Dynamics of Business Models – Strategizing, Critical Capabilities and Activities for Sustained Value Creation

Paper forthcoming in: Long Range Planning (2013)

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Abstract

Much progress has been made recently in developing the business model concept. However, one issue remains poorly understood, despite its importance for managers, policy makers, and academics alike, namely, how companies change and develop their business models to achieve *sustained* value creation. Companies which manage to create value over extended periods of time successfully shape, adapt and renew their business models to fuel such value creation. Drawing on findings from a research program on continuously growing firms, this paper identifies three critical capabilities, namely an orientation towards experimenting with and exploiting new business opportunities; a balanced use of resources; as well as achieving coherence between leadership, culture, and employee commitment, together shaping key strategizing actions. Moreover, we illustrate how each of these capabilities is supported by different sets of specific activities. Jointly, these three capabilities, their activities and the strategizing actions act as complementarities for value creation. We conclude the paper by suggesting implications for research and practitioners, providing a tool for managers which allows them to reflect on and identify critical issues relevant for changing and developing their business model to sustain value creation.

Introduction

Since the initial academic interest in the business models of new economy ventures, much progress has been made in developing the business model concept. Recent progress in the conceptual development follows the practical insight that business models need to change over time if firms are to achieve sustained value creation. In particular, it has been realized that companies which have been successful for some time run the risk to fail if they continue doing for too long what used to be right, without adapting their business model to changes in the competitive situation (Doz and Kosonen, 2010). *Sustained* value creation instead relies on successfully shaping, adapting and renewing the underlying business model of the company on a continuous basis, which comprises the rationale of how an organization creates, delivers, and captures value (Osterwalder and Pigneur, 2010)[1].

While recent business model literature acknowledges this need for business model change, there is little conceptualization and empirical evidence on what is needed to *achieve* this change beyond the recognition that strategy is important and that experimentation plays a role (Teece, 2010; McGrath, 2010). Through a longitudinal study of 25 small and medium-sized firms (SMEs) and a systematic within and cross-case analysis, we identify micro-aspects of successful business model change, and show how this enlarges our understanding of business models and of change management in SMEs. The data is generated through semi-structured interviews with top managers and other key actors in the organizations. In this paper, we follow a recent call for more research investigating the 'black box' of business model activities (Zott and Amit, 2010) and employ an activity-and capability-based view on what is needed to achieve business model change. More specifically, we illustrate how strategizing for sustained value creation is fuelled by critical capabilities, which are made up of different activities, or micro-practices. These

[1] We adapt this definition to focus on those activities which create, deliver, and capture value over time. For a discussion of business models, see also M. Magretta, Why business models matter, *Harvard Business Review*, 80(5), 86-92 (2002), p.88.

strategizing actions, capabilities and activities allow companies to adapt their business models to changes in market demands and a competitive environment, while at the same time leveraging and building their internal organizations.

The results of our paper are of practical relevance, especially for companies that operate in changing competitive environments. Business model change is essential for success, not only to take advantage of new value creating opportunities, but also as such an approach reduces the risk of inertia to change which often occurs when a company has been successful with its business model over some time. Dynamically managing and changing the business model more incrementally over time can be seen as an alternative (or complement) to the more dramatic business model changes needed if business model adaptation and renewal has been neglected. Our paper provides guiding lights for identifying necessary strategic actions, capabilities and activities to achieve successful business model change for sustained value creation and points out the relevance of considering the complementarity of changes. To facilitate this process, we offer a tool for managers to help them reflect on their business model management.

Point of Departure – From 'What Business Models are' Towards Understanding 'What Business Models are for'

In the past years, many publications have attempted to define what business models *are*, focusing on business models as basis of company success (Afuah, 2004; Amit and Zott, 2001; Morris et al. 2005) or as a "framework for making money" (Afuah, 2004, p. 2). Such business model concepts typically captured the sources of revenues (and costs), with descriptions of the business architecture (for product, service and information flows, including description of the market participants), the value chain position, and relevant industries, as well as the benefits which customers and suppliers can gain from a company's business model (Wirtz and Lihotzky, 2003).

Despite advances made, the theoretical foundations of the business model concept still display some inconsistencies in the underlying assumptions and propositions (Mäkinen and Seppänen, 2007). Yet, as has recently been pointed out, this might not be a problem, as the business model concept can be useful in multifaceted ways (Baden-Fuller and Morgan, 2010).

In recent business model literature, and in particular a *Long Range Planning* Special Issue on business models, different findings were especially striking for informing the aim of this paper. Not surprisingly, it has been found that business models cannot be static. Demil and Lecocq (2010), for example, investigate the dynamic created by the interactions of the different building blocks of business models. Yet, the capabilities or activities driving such a dynamic to success over time have not yet been regarded. Further, strategizing has been found to play a crucial role for changing business models. For instance, Casadeus-Masanell and Ricart (2010) argue that business models can be conceived as a set of relations and feedback loops between variables and their consequences, and recommend that strategic management should aim at developing these to create virtuous cycles, leading to an evolution of the business model. Yet again, how such strategic activities are performed in practice has not yet been addressed. Thus, our paper attempts to address these remaining gaps by exploring what strategizing actions, capabilities and activities are crucial for achieving business model change.

Our results integrate previous findings about business model change and point out more comprehensively how business model change can be achieved over time. Different aspects which have been identified as relevant in recent business model literature will reappear in our integrative approach. For example, it has been argued that business models cannot be anticipated fully in advance and that they rather must be learned over time through experimentation (McGrath, 2010). Such experimentation could lead to business model innovation through trial-and-error learning (Sosna et al. 2010). In line with these findings, one capability we identify as critical for fuelling business model change is to identify, experiment with and exploit new business opportunities. Yet, such experimentation can be costly and requires financial and other resources. While resources and competences – among other things necessary for such experimentation – have been argued to be major building blocks of business models (Johnson et al. 2008; Demil and Lecocq, 2010), we identify a balanced use of resources as another critical capability. In addition, Smith, Binns and Tushman (2010) point out that managing complex business models effectively depends on leadership, including the building of employee commitment. In our study, we found achieving coherence between an active and clear leadership style, a strong organizational culture and employee commitment to work as a third critical capability. Finally, Casadesus-Masanell and Ricart (2010) argue that business models can generate virtuous cycles – positive feedback loops that would strengthen parts of the model over time. They consider such virtuous cycles to be crucial elements in successful business model operation, and thereby suggest that different aspects of managing business models can reinforce their consequences. Similar to their conceptualization, we found in our study that the strategizing actions together with the critical capabilities worked as complementarities, meaning that in combination these elements fuel more sustained value creation through successful business model change over time. While specific aspects of our model, which we present in this paper, have been discussed in recent studies, we outline more comprehensively which different capabilities and activities are needed to successfully achieve business model change.

Theoretical Background

A combination of the dynamic capabilities and the strategy-as-practice perspectives provide our theoretical vantage point for addressing the issues raised above. The dynamic capabilities perspective aims to explain the sources of a firm's success over time by focusing on difficult-to-replicate capabilities that enable the firm to change by shaping *and* adapting to the environment (Teece et al. 1997; Eisenhardt and Martin, 2000). Core elements of dynamic capabilities are organizational and managerial processes that support sensing and seizing business, technological and market opportunities as well as reconfiguring assets and organizational structures as the firm grows and markets change (Teece, 2007, p. 1330). It has been argued that the deployment of different capabilities creates value for customers. In highly uncertain environments, companies require continuously enriched and reconfigured capabilities, as well as new capabilities (Sirmon et al. 2008). Such intentional changes of capabilities are the essence of dynamic capabilities. Thus, the dynamic capabilities perspective holds that a firm's continuous success – in this paper understood as sustained value creation – requires more than selecting a business idea and leveraging resources and competences that are difficult to imitate.

