted to see what the incumbent firms had in common and what their differences were. We would advise that there needs to be more qualitative research that keeps looking at how incumbent firms explore and exploit opportunities. Thus, we see this study as a starting point in which future research can build upon and add more insight into how incumbent firms can efficiently apply strategic entrepreneurship into their structures, communication, and culture.

Moreover, we suggest that future research could focus on building more knowledge around the elements that we have introduced and discussed rather broadly in this thesis, e.g.,

(I) Managing resources strategically: In this study, we have shown that incumbent firms could become more efficient in innovating their business model if they would manage their resource more strategically. Thus, future research could explore more in-depth how incumbent firms strategically can manage their financial capital, human capital, and social capital in a way that promotes innovation.

(II) Developing creativity: We have also highlighted in this thesis that to become successful in creating value and capturing value, incumbent firms have to become more creative. However, more research needs to be done to explore how much creativity incumbent firms should implement in their environment. What kind of innovation should incumbent firms develop, disruptive or incremental? We have shown in this study that the incumbent firms need to find a balance between these two types of innovation. Future research might look more in-depth into how this balance should look like.
Entrepreneurial mindset, culture, and leadership: Another element that needs to be further explored is how incumbent firms can become more entrepreneurial in their leadership and culture. What kind of leadership is best suited for this kind of culture? How does one change the culture in an established firm? These are questions that could bring insights into becoming more successful in changing their business model.
7. References


Foss, N. J., & Saebi, T. (2017). Fifteen years of research on business model innovation: how far have we come, and where should we go?. *Journal of Management, 43*(1), 200-227.


8. Appendix

8.1 Introductory Letter

Research project: Business Model Innovation
We appreciate you taking the time to participate in this study. We understand the hectic and busy schedule you have. Therefore, we will do our best in offering you the flexibility of choosing the optimal time and place to conduct this interview. In this letter, we very briefly explain the purpose of the study and why you can benefit the study. The interview is totally anonymous and is only used for the study. If you have any other questions or concerns, please don't hesitate to contact us.

Purpose of study
This study aims to explore how firms transform and innovate their business models. When thinking of the process of business model discovery, startups usually come to mind. However, established firms also face business model challenges. The difference is that established firms are able to engage in a quieter period of execution and continuous improvement of the business model. New opportunities or disruptions might compel established firms to innovate the business model.

Why we need you
To better understand this phenomenon, we want to interview top-level managers within established firms that work directly and indirectly with the firm’s strategy. We believe you can give us a good insight into how the culture and processes look like within the firm. Also, we want to get your own perception surrounding the firm’s business model. Before the interview try to reflect on the firm’s business model (e.g. value proposition, key resources).

Procedure
Face to face interview with you
Time: 45min
Location: Preferably your office

(Name of the students and contact information)
## 8.2 Interview Guide

### Interview Guide for Managers

<table>
<thead>
<tr>
<th>1. Research Introduction</th>
<th>This part is to introduce the participant to the research and give the participant all the relevant information of the study. As well as providing ethical issues.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Thank you for taking the time to do this interview</td>
<td></td>
</tr>
<tr>
<td>2. Introduction of the Interviewer</td>
<td></td>
</tr>
<tr>
<td>3. Introduction to the research</td>
<td></td>
</tr>
<tr>
<td>4. Ethical and anonymity/confidentiality issues</td>
<td></td>
</tr>
</tbody>
</table>

### Questions

#### 2. Classification Questions

<table>
<thead>
<tr>
<th>5. Could you provide us with some personal background, such as age, education, previous work-related experience?</th>
<th>Such information is useful for contextualizing peoples answers (Bryman &amp; Bell, 2012).</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. What is your job title at the moment?</td>
<td>A vital question to understand what role the participant has within the firm and how that position is connected to business model process.</td>
</tr>
<tr>
<td>7. In what industry/industries does the firm that you work for act within?</td>
<td>Generates an understanding of the complexity of the firm. Also connects to our purpose of comparing firms within different industries.</td>
</tr>
<tr>
<td>8. Where is the firm placed geographically?</td>
<td>Relates to our context of a multinational firm.</td>
</tr>
<tr>
<td>9. What is the size and age of the firm?</td>
<td>Relates to our context of looking at incumbent firms.</td>
</tr>
</tbody>
</table>

