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Business Model Innovation – The Vital Link to Business Continuity

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Abstract
The strategic thinking involving business model innovation has been focusing on the issue of the ways in which organizations can capture more value. But changing markets, technologies and legal structures pose a major challenge to the driving forces behind business models in terms of running the business. The purpose of this paper is to advance the comprehension of significance of business model innovation related to the aspect of business continuity. This paper also presents a review of business model innovation literature through which main elements leading to the aspect of business continuity have been brought to the light. While our discussion also draws examples from the markets of Middle East but the theoretical framework constructed has general applicability. We conclude by emphasizing that the aspect of building business continuity in the course of business model innovation can be a dynamic capability.
Keywords: Business model, Innovation, Entrepreneurship, Internationalization, Business continuity

1. Introduction

Business model innovation literature review presents a wide range of attempts to develop theoretical and conceptual constructs to better the understanding. Business model innovation can be defined as 'the discovery of a fundamentally different business model in an existing business' (Markides, 2006), or as 'the search for new business logics' of the firm and new ways to create and capture value for its stakeholders' (Casadesus-Masanell and Zhu, 2013). The innovations to the business model are viewed as changes to these decisions: what your offerings will be, when decisions are made, who makes them, and why. Successful changes along these dimensions improve the company's combination of revenue, costs, and risks (karan girotra and Sergueinetessine, 2014). Business model innovation per se is increasingly identified as the real differentiator in conceiving and delivering novelty to the market (Johnson et al., 2008). While the definition of business model itself is articulated in seven components (pricing model, revenue model, channel model, commerce process model, internet-enabled commerce relationship, organizational form, and value proposition) (Linder and Cantrell, 2001) and can also be categorized as an integrative framework for strategy execution based on three blocks: the value proposition (the offering, the target customer, the basic strategy), the value creation and delivery system (resources and capabilities, organization, position in the value network) and the value capture (revenue sources and the economics of the business) (Richardson, 2008) but over time business models have emerged as an important means for firms to 'commercialize new ideas and technologies' (Chesbrough, 2010). While the business models include the value stream, the revenue stream and the logistical stream (Mahadevan, 2000) but they must morph over time as changing markets, technologies and legal structures dictate and/or allow (David J. Teece, 2010).

A framework based on four pillars (product, customer interface, infrastructure management, financial aspects) and nine building blocks (value proposition, target customer, distribution channel, relationship, value configuration, capability, partnership, cost structure and revenue model) (Osterwalder, 2004) is influenced by the Balanced Scorecard approach (Kaplan and Norton, 1992). Some combination of value proposition, choice of market, choice of activities, and how a firm captures value is thought to explain why some business models are more successful than other (Nicolai J. Foss and Tina Saebi, 2015). The way a company structures its own activities in determining the focus, locus and modus of its business provides a business model framework (Alberto Onetti et al., 2010).

The activities which provide the basis of the firm's value proposition (Fenny and Willcocks, 1998) or the location across which the firms resources and value adding activities are spread (Doz et al., 2001; Dunning, 1998; Porter, 2000) or even the modus operandi or business modes with regards to the internal organization and the network design (Andersen1993, 1997; Brouthers and Nakos. 2004; Zott and Amit, 2007) somewhere to provide a clue for building the element of business continuity. Even some literature on business model innovation mentions with regards to the internationalization of the firms (Ghemawat, 2011) or difference in internationalization of small firms to that of larger firms (Etemad, 2004). A clear argument that internationalization of Asian firms is directly tied to its entrepreneurial spirit and changing institutional environments (Zafar and Atif, 2004) speaks about constituent elements of business continuity.

In the detailed perspective of developing the business, the strategic function of the business model is defined as supporting management in defining and developing the firm's strategy (Patrick Spieth et al., 2014).

Even in the the operational and output system of a company which captures the way the firm functions and creates value (Wirtz et al., 2010) elements of business continuity do get reflected. The business model phenomenon has moved in recent years from a complementary reflection of corporate strategy, in which it represents the logic of the firm to a customer value proposal which can set up viable revenue and cost structure for value capture (Teece, 2010).