As dynamic capabilities are evolutionary, the perspective is well suited to analyze the necessary strategizing actions of changing business models over time. In this paper, we focus on *critical capabilities*, which we conceptualize as those dynamic capabilities which enable a company to shape, adapt and renew business models to create value in a sustainable way. Critical capabilities are *formed by* strategic and organizational *activities*, which can be illustrated by drawing on Teece's (2007) example from the music industry: Traditionally, music stars (and record companies) decided whether main revenues were to be generated by concerts or whether concerts were a means for promoting sales of recordings. This choice implied different sets of activities—e.g. the artist could decide to spend more time performing concerts than time in the recording studio, or vice versa— as well as the resources to perform them. The emergence of Napster as a peer-to-peer file sharing internet service, followed by (more or less legal) clones of Napster and the spread of online multimedia stores, required music artists (and record companies) to rethink their business models. These new internet services allowed customers to select and download individual songs, for which they either did not pay at all or only the price of each downloaded song. Thus, sales from pre-packaged, highly-priced CDs (which include many songs customers would typically not buy separately) plunged. And, “the ability to reconfigure business models to delivering and pricing music profitably is undoubtedly a dynamic capability for both the record companies and the artists” (Teece, 2007; p. 1330). Such ability, or critical capability in our terminology, emerges from complex strategic choices on how to manage organizational activities, such as the choice of market segments, or of growth modes.

Dynamic capability scholars emphasize the crucial role of ‘micro-foundations’, including the everyday activities that shape the change in capabilities (Teece, 2007). However, still very few dynamic capability studies of activities exist, which would address what dynamic capabilities really are and what role micro-foundations play. With this ‘level’ missing, the dynamic capability framework is abstract and not clearly specified (Danneels, 2008). We suggest that the activity focus proposed by the strategy-as-practice perspective may help. Activities and micro-processes are at the core of this perspective, which is interested in ‘the close understanding of the myriad, micro activities which make up strategy and strategizing in practice’ (Johnson et al. 2003, p. 3). The strategy-as-practice perspective with its focus on micro activities helps grasping the actual strategic and organizational activities that facilitate the shaping, adapting and renewing of business models. Thereby, the strategy-as-practice perspective anchors the theorizing on business models into everyday praxis, which is beneficial as the business model is a concept originating from praxis (Johnson et al. 2007, p. 18).

Recent calls in the literature have drawn attention towards the link between dynamic capabilities and strategy-as-practice. Johnson et al. (2003), for instance, emphasize how the ‘micro’ perspective of strategy-as-practice can inform established ‘macro’ perspectives on strategy dynamics, and Regnér (2008) illustrates a number of key features of the strategy-as-practice approach that fruitfully may complement the dynamic capabilities perspective. These include a focus on strategizing actors at multiple organizational levels, and on strategy-making embedded in social and cultural contexts besides economic ones. So far, work on dynamic capabilities typically emphasizes the role of formal systems, while less work has been done on "how the more informal interaction between people, and the ensuing improvisation and experimentation, are an important constituent in dynamic capabilities" (Johnson et al. 2007, p. 18). Such interaction between people and the link between activities and outcomes are at the core of the strategy-as-practice perspective. Thus, our paper draws on the combination of the dynamic capabilities and strategy-as-practice perspectives, where we identify capabilities and activities that are critical to support value creation over time. With this emphasis, we provide a framework for understanding the strategizing actions, capabilities and activities that are necessary for successfully managing business model change.

Method

We employ an in-depth analysis of a small sample of 25 companies which have managed to create value over a sustained period of time (see Table 1 below for more information on these companies). In the mid 1990s, all cases were successfully growing firms (and almost all of them were awarded a prize for entrepreneurial and profitable growth). We have studied and analyzed these firms' development since 1995. Thus, while the initial sampling was based on historical success, we have then mapped the companies' development, including following them in real time 2004-2009, without knowing their eventual success. The methods text box (see Exhibit 1 below) provides more detailed information on the sample, and the methods in use for data collecting and analyses. In this paper, we explore strategizing actions, capabilities and activities which fuel business model change for successful value creation over time.

Exhibit 1: Methods

The research presented in this paper is part of a broader 5-year research program on sustained growth, focusing on small and medium-sized companies which have displayed profitable growth over a long period of time. The companies studied in this research program make an ideal sample to study sustained value creation, as companies which manage to display profitable growth over long periods of time are prototype examples of creating sustained value. Only growing companies can create value over time, given that their return on capital employed exceeds the cost of capital (McKinsey and Company, 2000).

Studies based on qualitative research have been criticized for being careless in their sampling (Aldrich, 1991). One major difficulty for sampling in qualitative studies lies in identifying populations of companies (Neergaard, 2007). To solve that challenge, we followed up the entire group of companies which had received a certain prize for their successful growth without knowing how they had developed since then. Thereby, we could avoid common selection biases in sampling cases (Collier and Mahoney, 1996), as sampling continuously growing firms in hindsight necessarily would have implied a selection biased on success. Specifically, within this research program, we have followed up all 30 companies, which received the prize 'Gröna Kvisten' (Swedish for 'the green twig'), a prestigious prize that was handed out monthly in a Swedish TV program by a qualified jury in the years 1993 to 1996. The purpose of the prize was to stimulate entrepreneurship and growth in Sweden by enhancing the visibility of successful entrepreneurs in media, thereby creating role models. The winners of the prize were selected through a thorough analysis of Swedish limited companies. Firstly, a long-list of Swedish firms that had generated profits over the previous three years was compiled. From this group, all companies that had earned a return on capital employed (ROCE) higher than the capital market rate over the previous three years were selected. Thereafter, these companies were reviewed based on a combination of quantitative data (such as increase in number of employees) with more qualitative criteria (such as their image of being a growth company, the entrepreneurial orientation of the founder/manager, their environmental profile, the technological development, as well as the investment strategies). Finally, 30 profitable growth firms with a pronounced entrepreneurial orientation were selected to receive the prize. In addition to following up the development of all these 30 firms, we have conducted three in-depth cases with other continuously growing companies. Some of the prize-winning SMEs no longer exist as unconsolidated companies and were thus excluded from further analyses. The analysis drawn on in this paper is based on 25 firms, comprising 23 of the prize-winning firms and two of the in-depth cases.

The profiles of all 25 companies are summarized in Table 1, while the key variables and relevant value creating dimensions are reported in Table 2 for those nine companies used for illustrations in this paper.

The data we used consist of transcribed interviews conducted with company founders, current members of the top management teams as well as present and former employees. Interviews typically lasted between one and two hours, and some participants were interviewed more than once, to obtain more details about complex company histories and organizational processes. The interviews were complemented with further company information (such as annual reports as well as articles from newspapers, homepages, and other publications) for triangulation to increase the level of consistency.[2]

The case study approach is suitable for studying and increasing the understanding of complex, longitudinal phenomena, such as sustained value creation. Of course, we do not suggest generalizability of these results in a statistical sense. Rather, the aim with this explorative

[2] Interview citations and company information presented in the case vignettes have been translated to English by the authors.

study is to achieve analytical generalizability of a set of results to contribute to the existing business model literature (Yin, 1989; p. 43-44).