### 3. Business Model

| 10. How would you say that (firm)?  
- create,  
- deliver  
- capture value? | Background information and getting a feeling of how aware they are about the business model and what form it takes in the firm. As well as if there are more than one or a holistic point of view. |
<p>| 11. Can you describe how (firms) business model looks like? | |
| 12. Does (firm) have an overarching business model or are there separate for each product/service/department? | Levels of business model – Holistic view |
| 13. Wherein lies the main focus of the business model? | Value creation, capturing value, customer benefit etc. etc. Four-box and BM canvas |
| 14. What are the strengths of (firm) business model? | Key resources |
| 15. Do you believe there are any limitations of the business model employed by (firm)? Why? Why not? | |
| 16. Are (firm) using different business model tools to develop business model ideas, if so how, when and which? | Tools for changing the business model |</p>
<table>
<thead>
<tr>
<th></th>
<th>Business Model Innovation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>17. Do you believe that (firms) innovation agenda has expanded beyond product/services-market innovation and operational improvements to encompass (firms) business model?</td>
<td>To get an understanding of if the firm has a strategy that emphasizes business model innovation. Compared to the firm’s other innovations.</td>
<td></td>
</tr>
<tr>
<td>18. Can you identify any past projects that have developed significant impact on the components of the firm’s business model? (Don’t ask if they were successful or failures)</td>
<td>To provide practical examples of attempts to innovate the business model.</td>
<td></td>
</tr>
<tr>
<td>19. Has (firm) conducted any notable business model innovation projects in the past or present? If yes – elaborate. If no – why do you think that is?</td>
<td>Connects to RQ 1 and 2</td>
<td></td>
</tr>
<tr>
<td>20. What do you believe triggers change? Can you provide a past instance of this within (firm)?</td>
<td>Connects to RQ 2 and 1 to some degree</td>
<td></td>
</tr>
<tr>
<td>23. Can you describe some challenges that (firm) has been working with during the last year? (a) Has there been ideas that have come up but not been tested? (b) Has there been ideas that have been tested but not implemented? (c) Has there been ideas that have been implemented?</td>
<td>Connects to RQ 2 and 3 and to some degree even RQ 1</td>
<td></td>
</tr>
<tr>
<td>24. How does (firm) seek new ideas? Are you looking at other firms to imitate/influence or do you develop new ideas?</td>
<td>Casadesus-Masanell and Zhu (2013) idea that only startups can develop new business models. RQ 1 and 2.</td>
<td></td>
</tr>
<tr>
<td>25. What do you believe drives innovation within the firm and who initiates this innovation?</td>
<td>RQ 2 and 3.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strategic Entrepreneurship</td>
<td></td>
</tr>
<tr>
<td>26. How well do you believe that (firm)</td>
<td>Identification of change drivers (Frankenberger</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Reference</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>works with identifying change drivers e.g. new technology and regulatory</td>
<td>et al., 2013) RQ 1 and 2.</td>
<td></td>
</tr>
<tr>
<td>changes?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27. How does (firm) use strategies to explore opportunities in its external</td>
<td>Question regarding Exploration (Ireland et al. 2003; Ketchen et al. 2007) RQ 1</td>
<td></td>
</tr>
<tr>
<td>environment?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28. Does (firm) have any special process today that enable for opportunities to</td>
<td>RQ 1 and 2</td>
<td></td>
</tr>
<tr>
<td>develop within the firm? How? Or why not?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29. Is there a platform where employees can propose and develop ideas within</td>
<td>Culture that promotes strategic entrepreneurship (Ireland et al., 2003)</td>
<td></td>
</tr>
<tr>
<td>the firm?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30. How does (top)management encourage their employees to develop these ideas?</td>
<td>Culture that promotes strategic entrepreneurship (Ireland et al., 2003)</td>
<td></td>
</tr>
<tr>
<td>And how do they absorb the ideas?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31. What do you believe are the biggest challenges for generating new</td>
<td>Challenges during the ideation phase (Frankenberger et al., 2013) Overcoming</td>
<td></td>
</tr>
<tr>
<td>opportunities and ideas into concrete assets for the firm?</td>
<td>current business logic.</td>
<td></td>
</tr>
<tr>
<td>32. Does (firm) have mergers and acquisitions, strategic allegiances and</td>
<td>Follow up question to question (17). RQ 1 and 3. (Ireland et al., 2003;</td>
<td></td>
</tr>
<tr>
<td>corporate venture capital as a part of its strategy. (Why? and How?)</td>
<td>Ketchen et al., 2007)</td>
<td></td>
</tr>
<tr>
<td>33. Does your firm have separate incubator where you can develop and test new</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ideas? Or separate brand/</td>
<td></td>
<td></td>
</tr>
<tr>
<td>34. How would you describe (firm) practices in terms of scanning internal</td>
<td>Exploitation strategy (Ketchen et al. 2007) RQ 1</td>
<td></td>
</tr>
<tr>
<td>processes for areas that may be improved upon?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35. How would you describe internal communication at (firm)? Are all</td>
<td></td>
<td></td>
</tr>
<tr>
<td>relevant facts communicated? Or are there any “politically or strategically unacceptable” facts that are not communicated on all levels?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>36. Would you say that there is a culture within the firm that communicates change and innovation?</td>
<td>RQ 1 and to some degree 2</td>
<td></td>
</tr>
<tr>
<td>37. Does management encourage employees to have a discussion and come with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>suggestions regarding the business model?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RQ 3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>38. What happens when a new business model is taking shape? how does the process looks like up until full implementation?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>39. End of interview</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is there any other aspects regarding business models that you would want to add?</td>
<td>Purpose to get any additional information about business models that we might have missed in the research guide.</td>
<td></td>
</tr>
<tr>
<td>If you have the possibility to give us any other information (e.g. documents) about the firm’s business model, that would benefit us a great deal.</td>
<td>Additional source of data to support triangulation.</td>
<td></td>
</tr>
<tr>
<td>Would it be okay if we contacted you further by email if we would need to ask any additional questions?</td>
<td>Need to follow up on a question</td>
<td></td>
</tr>
<tr>
<td>Thank you for taking the time for this interview.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>