Identification of transactional structures, value extracting devices and mechanisms for organizational structuring as dominant business model conceptions (Perkmann and Spicer, 2010) and the differentiation between static and transformational approaches of the business model concept (Demiland Lecocq, 2010) hint at the possible inclusions of disruptions. Six broad themes that business models commonly reflect on: organizational design, the resource-based view, narrative and sense making, the nature of innovation, the nature of opportunity (George and Bock, 2011) and transactive structures (Schneider and Spieth, 2013) further add to the understanding. The effects of product market strategy and business model choices on firm performance (Zott and Amit, 2008) link business models to dynamic capabilities. A business model is provisional in the sense that it is likely over time to be replaced by an improved model that takes advantage of further technological or organizational innovations (Shirky, 2011). These aspects of dynamic and transactive nature can be contributory to the development of the framework for business continuity linked to the aspect of business model innovation.

Different approaches for conceptualizing business models into a common theoretical framework (Zott et al., 2011) have been adopted over a period of time. A business model as ‘‘the roles and relationship among a firm’s consumers, customers, allies and suppliers that identifies the major flow of product, information, and money, and the major benefits to participants’’ (Weill and Vitale, 2001) and the definition of business model that includes the value stream, the revenue stream and the logistical stream (Hamel, 2000) bring about the different approaches. A common sense definition of a business model as a model of how a firm does business must be given to uncover the relevant design dimensions and elements. Business models have many labels (Baden-Fuller and Morgan, 2010) and a “model” is understood as an ideal to follow (Rask et al. 2008) with the purpose is to reduce the complexity of target phenomena in a systematic inquiry (Seelos, 2010). More precisely, a model is a simplified image—an abstraction—of an actual or imagined reality in the form of relationships between studied factors. A focus on explanatory schematic models (Aronsson et al., 1973) understood as ideal types (Weber, 1948) is not the realism of a model’s assumptions but how to apply the model, that is, the predictions that the model permits a firm to make (Ghemawat2007b, 2011) is important. The business model described as ‘‘a cognitive map across domains’’, able to help managers in identifying a target market, articulating the value proposition, building the value chain and the costs/margins structure, describing the position of the firm in the value network and formulating the competitive strategy (Chesbrough, 2003, 2006) or business model described as ‘‘the combination of who, what, when, where, why, and how much an organization uses to provide its goods and services and develop resources to continue its efforts’’ (Mitchell and Coles, 2004a, b) have been directional attempts towards working out on the architecture for business models. Some scholars argue that business models must include geographical location (Yip, 2004; Onetti et al., 2012b) because understanding the local context is vital in international business (Meyer, 2013).

The study of business model and business model innovation in light of the above literature gives some directional elements towards the aspect of business continuity but is certainly not complete. The aspect of business model innovation which is becoming at the same time highly relevant for business practice (Patrick Spieth et al., 2014) must reflect clearly the elements of business continuity. We would like to provide with this contribution a further step for the investigation of business model innovation in the direction of business continuity.

2. Reflections from the markets of Middle east

Over the past decade, MENAP oil exporters enjoyed large external and fiscal surpluses and rapid economic expansion on the back of booming oil prices. However, with oil prices plunging in recent years, surpluses have turned into deficits and growth has slowed, raising concerns about unemployment and financial risks. How should the region adjust to the new oil reality? The outlook for lower oil prices implies weak oil revenues for years to come, dramatically reducing the capacity of governments to spend. Export receipts of MENAP oil exporters declined by $390 billion in 2015 (17½ percent of GDP). The ample surpluses of the GCC countries and Algeria have turned into significant deficits, projected to average 12¾ percent of GDP in 2016 and remain at 7 percent over the medium term. (Source: IMF Regional outlook, April 2016). With oil prices projected to remain low and fiscal tightening expected to weigh on economic activity, medium-term growth forecasts have been revised down in most countries. It is to be noted that even a short disruption can lead to financial loss, compensation claims and penalties, direct and indirect business loss and also loss of reputation. Prolonged disruptions can lead to catastrophic losses and eventual closure of the organization. The decrease in the incidence of disruptions can be reduced through an overall higher level of preparedness. However, the lower incidence of disruptions should not be interpreted as the business environment becoming safer. Existing threats continue to cause frequent disruptions, while new types of threats are constantly emerging. While organizations would ideally like to increase their preparedness to any and every kind of threat, this is not always practical or feasible. Hence, the most effective strategy is implementation of an extremely robust and effective Business Continuity plan, which will allow them to respond to and manage all types of incidents without suffering any catastrophic short-term or long-term consequences.

3. The framework - linking the aspect of business continuity to business model innovation

Business Continuity is defined as the capability of the organization to continue delivery of products or services at acceptable predefined levels following a disruptive incident. (Source: ISO 22301:2012).