Restricted by the scope of this paper, we illustrate our findings with typical examples from nine companies, chosen from the larger sample of 25 cases to represent the variety of studied companies. It is important to note that the illustrations are not drawn from the most successful case companies only; rather they represent our overall sample (i.e., analyses of growth in sales, growth in employees and ROA showed no statistically significant difference between the companies chosen as illustrations and the remaining sample). Even though the companies in our sample represent a range of different industries as well as differences in ownership structures, age, and size, they share the important characteristic of having experienced long periods of profitable growth (see Table 1 below). At the starting period of our data collection, all but one of the firms were small or medium-sized. This facilitated our tracking of how business models work, as we could largely avoid the challenge of multiple layers of business models typical of large organizations. As all companies are from the same small-country context of Sweden, differences in development of national economies as impact on their strategic choices were not an issue.

Table 1: Profile of the 25 Companies in the Studied Sample (Numbers in Percent)

		Year 2007			**Year 1993**	**Year 2007**
Industry	Manufacturing	60	**Business format**	Family firm	48	38
	Retail	23		Private	48	34
	Grocery	7		Public	3	28
	Service	3				
	Wholesaler	3	**Turnover (TSD SEK)***	-50 000	30	0
	Software	3		51 000 - 100 000	27	16
				101 000 - 200 000	27	20
Founding year	Before 1960	24		201 000 - 500 000	10	28
	1960-1969	14		501 000 -	7	36
	1970-1979	24				
	1980-1989	38	**Number of employees**	-20	20	8
				21 – 30	17	8
CEO	Owner	45		31 – 100	23	24
	External	55		101 - 1000	37	48
				1001 -	3	12

*=Since the introduction of the Euro, the average annual exchange rate has fluctuated between 1€=9.04SEK and 1€=9.44SEK (Source: Swedish Tax Authorities, www.skatteverket.se)

The longitudinal case study approach we have chosen captures the processes we studied over many years, combining the benefits of richness of data with exploration of causality. Also, we used triangulation of data sources and rigorous procedures for analyzing the data. Interview transcripts from each case company were read, re-read and themes were generated, broken down into business model changes, strategizing actions, critical capabilities and activities (see Exhibit 2 below for the 'measurements' deriving from this analysis). We also compared the interview data with data collected from other sources—such as annual reports. Once this process of within-case analyses as a first-level analysis was completed, we conducted a cross-case analysis as a second-level analysis increasingly informed by our theoretical perspectives (Eisenhardt, 1989). In order to achieve a more structured presentation of the companies, we moreover employed an analysis inspired by Ragin (1987). This analysis combines the intensity of information gathered through case study research with the additional advantage of examining larger number of cases (Ragin and Zaret, 1983). All three researchers involved in the study made individual interpretations of the data before developing shared interpretations of each case.

Exhibit 2: Measurements of Key Variables

Business model changes	Strategizing actions	Critical capabilities

• New products/services
• New markets/customers
• Changes in the value chain
    o Changes in how value is generated
    o Changes in how value is captured (i.e. changes in revenue model)
• Changes in key activities
• Changes in key resources
	• Strategy development process
	• Growth strategy (organic, M&A, combination)
	• Expansion across business model dimensions (product lines, customer segments, distribution channels, value creating activities, geographical markets)
	• Policies and measures
		• Recognizing business opportunities
		• Experimenting with new ideas / business opportunities
		• Acquisition and allocation of different types of resources (human, financial, intangible etc.)
		• Leadership style
		• Characteristics of

• Changes in cost structure	regarding quality • Policies and measures regarding cost structure	corporate culture • Interaction of owners – managers – employees

Despite the advantages of our sample to fulfill the aim of this paper, the sample size is of course a weakness, as it is difficult to assess the extent to which our sample of 25 companies can be used as the basis for generalization in a statistical sense, beyond the analytical generalization attempted in this paper.

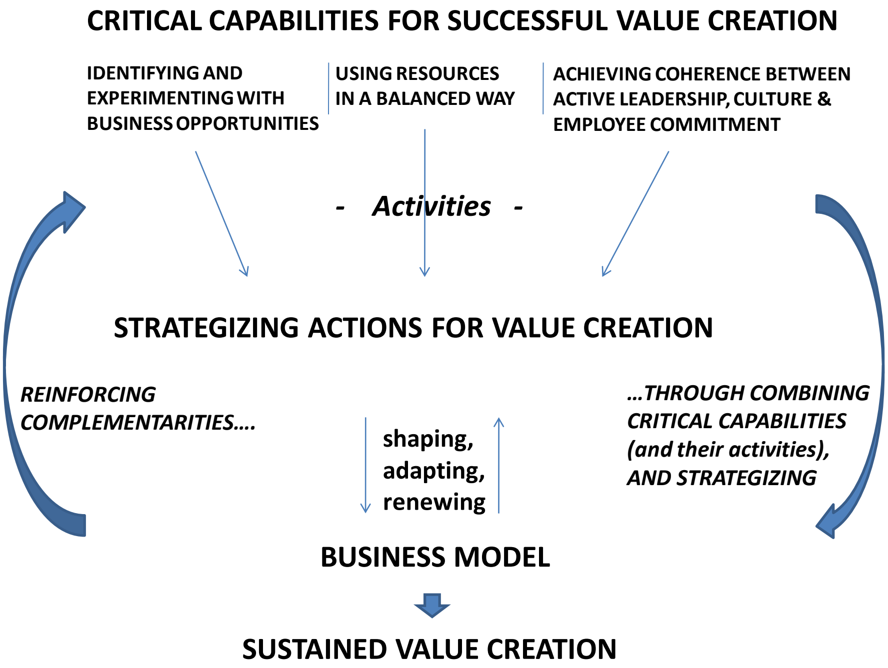
In the next section we will first introduce an integrative framework of our findings, followed by discussions of our findings regarding strategizing supporting sustained value creation and critical capabilities that support SMEs in dynamically managing their business models, providing examples of activities which lie behind the capabilities.

Strategizing Actions, Critical Capabilities and Activities for Managing Sustained Value Creation

Not surprisingly and similar to other scholars before us, we find that those companies displaying sustained value creation have changed and developed their business model over time. More novel are our findings as to what strategizing actions, capabilities and activities are necessary to achieve such business model change. We integrate our findings in a framework in Figure 1 (below), which illustrates how critical capabilities and subsequent activities are linked to strategizing for value creation, which drives business model change[3].

[3] In this paper, our focus is this contextualization of business models, not the discussion of business models *per se*. Thus, we are interested in what strategizing actions and critical capabilities are necessary for shaping, adapting and renewing business models for sustained value creation.

Figure 1: An Integrative Framework for Achieving Business Model Change for Sustained Value Creation



The role of strategizing for business model change has been pointed out in recent contributions to the business model conceptualization (Smith et al. 2010; Casadeus-Masarell and Ricart, 2010). Yet, insight is still lacking into what kind of strategizing actions are needed for adapting and developing business models to achieve sustained value creation, as well as which capabilities and activities facilitate such successful strategizing. This is the issue addressed in the remainder of this paper.

Our framework (see Figure 1) comprises three *strategizing actions* relevant for value creation: the focus on organic growth complemented with strategic acquisitions; the simultaneous expansion along different dimensions; as well as the combination of cost-efficiency with a high-quality focus. These are fueled by three types of *critical capabilities*: an orientation towards experimenting with and exploiting new business opportunities; a balanced way of using resources; and achieving coherence between an active and clear leadership, a strong organizational culture and employee commitment. In practice these critical capabilities are formed by different *sets of activities*. Lastly, we find that these different components, the strategizing for value creation, the critical capabilities and their activities mutually reinforce each other as *complementarities* – similar to a virtuous circle, which means that in combination these components fuel more sustained value creation through business model change. These different aspects will be discussed in more detail in the following, with illustrations from nine of our case studies. These nine cases, with their growth dimensions, strategizing actions for value creation, critical capabilities and business model dynamics are summarized in Table 2 below.

Table 2: Growth Variables and Relevant Dimensions for Nine Cases Used for Illustration in this Paper

Company (in order of appearance in the text)	Industry	Employees 1993	Employees 2008	Sales 1993 (mln SEK)	Sales 2008 (mln SEK)	Main strategizing actions for value creation	Critical capabilities (examples)	Business model dynamics
Etac	Home health care products	117	526	125	1098	Organic growth *and* strategic acquisitions Optimizing costs, high quality focus	Expanding into new markets and products Strategizing shared in company Focus on communication Developing brand around competences	Expansion of product range from one-product to range of home health-care products Expansion from home-market Sweden to internationalization into many countries
Daloc	Safety doors	165	343	152	642	Acquisition of complementary target (wooden door manufacturer) Expanding in products and markets (i.a. through franchising) “Unique product delivery to the unique customer, with a low cost structure”	Continuous search for and testing of new business opportunities Autocratic leader displaying clear and active leadership, with trustful relationship between her and employees High-tech manufacturing processes Cash flow ensured through production based on confirmed customer orders	Development from producer of metal safety doors to offering a range of different doors which combine design and safety features Building increasingly on tight cooperation with designers and architects, changing the logic of how value in the industry can be created and captured
SYSteam^	IT consulting	100*	1192	104*	1767	Combining organic growth with acquisition of companies with similar cultures	Small, entrepreneurial entities experiment with new ideas Employees encouraged to be entrepreneurial Developing new competences through both hiring and the acquisitions	From local company aiming at SMEs to (inter)national company aiming at specific industries (such as healthcare), larger customers *and* SMEs

BabyBjörn	Consumer items	13	86	18	382	Focus on organic growth, but alliances with key partners Product innovation and new market entry in focus	Brand and design focus Focus on financial health and reinvesting of profits	From one-product company to range of innovative products which are fun to use
Nefab**^	Packaging solutions	400	2343	350	2595	Following major customers into international markets Organic growth complemented with strategic acquisitions	Hiring people to develop the competence base Building on strong value base, fostering employee commitment	From packaging material to custom packaging solutions; expansion of product range and markets in response to customer needs
Hästens	Beds	38	270	60	498	Differentiation through high quality and branding Operational excellence (six sigma)	Encouraging exploration of new ideas Developing the brand by innovative marketing approaches Open communication	From handcrafted mattresses to 'complete bedding company fulfilling the sleeping experience'; opening of own stores and selected shop-in-shops to build more experience around the purchase decision as well as to create tighter contact to the customer
Polarbröd	Groceries	148	411	175	767	Constant improving of product range Focus on increasing efficiency of operations	Experimentation to come up with new types of breads Innovation in distribution	From making hard bread for a local market to shipping frozen breads, which are heated at the grocery stores, to the entire country and foreign markets; expanding product range
Kriss	Fashion	47	110	33	112	Rapid expansion Quality in focus	Focus on design	Repositioning company through adapted distribution outlet strategy, yet maintaining the same customer group in focus
Ryftes	Groceries	28	46	37	114	Very modern packaging factory to prepare for further downstream expansion Operational excellence	Secure cash flow through long-term contract which provided freedom to develop business activities further Focus on product and service development Innovativeness	From seasonal strawberry planting and harvesting without product differentiation to high-quality root vegetable growing, peeling, and packaging for the high-end market; developing strong relationships with actors in that market

							considered key	

*As of 1994. ** Data for 1993 estimated based on company information. ^ In-depth cases of these companies were added to the sample of prize-winning SMEs.

Strategizing for Sustained Value Creation

When companies succeed in the market with their business model and realize that there is further potential to expand, strategizing actions often lead to adaptations in the value creation logic. For example, the company Etac, a producer of home health-care products such as walkers, faces a huge market demand even though it is active in a highly competitive market. This company grows mainly organically combined with some selected strategic acquisitions, and continuously attempts to optimize costs in order to free cash for investments to expand into new markets and products, thereby fueling future value creation. Below we discuss in more detail three strategizing actions for sustained value creation.

Combining Organic Growth with Strategic Acquisitions

The first strategizing action for achieving sustained value creation is to combine organic growth with strategic acquisition-based expansion. Focused and selected strategic acquisitions allow companies to strengthen their critical capabilities and thereby also the capacity to continue organic expansion for further value creation. Carefully selected and executed strategic acquisitions have the potential to strengthen the existing logic of generating revenues, while at the same time adding new revenue streams as well as the capabilities to experiment with new technology or product ideas to prepare for further value creation. For example, after a long period of steady organic growth the security door manufacturer Daloc acquired a competitor to expand into the segment of wooden security doors. The acquisition target was carefully selected to carry a brand image communicating both quality and design, just as the Daloc brand does, to facilitate the joint development of capabilities. Typically, SMEs only conduct a limited number of acquisitions. Due to the impact of each acquisition on the business activities, they pay much attention to finding organizing solutions which help exploit the real potential of each deal. Otherwise, acquisitions bear the risk to destroy rather than create value – for example if they weaken the organizational culture, which in many successful companies serves as important coordinative 'glue'. Even organic growth at a high pace may put stress on the organization. Therefore, value-creating companies are very careful not to unbalance the own organization by too high a growth rate. The company BabyBjörn, which develops innovative products for babies and toddlers to make their parents' lives easier, sets the limit for expansion which the organization can manage without becoming overstretched to 10% annually.

Focusing on Simultaneous Expansion Along Different Dimensions

Typically, companies displaying sustained value creation expand along several strategic dimensions simultaneously, rather than in one direction only. Instead of expanding their product-line offering through diversification only, these companies more comprehensively rethink their business models along the strategizing dimensions of new products (including product features, upgrades, and services), new customer segments, new distribution channels and/or new value creating activities (such as moving upstream or downstream), and new geographical markets (nationally and internationally) (e.g., Ireland et al. 2001; Zahra et al. 2001). As firms enter new (international) markets they acquire new capabilities that can be used to engage in product, process and organizational innovation as well as to continue growing at home and abroad (Barkema and Vermeulen, 1998). The company Nefab, originally a packaging-material company, expanded their product offering into complete and serviced custom packaging solutions. In addition, they expanded heavily along the geographical dimension when following their major customer into new international markets, such as China.