The process starts with identification of the firm's main products and services, the activities undertaken to support them and finally after this 'analysis' stage, it involves developing plans and strategies that not only help in the continuity of business operations, but also quick and effective recovery from any kind disruptive activity, regardless of its size or cause. In short, it's all about how to build and improve resilience in your business. To deal with crisis, readily available is a solid framework, an organization can depend on, a framework that provides stability and security. It comprises of three elements namely;

Resilience: The design of the critical core business functions and the infrastructure to support them should be such that they remain mainly unaffected by related disruptions, for example through the use of redundancy and spare capacity.

Recovery: Business functions, critical or less critical, any that fail for some reason have to be recovered or restored and this requires prior arrangements to be made.

Contingency: The firm needs to be capable and ready to deal and manage any major incident or disaster, whether it could have been predicted or not. In case of inadequacy of resilience and recovery arrangements, contingency preparations form a 'last-resort response'.

Embedding business continuity into business model innovation would clearly result in business benefits. Business Continuity Management is holistic in its approach as it not only identifies potential threats to a firm, but also the impact those threats on realization could cause to the business operations. It provides a framework for building organizational resilience with the capability of an effective response safeguarding the wellbeing of its main stakeholders, reputation of the business, brand itself and value-creating business activities. Embracing the concept of business continuity requires an identification and assessment of all the business functions carried out within an organization, followed by recognizing its importance level. The primary and main tool used for collecting this information and thereafter assigning criticality, recovery point objectives, and recovery time objectives is Business Impact Analysis. It is therefore part of the basic foundation of the concept of business continuity.

The elements reflected by the literature review in relation to business model, business model innovation, and the aspect of business continuity can be integrated on the below mentioned aspects (as shown in Figure 1)

- Business model constitutes three important constructs of value proposition, value creation and delivery and value capture.
- Business innovation has key elements of strategy, learning process and the external and internal business environments.
- Business continuity puts focus on the aspects of resilience, recovery and contingency.
- Significant changes in the internal business process, location or technology or in the external business environment – such as market or regulatory change add as input to the aspect of contingency.
- Identification of the sources of business disruption, assessment of their probability and harm, assigning a level of importance to each business function are the aspects of business continuity which go into the strategy element of business innovation.
- This in turn drives the priorities, planning, preparations and other business model constituents.

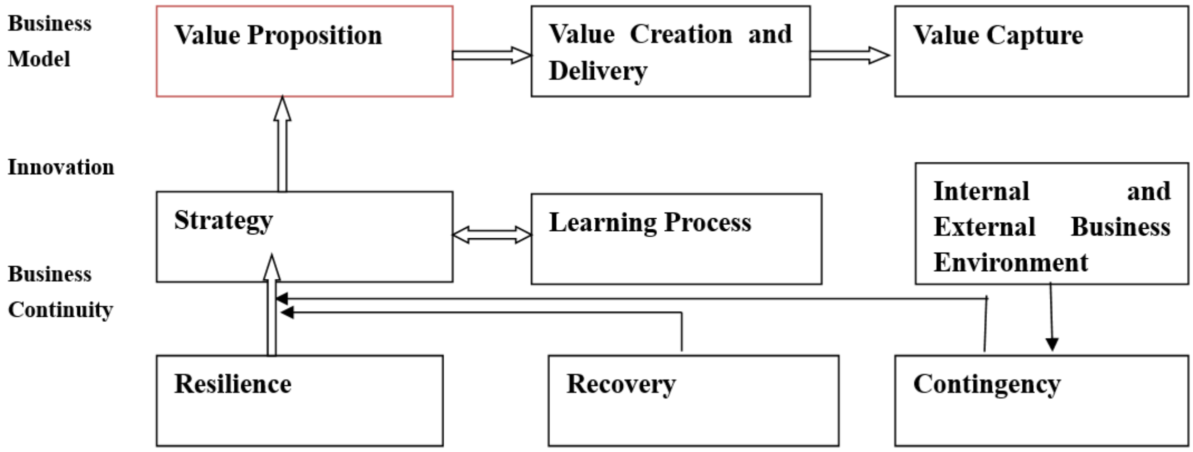

Figure 1: Business continuity integrated with Business model and innovation

4. Conclusion

We can conclude that business model innovation can help companies renew the growth path by building in the aspect of business continuity. By linking the aspect of business continuity to business innovation, effectiveness of the business model can be improved. Essentially, the businesses improve on their capabilities to handle disruptions. With this aspect of business continuity added, the dynamic capabilities of a business model are bound to improve. Organisation can probably look for a solution to handle the disruptions within the framework of business model itself.

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