Combining Cost-Efficiency With a High-Quality Focus

Despite earlier arguments in strategic management theory that companies should choose between either a high-quality or low-cost focus, companies creating sustained value combine both. They strive for high quality while achieving operational excellence, for example by organizing all processes in cost-efficient ways. Hästens produces its high-quality beds by hand in a small town in Sweden, which necessarily leads to rather high manufacturing costs. Therefore, the company aims at excellence in all processes, which is supported by employing the Six Sigma tool. To get their processes certified along different quality and environmental criteria is important for systematically organizing processes cost-efficiently, but also for justifying the higher prices charged for the high-quality products.

We have presented three strategizing actions which we have identified to be necessary for changing business models to achieve sustained value creation. These actions are not *per se* novel to the strategic management literature. What is, however, novel is the insight how these strategizing actions *together* form the basis of successful *business model change*. Yet, it is also a well-established fact in the strategic management field that the intended outcome of strategizing actions is not necessarily achieved; rather, realized strategic outcomes might be partly emergent (Mintzberg and Waters, 1985). We find that companies creating sustained value creation support their successful strategic outcomes with three critical capabilities: First, experimenting with and exploiting new business opportunities; second, the using of resources in a balanced way; and third, the achieving of coherence between active leadership, culture and employee commitment. Furthermore, these critical capabilities become realized by specific sets of different activities.

Three Types of Critical Capabilities Support the Value Creation Processes

In the following subsections the critical capabilities and their activities are presented more in detail with illustrations from the case findings.

Identifying, Experimenting With and Exploiting Business Opportunities

A shared characteristic of companies successfully developing their business models to create value over time is that they act highly entrepreneurial. Accordingly, a significant critical capability of these companies is the continuous identifying, experimenting with and exploiting of new business opportunities (see Table 3 below showing activities shaping this critical capability).

Table 3: Critical Capabilities and Activities for Experimenting With New Business Opportunities

Critical capability: *Creating, identifying and experimenting with new business opportunities*	
Activities:	Example:
Retrieving relevant information about technological developments, markets and competitors and monitoring changes	The founder of Ryftes Vegetables keeps a notebook with information about the competitors, which is continuously updated; he travels to different countries to visit other high-quality vegetable producers to learn what they are doing; such market insights have led to the building of windmills to provide energy for the cooling house and the building of a factory for peeling vegetables which can be sold at premium price
Providing freedom for and encouraging the exploration of new ideas, which can lead into new projects	The IT consulting company SYSteam encourages all employees to develop new business ideas as part of their jobs during normal working hours
Accepting the making of mistakes and encouraging learning from them	The bread-maker Polarbröd unsuccessfully attempted to enter the German market, failing in positioning its breads as attractive for customers. Instead of fully giving up its internationalization plans, the company continued to attend fairs and eventually developed a successful strategy for entering the French market, positioning the bread as up-market delicacy

Not surprisingly, proactively conducting market research is an important activity supporting this capability. The founder of the high-quality vegetable producer Ryftes keeps a notebook with continuously updated information about the competitors in the home market, including their investments and key customers. He regularly travels around, for example to France, to visit other vegetable producers to learn from what they are doing. One business opportunity which was identified based on such active market research emerged from a recent change in EU regulations that restaurants were no longer allowed to peel vegetables in their kitchens. As many restaurants lack extra space to organize the process differently, Ryftes built facilities to peel vegetables which are now sold at a premium price to restaurants.

Another crucial activity supporting this critical capability is the experimenting with new ideas. The IT consulting company SYSteam supports its strategy of selectively using acquisitions to strengthen its core businesses and foster expansion along different strategic dimensions simultaneously with the capability of experimenting with new ideas and searching for new opportunities for generating value. The company is organized around small teams (thus, the name of the company), which are encouraged to act entrepreneurially in a company which tries to be as little formalized as possible. The members of the different teams are given the freedom to develop and explore new ideas as part of their job tasks. The company Polarbröd, a bread producer from Northern Sweden, has managed to think outside the box to identify new business opportunities and increased its sales and profitability, becoming the 3rd largest producer of bread in Sweden in an otherwise shrinking industry. Polarbröd identified an opportunity for successfully innovating the bread market: The bread is frozen right after baking; it remains frozen while shipped and transported; and it is defrosted and re-heated once it reaches the grocery stores. In this way, Polarbröd's frozen bread can handle long shipping and storage times, while the customers always get bread which tastes freshly baked. Traditionally, Polarbröd was known for its assortment of soft, white breads. This led to a drop in sales at the turn of the century when brown bread started to gain popularity for health reasons. However, Polarbröd came up with different innovations to develop healthy and premium offerings. For instance, in 2003 Polarbröd launched a new line of bread, Polarkraft Extrem, which hit record sales. This line of bread was based on a new baking technique which was the result of the experimentations undertaken in the factory. In attempting to develop new business opportunities the company accepts that mistakes happen and attempts to learn from them. For instance, Polarbröd tried to enter the German market (where crispy bread crusts are highly appreciated) branding its soft bread 'Lappenbrot', or lapp bread, playing on its Northern Swedish origin – but unfortunately ignoring the fact that 'Lappen' in German means 'cloth'. Perfectly matching the association German customers had when tasting the bread, this market entry became a huge failure. Yet, Polarbröd did not give up and continued to visit fairs for learning about internationalization. Eventually, the French market was entered successfully, positioning the same type of bread as a delicacy for making sandwiches.

As the examples above have illustrated, different activities (summarized in Table 3) support the critical capability of identifying, experimenting with and exploiting business opportunities.

Using Resources in a Balanced Way

As we have argued above, sustained value creation is typically related to company growth. However, expansion can easily outstrip the different resource bases of a business (Slatter, 1992), unbalance the organization's configuration (Wiklund, 1998), and as a result, lead to crises and value destruction rather than creation. One critical capability is to develop the entire resource base comprehensively; including the different financial, human and organizational knowledge resource types (see Table 4 below showing activities shaping this critical capability).

Table 4: Critical Capabilities and Activities for Using Resources and Capabilities in a Balanced Way

Critical capability: *Using resources and capabilities in a balanced way*

Activities:	Example:
Choosing how to allocate the different resources in a balanced way Paying attention to further developing all different resource bases	The IT consultancy SYSteam's strategy to acquire smaller companies enhances the available human resource and competence base, while the financial strain put on the company is limited because of the relative small size of each acquisition and long-term profit-sharing agreements with the sellers that stay in the acquired unit. Attention is paid to also foster organic growth through encouraging all units to stretch in their development.
Ensuring a steady cash flow Striving after operational excellence to maintain low cost levels Reinvesting profits to facilitate further expansion	The founder of Ryftes struck a deal with large customers to buy predefined quantities of vegetables in order to guarantee cash flow which could be used to experiment with a new, up-market market niche. The company's processes are certified (ISO 9002 and 14001) to achieve operational excellence. Profits are reinvested, for example into wind power turbines or new facilities.
Hiring or cooperating with people with specific skill sets to complement the competence base Investing into R&D and new product development Developing a brand's full potential by combining different marketing approaches	The producer of designed, high-quality products for little children, BabyBjörn, cooperated tightly with pediatricians to ensure that products are safe to use. Product development is key, with Scandinavian design in focus and achieving attractiveness also for fathers. Branding is achieved not only through communicating to the entire 'modern' family, but also by sending product samples to celebrities with babies in order for the products to appear on pictures of the celebrities published in different media. Often, this leads to a direct increase in sales volume of that product.

The companies we studied employ their resource base in a balanced way for controlled expansion, which typically includes dynamic business model adaptation and/or development. Such a balanced way of employing resources entails that financial investments for pursuing new business opportunities are linked to activities that develop also one or more of the other relevant resource bases. The IT consultancy SYSteam's strategy is to acquire smaller companies to enlarge its market as well as its product and service offerings. Through the acquisitions, the company successfully enhances its available human resource and competence base, while the financial strain put on the company is limited because of the relatively small size of each acquisition. In addition, long-term profit-sharing agreements (as a way to stretch the payment of some of the acquisition price over a longer period) are made with the target's founders who stay in the acquired unit. Simultaneously, attention is paid to foster organic growth through encouraging all units to stretch in their development. Thus, SYSteam has the capability to balance financial investments with an investment of managerial time into rethinking necessary business model changes, adjusting operational processes and leveraging as well as further developing the human resource base. Temporarily losing the balance in employing the resource base does not need to be fatal, but requires concerted management effort to bring the company back on track. The fashion chain Kriss, for example, had lost the balance of resource use and came into financial trouble when opening a large number of stores within a short period of time in Sweden and abroad. During this process, the fine-tuning of the operational processes of these new stores as well as development of the human resources were neglected too much and cash flow stayed below expectations. In response to this unbalance, the company changed its business model by repositioning its distribution outlet strategy, and is now again in balance.

In addition, an important activity supporting the critical capability of balancing the generation and use of resources (and especially for smaller companies) is to ensure free cash flow. Cash flow is needed for investing financial resources into future value creation. Investments are facilitated by operational excellence to secure profitability, and many successful companies finance their value creation activities by reinvesting their profits. While, as discussed above, the companies we studied experiment with new business opportunities, they at the same time keep close watch of their levels of cash flow and cost structures (see Table 4 above). The founder of Ryftes Vegetables agreed on longer-term deals with large customers to sell them fixed quantities of root vegetables in order to secure a stable income stream, which allowed him to develop Ryftes' high-quality niche aiming at smaller, specialized customers (such as gourmet restaurants). As he expected the energy prices to rise, he invested profits from the company into wind turbines. Selling the surplus wind power not only generated additional revenues, the use of green energy also strengthened the ecologic brand which the company had developed for its products – a crucial aspect as the cooling houses for vegetables are high in energy consumption. In addition, Ryftes focuses on operational excellence and quality in all organizing practices, and its quality and environment processes are certified according to ISO 9002 and 14001. Even though a high-quality producer in a high-wage country such as Sweden will not be able to compete on cost leadership, such optimizing of operational processes cuts down unnecessary costs.

The company BabyBjörn attempts to make life easier for families with little children by offering products such as carriers, potties and bouncers. The founder got started without any financial capital and therefore has always required to be paid directly for what was sold to secure the cash flow. Safety, quality and design are considered key, and the company cooperates tightly with leading pediatricians to ensure that products are suitable for small children. Product development is thus taken very seriously, and a range of new ideas are continuously explored. The development of one very successful product – a plastic plate and spoon – took four years to complete. An important, additional feature of their product development is design, which explicitly aims at being attractive enough 'to inspire fathers to get involved'[4]. But brand building is not only based on addressing the entire family. When celebrities have babies, they receive a BabyBjörn baby carrier. Often, pictures appear in different media of these celebrities carrying their baby in that carrier, increasing the desirability of the product in a very resource-efficient way for the company (see Table 4). The business model has expanded over time from baby mobility to include kitchen and bathroom products.

[4] http://www.babybjorn.com.au/about-us/babybjorn-today/

As the examples above have illustrated, different activities (summarized in Table 4) support the critical capability of using resources in a balanced way.

Achieving Coherence Between Active and Clear Leadership, a Strong Organizational Culture and Employee Commitment

We have identified the coherence and co-existence of a strong organizational culture, active and clear leadership, as well as commitment to and by the workforce as a critical capability fuelling the strategizing for value creation (see Table 5 below showing activities shaping this critical capability).

Table 5: Critical Capability and Activities for Achieving Active and Clear Leadership, a Strong Corporate Culture and Employee Commitment

Critical capability: *Achieving active and clear leadership, a strong corporate culture and employee commitment*	
Activities:	Example:
Encouraging employees' expression of and search for innovative ideas and constructive questioning Developing and sharing clear values Showing loyalty and commitment to the employees Exerting a visible and credible leadership style	Daloc's CEO strongly believes in a visible, credible leadership style, in which she 'lives' the company values. Commitment to the employees, but also to the local region, is seen to be of core importance for employees to be equally committed to the company. This commitment is fostered by a strong corporate culture and values shared throughout the company. Employees are invited to express their ideas which might help to further develop the company.
Fostering employee motivation and commitment Focusing on open communication, e.g. communicating the value creation strategy across the company	In order to ensure employee motivation and commitment, the high-quality bed-maker Hästens has regular meetings to share relevant strategic information and explain the economic development of the company to the employees. Such open communication is considered an important tool to enhance their understanding of how the company works and of which activities positive results are rendered. The employees' commitment to the company is important for Hästens due to the strategic choice to maintain manufacturing in high-cost country Sweden, as the manufacturing skills are key for the success of the company.

Involving employees in strategizing activities	The producer of designed, high-quality products for babies and toddlers, BabyBjörn, strongly believes in getting the input of employees for strategizing. One important forum for this strategizing are the weekly meetings, in which information and ideas are shared across the company.

Strong cultures play an important role in processes of identifying and exploiting both internal and external value creation opportunities. However, strong cultures also bear the risk of becoming destructive by triggering groupthink in line with an autocratic leader’s view. Therefore, achieving a positive impact of a strong culture implies shared norms and values that allow, and even encourage, employees to question current ways of generating revenue, to experiment with new ideas, and to dare to change ways of doing things. Within the home health-care product manufacturer Etac, core values are identified and further developed jointly with all employees. Showing commitment to the employees is seen as a prerequisite to gain their loyalty. The culture, often shaped by strong founders/leaders and their core values, influences the performance in a positive way through the close connectedness between core values and daily activities (Denison et al. 2004; Vallejo, 2008). Key actors in the company can support the positive effect by consistently living the core values of the culture and showing loyalty and commitment to the employees. The door manufacturer Daloc communicates ‘Combining knowledge, economic stability and boldness’ as core values in the organization. This refers to the focus on superior production processes and understanding the customer, and the stability achieved through the reinvesting of profits into further company development, while ‘boldness’ refers to daring to think outside the box in a traditional manufacturing industry, for example, by innovatively combining safety and design features. Thus, it is not a surprise that the guiding principle for Daloc’s CEO is “to develop excellent products and to invest in continuous, steady growth ensuring that knowledge, skills and experience are retained in the company”.

The CEO of Daloc provides active and clear strategic leadership, which gives employees the freedom to question the taken-for-granted and to develop and experiment with new ideas, combined with the propensity to accept and implement new ideas developed by top management. To be credible, such visible leadership implies open communication in all directions in order to mobilize the commitment of the employees and to reduce potential anxieties resulting from continuous change. To leverage the competences for future value creation, employees need to be motivated and committed to applying their capabilities.

Therefore, companies experiment with involving their employees in strategizing activities. The founder of BabyBjörn, for example, states that "Strategies mature over time. I might have an idea, but many others might also have ideas. And they are just as relevant". In weekly meetings, information and ideas are shared across the company. The high-quality bed-maker Hästens has regular meetings to share relevant strategic information and explain the economic development of the company to the employees. This is considered an important tool to enhance their understanding of how the company works and of which activities positive results are rendered. Thereby, the employees' commitment to the company increases, which is important for Hästens due to the strategic choice to maintain manufacturing in Sweden as a high-cost country, as the manufacturing skills are key for the success of the company.

As the examples above have illustrated, different activities (summarized in Table 5) support the critical capability of achieving coherence between active and clear leadership, a strong organizational culture and employee commitment.

Concluding Discussion

So far, we have presented strategizing actions for sustained value creation as well as three critical capabilities and related activities supporting them. This division is somewhat artificial, as in practice the aspects discussed are tightly interlinked. Companies which manage to successfully adapt and renew their business models over time typically display all of these strategizing actions and capabilities in pronounced form. These are not only interlinked, they are *complementarities*, meaning that their combined use facilitates even more sustained value creation.

Reinforcing Complementarities Through Combining Critical Capabilities

Such complementarities are similar to 'virtuous cycles' which recently have been suggested to drive business model evolution through the positive relationships between variables of the business models as such (Casadeus-Masarell and Ricart, 2010). The role of strategic management is then to develop such virtuous cycles. Our study complements these earlier findings by showing that not only the strategic management of the variables of the business model as such is relevant for achieving business model change for sustained value creation. Rather, we demonstrate that the variables should not be thought of discretely, but as belonging to potentially integrated systems of mutually reinforcing elements (Whittington and Pettigrew, 2003). More specifically, we show how strategizing actions are fuelled by critical capabilities to successfully conduct such change, and that these strategizing actions and critical capabilities together act as complementarities. Thus, the positive, enforcing cycles not only exist within the business model itself, as had been pointed out in previous studies (Casadeus-Masarell and Ricart, 2010), but they are also important when shaping, adapting and renewing the business model.

Generally speaking, the notion of complementarities implies that doing more of one increases the return of doing more of others as well (Milgrom and Roberts, 1995). For example, if companies expand into new markets and products it is important to balance the use of resources and build on employees' motivation and skills, which facilitate to recognize business opportunities regarding new markets and products. In earlier studies, complementarities have been found to exist in jointly changing a range of different organizing practices (Pettigrew et al. 2003), between organizing the manufacturing and other organizing and strategizing practices (Milgrom and Roberts, 1995), as well as between practices and technologies (Amit and Zott, 2001).

Companies which achieve sustained value creation through adapting and developing their business models tend to display all of the elements of our framework (see Figure 1) – strategizing actions, critical capabilities and activities – in pronounced fashion, even though they employ these in unique and context-specific combinations. A managerial action which is good in one context can have no or negative effect in most others. The different elements and their effects can mutually reinforce each other. It is through this mutual reinforcement – the complementarity character – that the strategizing actions, capabilities and activities together act to facilitate the dynamic development of a business model fostering sustained value creation. Above, we have pointed to the danger of failure if companies do not adapt or change their business models over time. Similarly, companies can fall into a 'complementarity trap' if persisting with what once fit best, e.g. because incomplete initiatives of piecemeal changes decrease performance (Whittington and Pettigrew, 2003). Above, we have given some examples of companies which conducted such piecemeal adaptations to their business models, with the consequence of deteriorated financial performance, but which could be 'healed' by creating a more comprehensive approach to continuous adaptation and renewal of the comprehensive business model activities. Such an approach requires endurance and persistence, and is highly contextual (Pettigrew and Whittington, 2003).

Implications

With the thematic presentation of our findings we have illustrated that business models which create value over time are embedded into a multi-dimensional organizational and strategic setting of capabilities, which are formed by sets of activities. The strategizing actions and critical capabilities are simultaneously important, as they interact in a complementary way to enable the shaping, adapting and renewing of the business model. While the strategizing actions and critical capabilities are shared by the companies we studied, they can be translated into somewhat different and unique sets of activities in different companies, as our illustrations have shown.

With our conceptualization, we contribute to the business model literature by identifying necessary elements – strategizing actions, critical capabilities and detailed activities – for achieving business model change over time. While recent literature on business models had pointed out that business models need to change over time, it was still unclear which strategizing actions and activities would be necessary to achieve such change. We have argued above that the three types of strategizing actions proposed in this paper are fuelled by three types of critical capabilities and their activities, which enhance their intended outcomes in terms of business model change for sustained value creation. Thereby, we also further develop the proposition that business models "facilitate the analysis, testing, and validation of the cause-and-effect relationships that flow from the strategic choices that have been made" (Shafer et al. 2005). The strategizing actions for sustained value creation combine organic growth with selected strategic acquisitions, search for expansion along several strategic dimensions simultaneously, as well as focus on achieving high quality while optimizing costs. These strategizing actions are supported by different critical capabilities, namely experimenting with and exploiting new business opportunities activities, using resources in a balanced way, as well as achieving coherence between a strong organizational culture, active leadership, and employee commitment. The strategizing actions and capabilities are mutually reinforced by complementarities between these elements. In different companies, these critical capabilities are expressed and formed by somewhat different sets of activities. By linking such detailed activities to the critical capabilities, we contribute to anchoring the dynamic capability literature more in practice and to reducing its level of abstraction. At the same time, this perspective responds to the call for studies employing an activity-based view on business model management.

The findings we have discussed in this paper have implications for practitioners as well as for theory development and future research on business models.

Implications for Practitioners

The results presented in this paper are derived from issues and challenges which we have identified as crucial in practice, analyzed theoretically, and which we now aim to feed back to practitioners. To reach this goal, we have developed a tool, a questionnaire, to support the self-reflection of managers on how to achieve sustained value creation through shaping, adapting and renewing the business model (see Table 6 below). The questionnaire attempts to reflect the inherent complexity to support the coherent thinking necessary to grasp and understand different relevant components of driving business model development and change. The aim of this tool is to strengthen the link between the strategizing actions for value creation, critical capabilities and business model change. As all companies are different, we do not attempt to propose one best solution; rather, we provide a list of questions that can help managers to systematically think about whether they pay enough attention to organizational and strategic aspects relevant for business model development and change. The questionnaire could be used as a self-reflective tool by the main strategist(s) in a business firm. A version of this tool has been successfully employed in a meeting of a top management team to moderate a discussion on how the strategizing in the company could be improved, where each participant first individually filled in the questionnaire to help uncover divergent views. We suggest that the questionnaire could be used in such a way when implemented for reflection on how to strategize for sustained value creation.

Table 6: Reflective Questions for Practitioners to Improve Management of Business Models

++=applies fully; +=applies mostly; -=applies somewhat; --=applies not at all
Please note that it is not necessarily ideal for your company to score '++' on all questions – all companies are different and one size does not fit all! Important is that you think carefully about each of the issues below and assess to what degree they apply to your company!

	++	+	-	--
A Strategizing actions for value creation				
Do you know where and how value is generated in the company?				
Do you know which capabilities and competences your company possesses and which it lacks?				
Do you take concerted actions to develop or acquire lacking capabilities and competences?				
Do you continuously update a list of potential take-over targets?				
Do you keep close watch over your competition?				
Do you systematically review whether and how you could expand into new markets and new products and/or services?				
Do you attempt to expand products into complete serviced product packages?				
Do you strive for operational excellence in all organizational processes?				
Do you monitor whether the quality of your products and services is at an optimal level?				
B Identifying and experimenting with new business opportunities				
Do you systematically interpret major economic and regulatory trends?				
Do you systematically retrieve information about changes in the marketplace?				
Do you make use of formal and informal systems for sharing information and assisting knowledge transfer across the company's units?				
Do you keep up to date with (expected) technological developments in your current and adjacent industries and consider how these could be applied in your company?				

Do you explicitly encourage the searching for and experimenting with new opportunities for value generation?				
Do you leave room for learning from mistakes and for experimenting with new product or market ideas?				
C Balanced use of resources				
Do you focus on achieving steady cash flows for current and future activities?				
Are you actively managing and developing your human resources?				
Do managers and other employees have the chance to continuously develop their personal skills?				
Do you hire people with specific skills sets?				
Are you aware of the recognition of your brand(s) and attempt to enhance that?				
Do you know where in the company which costs are generated?				
Do you attempt to achieve a high transparency of costs and cost drivers along the value chain?				
Do you reinvest profits into the company to facilitate further expansion and development?				
D Leadership, culture, and employees				
Is an important role of top management to facilitate processes and coach employees?				
Are strategic impulses from employees collected, evaluated, and followed up in projects?				
Can you define your company's culture and what is special about it?				
Do you and your company have clear values which you live in the organization?				
Do you show commitment and loyalty to the employees?				
Do you conduct activities aimed at enhancing employees' trust and loyalty to the company?				
Do you sense which issues are important to the employees and act on them?				
Do you attempt to jointly analyze and build on lessons learned by the individual employees?				
Does your incentive system attempt to improve the quality of work within and between units?				
Do you focus on enhancing communication in the company?				
Do you strive for internal transparency regarding strategizing actions?				
Can employees take charge in the company?				
Can employees put into question current value-creation activities?				
Are employees responsible for their activities?				
Does your company have an employee turnover rate which is below that of your industry?				
E Complementarities				
Do you have interlinked performance measures, which include quantitative and qualitative targets?				
Do you actively monitor how different strategizing actions and critical capabilities interact for value creation?				
Do all employees understand the relevant business processes and how these				

are related?				
When changing strategizing and organizing activities, do you always assess possible impacts on other activities?				

Critical capabilities are translated into somewhat different activities in different companies. Thus, while there is no one definite set of critical capabilities and activities which managers should ubiquitously adopt, our list of reflective questions highlights a number of critical aspects characteristic of the successful SMEs in our study. The questions address the strategizing actions, critical capabilities and activities summarized above, and are thereby clearly linked to the findings presented in this paper.

Implications for Theory Development

While a number of scholars had pointed out the need for business model change as well as that strategy and experimentation might be important to achieve it, it had remained unclear what is needed to achieve such change. With this paper, we have attempted to address this gap in existing business model literature, by providing an integrative framework, which comprehensively outlines how business models changed over time through strategizing actions for sustained value creation and critical capabilities supporting these actions. While some parts of this framework are not novel as such, the novelty of our paper lies in two contributions, first in demonstrating how these parts are complementary and can be combined in an integrative framework, and second in anchoring and explaining the critical capabilities in the actual activities that eventually implies the business model dynamism. Aspects important for our conceptualization, which have been discussed previously to be relevant in the context of business models, are the role of entrepreneurial experimentation (Athreye, 2005), the allocation of resources and managerial attention as well as the organization of procurement and production (Wirtz and Lihotzky, 2003), the assembling and orchestrating of difficult-to-replicate assets (Teece, 2007), or the pricing of products and services (Randall, 1997). We build on these earlier findings and expand them by providing an integrative framework for business model adaptation and development which points out necessary strategizing actions, critical capabilities for sustained value creation as well as the micro activities forming these capabilities. Not only the literature on business models, but also the literature on change management of SMEs lacked a more comprehensive approach, when suggesting, for example, that for sustained value creation, SMEs need to develop a culture of innovation (McAdam et al. 2000). As we have also found this aspect to be relevant, we illustrated that it only is one of several complementary elements to play a role for sustained value creation.

Moreover, we advance the notion that the dynamic capabilities that support strategizing actions to enable companies to shape, adapt and renew business models can be disaggregated into a number of critical capabilities and activities. In doing so, we provide a theoretical extension of the literature on business models. Whereas traditional research on business models has built on the resource-based view and considered ways in which difficult-to-replicate-assets can increase the value of business models (Amit and Zott, 2001), our analysis builds on the dynamic capabilities perspective (Teece, 2007) and is centered on the critical capabilities to support strategizing actions for sustained value creation. We contribute to the theoretical development of the dynamic capabilities concept, as we leave the abstract level of discussion that has characterized the literature on dynamic capabilities so far. We specify and give examples of how capabilities can actually be translated into practice through organizational and strategic activities. We do that by combining insights into dynamic capabilities with the strategy-as-practice approach. Thereby, we also elaborate the link of the strategy-as-practice literature to a well-established theory, acknowledging how an activity-based perspective can complement the work on dynamic capabilities (Regnér, 2008).

Another relevant novelty of our paper is that the conceptualization of our framework is based on a positive 'longitudinal practice test', which moreover acknowledges the importance of each firm's specific context. Thereby, we leave the typically assumed linearity of putting a business model concept into practice, and recognize that there is no one best way which suits all companies – rather, we propose that the strategizing actions need to be adjusted to each company's situation through suitable critical capabilities and activities. This is important in regards to causation, which is neither linear nor singular (Pettigrew, 1990). In line with Pettigrew's arguments, we have in this study explored some of the conditions and contexts under which the mixtures of business model changes, in terms of strategizing, capabilities and activities, in their temporal interconnectedness which is adapted and changed over time. Had we conducted a snapshot study, generating data at one or few points in time only, one possible explanation of our results could be endogeneity (i.e. that successful firms happen to employ strategizing, critical capabilities and activities as they have the freedom to do so due to their success). However, for our longitudinal study we have collected data for multiple points in time over a period of more than a decade. Though our initial sample was comprised of then successful firms, the companies that have not managed to adapt and change their business models over this time have fallen from grace. Even though we cannot quantify the causality of the variables discussed in this paper for the companies' success, we can strongly assume such causality to exist, corroborated by the longitudinality and contextualism of our data.

Finally, our conceptualization differs from the bulk of existing literature in that it is based on successful (European) SMEs. After all, in most countries 90% or more of the companies are SMEs, and they have also been shown to create most new employment (OECD, 2002).

More research remains to be done. As our sample consisted of SMEs which successfully created sustained value, it would be interesting to further investigate whether there are any critical thresholds in the dimensions of our frameworks which could upset a company's success. Our findings also need to be tested in a study of a broader sample of companies to find out if the proposed framework holds, and to search for possible patterns of strategizing actions, critical capabilities and activities for value creation that drive the development and change of business models across such a broader sample.

Acknowledgements

The authors are grateful to the journal's past and present editors - Professors Charles Baden-Fuller and James Robins respectively - as well as to its anonymous reviewers for their helpful comments on earlier versions of this article. Financial support for this project from the Jan Wallander and Tom Hedelius Foundation is also gratefully acknowledged.

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